

International Monetary Fund

[Liberia](#) and the IMF

Press Release:

[IMF Executive Board
Completes Seventh
and Eighth ECF
Reviews for Liberia
and Approves US
\\$20.7 Million
Disbursement](#)

November 13, 2017

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

November 1, 2017

[Country's Policy
Intentions
Documents](#)

E-Mail Notification

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

The following item is a Letter of Intent of the government of Liberia, which describes the policies that Central African Republic 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.

Letter of Intent

Monrovia, November 1, 2017

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., USA

The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and performance under the Extended Credit Facility (ECF) arrangement. It also updates the government's macroeconomic policies and objectives including beyond the expiration of the ECF arrangement in November 2017, as anchored in the government's long term development program—Liberia Rising 2030.

The post Ebola macroeconomic environment has been very challenging in the face of persistent shocks which have affected the country's growth. The impact of the commodity price decline proved more persistent than expected, affecting production and investment in the iron ore and rubber sectors and triggering a period of economic recession. The drawdown of peacekeeping operations of the United Nations Mission in Liberia (UNMIL) as well as the October 2017 general and presidential elections have dampened demand and added to the uncertainty for domestic and foreign investment.

Nonetheless, the medium-term outlook is still positive. Liberia has enjoyed 18 months without any further Ebola outbreak and has put in place systems to detect and contain any further outbreak. Based on this achievement, and the possible increase in the global prices of rubber and iron ore, and prioritized spending on enabling infrastructure, we are confident of experiencing an increase in economic activity over the medium term.

Against the background of the current challenges, the government remains grateful to the IMF for funds made available under the ECF and the Rapid Credit Facility (RCF) arrangements. These have been instrumental in helping the government deal with the balance of payments gap triggered by the Ebola crisis and the commodity price decline. Further, the extension of the program until November 18, 2017 is supporting the government's efforts to ensure continued macroeconomic stability in the run up to the elections.

Our performance under the ECF-supported program through end-June 2017 has been generally positive. We met all end-December indicative targets (IT) and all but two quantitative performance criteria (PCs). The PC floor on the government revenue was missed narrowly (0.1 percent of GDP). The PC ceiling on external borrowing was missed because of a project loan that was ratified by the legislature in October 2016, but not included in the total amount of ratified loans. We have since put in place enhanced reporting and tracking requirements sufficient to prevent a re-occurrence and, on this basis, are requesting a waiver for non-attainment of this PC. Over the six months since December 2016, due to the factors referred to above, our economic situation has deteriorated and diverged significantly from that projected at the time of the fifth and sixth program reviews. This was reflected in our performance against end-June 2017 program PCs and ITs. Specifically, we missed the

end-June 2017 PCs on revenue collection, external reserves, and Central Bank of Liberia's (CBL) gross credit to government. However, we have since put in place macroeconomic adjustment appropriate to our current circumstances described in the attached Memorandum of Economic and Financial Policies (MEFP) and, on this basis, request waivers for the non-attainment of these PCs.

The execution of the government's budget has been difficult due to lower resources and growing expenditure pressures ahead of the October elections. Reflecting the slowdown in economic activity, the total resource envelope for FY2016/17 was US\$45 million (2.1 percentage points of GDP) lower than anticipated under the approved budget, despite our mitigating revenue measures. However, to adjust to these reduced circumstances, we significantly compressed spending by releasing allotments only when available resources permitted. This, combined with additional support from the IMF and the World Bank, permitted us to finish the fiscal year with a budget deficit of US\$15 million, about 0.6 percentage points of GDP, slightly lower than the approved budget. In FY2017/18, we anticipate a shortfall in revenue and grants of US\$24 million relative to the budget enacted in July 2017. We will offset this with corresponding spending cuts, while securing resources for key spending needs, including infrastructure projects, elections, security, and health and education.

We are committed to further progress in fiscal structural reforms. The Public Financial Management (PFM) Reform Strategy and its action plan, after several rounds of consultations by key donors, including the IMF, were finalized on July 25. The PFM reform strategy covers a wide range of reform areas for 2017–20 (see MEFP), and will guide the continuation of ongoing reforms. In addition, the amendments of the PFM Act we submitted to the National Legislature on July 13 aim at achieving strengthened fiscal responsibilities, more efficient budget execution and financial management functions, improved state-owned enterprise (SOE) governance, and improvements in internal controls, cash management, accountability and reporting, including sanctions for various breaches of the law.

Monetary policy will continue to focus on smoothing the inflation path by containing excess volatility in the foreign exchange market. Over the medium term, the CBL aims to increase reserve cover above the three months of imports to buttress macroeconomic stability. The government also intends to further develop financial markets and strengthen market-based policies aimed at improving confidence and encouraging the wider use of the Liberian dollar.

We commissioned an external forensic audit aimed at examining the circumstances that led to the closure of First International Bank Liberia Limited (FIBLL) and the resulting CBL losses. Upon the finalization of the report, the CBL transmitted the report to the Executive and the Fund Staff. In turn, the Executive has transmitted the report to the Ministry of Justice. The report indicated the existence of shortcomings within FIBLL and in CBL's governance and supervision capacities. In light of these revelations, we have adopted a response based on transparency and comprehensive reform. While it would be premature to publish the entire forensic audit, as this would compromise the judicial procedures that are underway, we have published the executive summary of the report with names and other identifiers redacted, and we believe this will provide the public with sufficient detail to ensure they are aware of what has transpired and what the relevant issues are. With the context thus clearly described, we have also published a time-bound action plan of reform, adopted in consultation with Fund staff, as a means of assuring the public that existing deficiencies in CBL's internal systems are being addressed. Finally, the Executive has agreed to publish the full forensic

audit once it is determined that this will not interfere with the appropriate course of judicial procedures.

Based on the performance registered in implementing the economic program, on the strength of our future policy commitments, and on the comprehensiveness of the transparency and mitigation measures we have adopted in dealing with the FIBLL situation, we request that the waivers specified above be approved, that the seventh and eighth reviews under the ECF arrangement be completed, and that disbursements in the cumulative amount of SDR 14.764 million be effected.

While the expiration of the program on November 18, 2017 precludes the establishment of program conditionality that would normally operationalize implementation and monitoring, we nonetheless remain fully committed to implementing the policies and undertakings laid out in the attached Memorandum of Economic and Financial Policies (MEFP) in line with our long-term strategy, Liberia Rising 2030.

We believe that the economic and financial policies described in the MEFP of November 19, 2012, its subsequent supplements, together with the attached supplementary MEFP provide an adequate basis for achieving the economic policy objectives of the government. However, the government stands ready to take any additional measures that may be required to meet our program goals. The government will consult with the IMF on the adoption of these measures and in advance of revisions to the policies contained in this attached supplementary MEFP, in accordance with the Fund's policies on such consultation. We will also, as far as is practicable, provide IMF staff with all the relevant information required to monitor program performance on a timely manner. We consent to the publication on the IMF website of this letter, the accompanying MEFP, the related staff report for the seventh and eighth reviews under our ECF-supported program.

Sincerely,

_____/s/_____
 Hon. Boima S. Kamara
 Minister of Finance and Development Planning
 Ministry of Finance and Development Planning

_____/s/_____
 Hon. Milton A. Weeks
 Executive Governor
 Central Bank of Liberia

Attachment:

- Supplementary Memorandum of Economic and Financial Policies

Attachment 1. Supplementary Memorandum of Economic and Financial Policies

INTRODUCTION

1. The Executive Board of the International Monetary Fund (IMF) on November 19, 2012, approved a three-year arrangement under the Extended Credit Facility (ECF) in support of Liberia’s economic reform program. The overall objective of the program is to restore macroeconomic stability and promote inclusive economic growth through the implementation of sound macroeconomic policies and structural reforms in critical areas.

2. In December 2016, the Board extended the ECF arrangement to November 18, 2017. The extension was intended to help buttress macroeconomic stability leading to the October 2017 presidential and legislative elections and complete the implementation of the structural reform agenda. The Board also augmented access under the ECF supported program by 11 percent of quota, of which 5 percent of quota was immediately released to support the budget.

3. This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and performance under the ECF arrangement. It also updates the government’s macroeconomic policies and objectives, including beyond the expiration of the ECF arrangement in November 2017, as anchored in the government’s long term development program—Liberia Rising 2030.

4. Despite the current difficulties, we believe the macroeconomic outlook may be finally turning around. The crisis in the iron ore sector seems to have bottomed out, and production is expected to expand in 2017 and beyond as the one remaining active company continues its exploitation of a new, rich ore bed. This expansion, coupled with significantly increased gold production, should offset weaker activities in the forestry and service sectors and the effects of fiscal consolidation, and lead growth to rebound to around 2.5 percent in 2017. Looking further ahead, we would expect a boost to aggregate demand in the post-election period as investors release demand pent-up by risk aversion, and there is some repatriation of risk capital. Over the medium term, economic growth is conservatively projected to rise to about 6 percent, significantly higher than the rate of population increase, but somewhat lower than the pre-Ebola level of 8 percent—with expansion in the mining, agriculture, and manufacturing sectors driving medium term growth prospects. Inflation is projected to decline to 7 percent over the medium term, as the depreciation slows, and international food and oil prices stabilize.

RECENT DEVELOPMENTS AND OUTLOOK

5. Coming on the heels of the Ebola epidemic, the commodity price shock and the United Nations peacekeeping withdrawal have further worsened the macroeconomic situation. The decline in the prices of iron ore and rubber has caused delays in additional foreign investment and job creation in the natural resource sector. Added to this, the drawdown of the United Nations Mission in Liberia (UNMIL) has significantly weakened demand in the domestic economy and, combined with election-induced uncertainty, these factors appear to have reduced both foreign

investment and the net inflow of foreign currency into the economy. The drawdown has also generated significant fiscal pressure, as the government has had to increase spending in the security sector and civil administration in various counties.

6. The weak global environment and domestic uncertainties have adversely affected macroeconomic performance since 2016. Real GDP is estimated to have contracted by 1.6 percent last year due to lower production in the mining, forestry, and manufacturing sectors and a higher than estimated impact of the UNMIL drawdown, despite some recovery in the agriculture sector. Available information to date now indicates that the recovery in 2017, with growth originally expected to reach 3¼ percent, may now be lower by three quarters of a percentage point.

7. The government cut FY2016/17 budget execution, due to weak activity in the domestic economy from the UNMIL withdrawal, low commodity prices, and political uncertainty.

Revenue measures approved in September and November and additional support by the IMF and the World Bank partially mitigated these adverse shocks, and the budget resources (tax, non-tax, and budget support grants and loans) turned out at US\$556 million, US\$45 million (2.1 percent of GDP) lower than the approved budget. Suspension of the implementing airtime surcharge to safeguard political stability contributed to this loss too. This revenue shortfall was filled by the same amount of spending cut through strong allotment control and spending prioritization, resulting in the budget deficit at US\$15 million (0.6 percent of GDP). With the inclusion of off-budget activities, the overall fiscal deficit in FY2016/17 was US\$155 million (7.4 percent of GDP), better than the programmed amount by US\$10 million due to lower off-budget spending, reflecting the delays in some domestically financed projects.

8. While the trade balance continued to improve due to a prolonged decline in imports, the current account is deteriorating in 2017. In 2016, both the trade and current account balances improved, as a 24 percent UNMIL-induced decline in imports more than counteracted a 7 percent fall in exports originating with the commodity price shock. In 2017, the trade balance is expected to improve due to a near doubling of gold exports and the opening of a new iron ore mine site, and further declines in imports as the UNMIL withdrawal continues and the impact of the Liberian dollar depreciation is felt. The current account is on course to weaken somewhat, however, as declines in current transfers and income payments exceed gains in the trade and services balance.

9. The shortage of US dollars, particularly since end-2016, led to depreciation of the exchange rate and a spike in inflationary pressures. Total foreign exchange inflows have substantially declined by around 28 percent between FY2015/16 and FY2016/17 due to the UNMIL withdrawal and declines in both net remittance inflows and aid disbursements. The resulting shortage of foreign exchange has been felt clearly in the depreciation of the Liberian dollar, which is now significantly weaker, having depreciated by about 20 percent since the last review in December 2016. As a consequence, price pressures intensified, and inflation is expected to close 2017 at about 12½ percent.

10. The deterioration in the supply of foreign exchange in the economy poses risk to both internal and external balance. In December 2016, to help secure additional foreign currency for intervention purposes in the midst of the foreign exchange shortage and depreciation pressures, the Central Bank of Liberia (CBL) introduced a 25 percent surrender requirement on inward remittances

through money transfer companies. Up to mid-2017, the CBL has used a major portion of the U.S. dollars acquired from the surrender requirement to intervene in the foreign exchange market and the rest to augment its reserves. The net foreign exchange position of the CBL, computed at program exchange rates, declined from US\$178 million in June 2016 to US\$146 million in June 2017. This was mainly due to a swap arrangement of US\$30 million with the government of Liberia (GOL) in June 2017. The swap was reversed in July and net foreign exchange position of the CBL recovered to US\$162 million in end July 2017. Additionally, the decline in the CBL's net foreign exchange position can also be attributed to the inability of the GOL to effect foreign currency sales to CBL since February 2017 due to the lower than expected FX revenue collection.

11. While we have intervened in the foreign exchange market, this has been for smoothing purposes, not to actively resist the adjustment of the exchange rate. We recognize that the shocks experienced to date have effectively reduced our real income, and that an exchange rate adjustment is necessary to reestablish external equilibrium. Our goal with intervention strategy is to smooth out volatility in the exchange rate market to prevent a rapid fall of the Liberian dollar. To this end, given an environment made more volatile by the elections, we are intervening to slow the adjustment, and combining this with fiscal restraint in an effort to avoid both costly overshooting of the exchange rate and any second-round inflationary impact.

12. Credit growth has recovered and non-performing loans (NPLs) have declined, but the banking sector is suffering from the high level of NPLs. Following the contraction in private sector credit of 2 percent in 2016, credit grew strongly in the first half of this year and stood at 15 percent at end June 2017 year-on-year. However, there are signs that credit growth has decelerated substantially in recent months. The deceleration is related to the still anemic growth rate, and exacerbated by the high level of NPLs in the banking system. NPLs declined during the course of 2016 largely because of the write-off of NPLs of FIBLL and the restructuring of some loans and stood at around 14.8 percent at end December 2016, but this is likely to rise by the end of year due to difficulties in the domestic environment.

PERFORMANCE UNDER THE PROGRAM

13. Program performance was broadly satisfactory up to end-2016. All end-December quantitative performance criteria (PCs) were met except for the floor on government revenue and the ceiling on external borrowing. The revenue PC floor was missed narrowly by about US\$2 million (0.1 percent of GDP). The external borrowing PC ceiling was missed by about US\$7.8 million in present value (PV) terms because of a project loan that was ratified by the legislature in October but not included in the total amount of ratified loans. This reflects weaknesses in information flows around external borrowing ratifications. To prevent a re-occurrence and strengthen controls on new commitments, the Debt Management Unit (DMU) has begun monthly reporting on signed and ratified loans starting at end-May 2017 and has instituted a requirement to have official copies of all loan ratifications before inclusion in this reporting. All the indicative targets (ITs) for end-December were also met.

14. End-June 2017 program conditionality flagged, as we considered that the unanticipated deterioration in our economic circumstances had rendered the original targets inappropriate (Table 1). As discussed above, since end-2016, due to the larger than anticipated

impact of the UNMIL drawdown, the commodity price shock, and the impact of the upcoming elections, our economic situation had deteriorated, and diverged significantly from that projected at the time of the fifth and sixth program reviews. This was reflected in our performance against end-June 2017 program PCs and ITs:

- Given the unanticipated decrease in the availability of foreign currency, we considered that meeting the original program floor on the CBL's net foreign exchange position would have entailed such a rapid depreciation that the hardship caused our most vulnerable groups in terms of inflation and reduced purchasing power could not be justified. In addition, we were concerned that such a rapid depreciation would enhance the risk of overshooting the equilibrium exchange rate level.
- We missed the end-December 2016 and the end-June 2017 PC on revenue collection due to the lower than anticipated level of economic activity. Implementation of revenue measures approved in September and November 2016, as agreed in the fifth and sixth reviews, and additional external support by the IMF and the World Bank partially offset this larger-than-expected shock. The remaining gap was closed by expenditure cuts through strong allotment control and reprioritization.
- We missed the end-June PC ceiling on CBL gross direct credit to central government due to the accounting conventions used to record swap transactions carried out in Q4 FY2016/17 with the CBL. With the shortage of US dollars, and the private sector's newfound preference for remitting taxes in Liberian dollars, the government found itself lacking the foreign currency needed to effect necessary US dollar transactions. In anticipation of foreign currency receipts from the World Bank and EU, the government swapped US\$30 million Liberian dollars with the CBL, spent these funds up to end-June, and then repaid the CBL in July 2017. The Fund staff subsequently informed us that a pure swap of Liberian dollar for U.S. dollar should not involve gross credit to the central government. While a pure swap of Liberian for U.S. dollars would not have involved gross borrowing from the CBL, the accounting convention we employed resulted in a temporary recording of the swap as a credit to government, and this caused a breach of the program ceiling. The breach proved temporary, however, as the credit was subsequently reversed in July when the swap was unwound, at which time gross central bank direct credit to government fell back below the end-June program target.
- The end-June IT on net domestic assets of the CBL was missed because of a confluence of factors. The shortage of US dollars in the economy, and stepped up CBL exchange rate smoothing operations, depressed the stock of NFA held by the CBL. This impact was exacerbated by an unanticipated drawdown of off-budget donor funds held in government U.S. dollar accounts in the CBL—the expenditure of these funds decreased NFA further, while the loss of government deposits raised NDA. Consequently, by end-June, NDA was higher and NFA was lower than programmed, but the net impact was that reserve money growth underperformed expectations, and this was matched in the banking system by lower than programmed broad money growth. We consider that this relative monetary tightening in FY2016/17 was an appropriate complement to the fiscal restraint and exchange rate depreciation we undertook in response to the external shocks that buffeted our economy last fiscal year.

15. The implementation of the structural reform agenda under the program is largely on track, though some measures were carried out with delay due to capacity constraints (Table 2).

Of the ten SBs specified for the seventh and eighth reviews, we completed five within the agreed deadline. The actions specified in a further three measures were fully completed, but with delay: (i) the quarterly reports on the financial performance of state-owned enterprises (SOEs) for the second quarter of FY2016/17 was published on May 15, 2017 rather than March 31, 2017 due to the delay in the data sharing and the administrative procedure for publication; (ii) the final forensic audit report of FIBLL was shared with the IMF on June 7, 2017 instead of May 31, 2017 due to delays in the review process on the part of the auditor; and (iii) submission of the spending and procurement plans of at least half of the Ministries and Agencies to the Public Procurement and Concession Commission—due by end-June 2017—was only achieved by September due to delays in the budget process itself. The quarterly SOE report for the fourth quarter of FY2016/17 is under process for the publication in November 2017. The remaining SB, a measure to improve natural resource revenue management by formalizing agreements with the four largest concession companies to specify the terms of deferment of some tax payments, was rendered mute after three of the four concession companies to which it applied ceased their Liberia-based operations.

OBJECTIVES OF ECONOMIC AND FINANCIAL POLICIES FOR 2017–18

16. Economic and financial policies for 2017–18 are anchored in the government’s long term development program—Liberia Rising 2030. The priorities for 2017–18 will be to ensure a smooth and efficient democratic transition, maintain security and macroeconomic stability, develop more resilient health and education systems, and create an enabling environment for private sector development. The government will continue its focus on diversification of the economy emphasizing agricultural and manufacturing outputs to reduce dependence on the extractive sector.

A. Fiscal Policy

FY2017/18 Budget

17. The FY2017/18 budget was enacted on July 27, 2017, much earlier than in previous years. The total resource envelope (domestic revenue, external grants, and loans) was budgeted at US\$564 million, about US\$8 million more than FY2016/17 budget outturn. Although external budget support (grants and loans) is expected to decline, economic recovery and revenue collection measures are expected to raise domestic revenue. In particular, the government decided, under the endorsement of the National Legislature, to strengthen collection performance of the Road Fund Levy, which was originally called the Import Surcharge Levy. This measure will unify discretionary surcharge rates and introduce direct transfers of collected charges to the budget resource accounts. The government will postpone the extension of the wage structure reform, so far implemented in the MFDP, the Ministry of Gender and Social Protection and the Civil Service Agency. Furthermore, the government maintains the freeze of nominal wages and most of the fiscal rules introduced in FY2016/17, such as the hiring freeze, except in the education, health and security sectors, and travel restrictions. We have allocated these resources in a manner that reflects our commitments to priority areas, including health, education, security, election, and key development projects.

Text Table 1. Government Budget Operations
(Millions of US dollars)

	FY2016/17			FY2017/18		
	Approved Budget	5th and 6th Reviews	Outturn Estimates	5th and 6th Review	Approved Budget	7th and 8th Reviews
Resource	600	589	556	569	564	539
o/w : contingent revenue	5	5	0	0	18	23
Tax	432	408	386	441	401	394
Non-tax	98	90	80	97	101	96
Grants	30	70	67	31	60	47
Loans	38	18	23	0	0	0
Carry forward from last year	2	2	0	0	2	2
Expenditure	600	589	556	569	564	539
o/w : contingent expenditure	5	5	0	0	18	23
Recurrent	520	512	492	495	505	481
o/w : principle and subscription payments	13	13	6	15	17	20
PSIP	80	77	61	74	59	59
Carry forward to next year	0	0	2	0	0	0
Budget balance	-27	-7	-15	15	10	13
<i>Memorandum</i>						
Revenue and grants, including off-budget	687	695	611	642	635	635
Expenditure, including off-budget	871	860	766	781	774	762
Overall balance, including off-budget	-185	-165	-155	-140	-140	-127

Source: Liberian authorities.

18. However, since the time of enacting the budget, we have identified various fiscal risks that required some alteration and adjustment to our fiscal framework.

- We identified risks to resources of US\$24 million for which we have made explicit offsetting cuts in expenditure.** These resource risks consist of a potential delay in donor support amounting to US\$13 million, and a projected US\$11 million domestic revenue shortfall stemming from a greater than expected impact of the weaker than originally programmed pace of economic growth and international trade. These potential losses have been mitigated by corresponding expenditure cuts, enacted through strong allotment control in a similar manner to how we proceeded in FY2016/17.
- We also identified further downside risks of about US\$23 million, which we will address through the use of contingencies.** These risks originate from some revenue items being exposed to specific risks, such as uncertainty, donor decision, and economic performance, and such revenue is treated as “contingent revenue.” The government has identified corresponding “contingent expenditure” for each revenue item through expenditure prioritization. For operational purpose, the government classified the contingent revenue in two types: one-off revenue and over performance. The trigger of the contingent expenditure linked to one-off contingent revenue is straightforward: once the government receives the corresponding one-off revenue, the contingent expenditure will be released. The contingent expenditure linked to overperformance type contingent revenue will be released based on the cumulative performance observed by end-April, 2018. Each paired group of contingent revenue and expenditure will be evaluated separately—if by end-April 2018 at

least 80 percent of the contingent revenue of a paired group has been received into the Consolidated Fund, then the corresponding contingent expenditure will be released. If the receipts are less than 80 percent, the corresponding expenditure will be cancelled.

19. Elections and the security handover continue to weigh on the budget. The total cost of the elections, including its security, is estimated at US\$53 million (2.5 percent of GDP) of which about US\$18 million was spent in FY2016/17 under the budget (with significant savings compared to the budgeted US\$22 million) and US\$25 million are budgeted for FY2017/18. The remaining costs were and would be funded by the donor community, including EU, UNDP, USA, and International Foundation of Electoral System (IFES).

20. The government established a Road Fund to secure financing sources for the maintenance, rehabilitation, and extension of existing roads. The Road Fund Act was passed by the Legislature in October 2016 and has been activated in FY2017/18. The Fund, which will be controlled by the MFDP, will be financed through a portion of the fuel storage fee and matching co-financing from the Millennium Challenge Corporation (MCC), which will provide up to US\$15 million over 3 years. For FY2017/18 the Fund will be financed by US\$16 million from Road Fund Levy and US\$10 million by the MCC. For transparency purpose, the fiscal table in the published budget book has specific lines to the Road Fund for both revenue and expenditure. Along with the projection revision described in paragraph 17, the government now expects only US\$5 million from the MCC for FY2017/18.

21. We reached an agreement with the National Social Security and Welfare Corporation (NASSCORP) regarding the repayment schedule of legacy obligations. Unsettled payments to National Social Security and Welfare Corporation (NASSCORP) under the National Pension Scheme and the Employment Injury Scheme have been accumulated since January 1984, reaching to US\$52.08 million. Under the new agreement, we committed to clear these obligations over a period of 15 years (involving payments of about US\$3 million a year) and to pay current contributions on a timely basis, beginning in FY2017/18. To further improve long-term viability, we intend to seek technical assistance to perform a full evaluation of the existing system.

22. Efforts to decrease the overall fiscal deficit, including off-budget activities, will continue. The projected overall deficit for FY2017/18, including off-budget operations, is US\$127 million (5.9 percent of GDP) through further reduction of expenditure by loan financing. In the medium term, the government aims at reducing the deficit to around 3 percent of GDP.

23. The government plans to strengthen social safety nets in FY2017/18 with off-budget donor support. Key building blocks of the project include: (i) a social registry; (ii) data collection and household registration; (iii) eligibility screening; and (iv) an integrated Management Information System for monitoring. The National Social Safety Net (NSSN) secretariat under the Ministry of Gender, Children, and Social Protection will be in charge of implementation. The World Bank and USAID will provide financing support of US\$10 million and US\$6 million, respectively.

B. Monetary and Foreign Exchange Rate Policies

24. Our monetary policy framework—already constrained by underdeveloped financial markets and high dollarization—is now further complicated by lower foreign exchange inflows. Deposit and credit dollarization is about 80 and 91 percent respectively, restricting the scope for monetary policy and the lender of last resort function of the central bank. Moreover, our interbank market is under-utilized by commercial banks, while our foreign exchange market is fragmented, both of which reduce the effectiveness and transmission of monetary policy actions.

25. Our exchange rate has depreciated. This comes in the wake of the slump in commodity prices, the stronger-than-expected impact of the UNMIL drawdown, and what appears to be a certain amount of deferred investment and capital flight associated with election uncertainty—for example, while incoming workers' remittances remain relatively strong, outgoing remittances have picked up. In all, we estimate that the inflow of foreign exchange is significantly reduced perhaps by as much as US\$167 million in FY2016/17. The shortage is showing up in government tax collection, where the amounts remitted in US dollars—normally about 80 percent of the total, has fallen to 45 percent in the first two months of FY2017/18.

26. In response, both the CBL and the MFDP have taken the following actions.

- In December 2016, the CBL introduced a 25 percent surrender requirement on remittances, in part to help improve the availability of foreign exchange. While helping to improve the availability of foreign currency, this has still not been sufficient for CBL intervention in the foreign exchange market.
- Since February 2017, the government has suspended sales of foreign currency to the CBL due to low US dollar revenues.
- In August 2017, the government began a policy of paying an increased share of its expenditure in Liberian dollars. However, the effectiveness of this measure is still to be determined—while it would be expected to relieve the immediate currency mismatch between government's revenue and expenditure, we recognize that pressures would still exist—and would perhaps be intensified—in the foreign exchange market.
- In September 2017, the government issued an administrative regulation for at least 50 percent of payment of trade tax to be made in US dollars.
- In September 2017, in order to ensure that taxpayers face appropriate incentives, the government mandated the use of the daily weighted average exchange rate of the previous week, rather than that of the previous month as had earlier been the practice. (In light of the persistent foreign exchange shortages, this had been recommended in August 2017 by the Liquidity Working Group (LWG)). This measure is expected to increase the amount of taxes paid in US dollars, as the use of a monthly rate in a depreciating environment had created a financial disincentive for using this currency.

27. Our monetary policy will continue to focus on containing inflationary pressure by smoothing and slowing the depreciation of the exchange rate. Despite the measures listed above, CBL reserves and the net foreign exchange position of the CBL are expected to decline in 2017 in the absence of foreign currency sales by the government and additional expenditure by the CBL to replace the remaining legacy notes as recently mandated by the Legislature. Within this constraint, the CBL will continue to balance the need to contain exchange rate volatility with the objective of having sufficient foreign reserves to maintain external sustainability and the buffers that prudence dictates a small open economy needs in an uncertain environment. Inflationary pressures have been high, mainly due to the ongoing exchange rate depreciation, but given our reserve situation, our scope for action is limited. Moreover, we recognize that the adverse external developments that have buffeted our economy mean that some exchange rate depreciation is justified by fundamentals. Consequently, we seek to smooth the depreciation, not resist it, with major goals being the attainment of a soft landing for the exchange rate and inflation, which implies we prevent both a damaging exchange rate overshooting and second round inflationary pressure. Gross reserves and the net foreign exchange position of the CBL are expected to decline in the course of 2017. Over the medium term, the improvement in the macroeconomic situation should allow the CBL to increase reserves and maintain reserve cover at about three months of imports to buttress macroeconomic stability.

28. The joint MFDP-CBL liquidity management working group will be strengthened to help anchor inflation. Coordination improved through meetings of the Liquidity Working Group (LWG) in 2016, with the participation of the CBL, the Liberia Revenue Authority (LRA), and the MFDP, with attendance elevated to the level of Deputy Governor for Economic Policy (CBL) and Deputy Minister for Economic Management (MFDP). As a result of improved coordination, the CBL issued on behalf the of MFDP in July and September 2016 a total of L\$6 billion of government bonds to mop up excess domestic currency liquidity. This was followed by additional liquidity operations that withdrew L\$1 billion in July and September 2017. Going forward, the CBL and MFDP will share the technical work on liquidity monitoring to better support liquidity management decisions. The government will build on the improved coordination of the joint LWG to agree on costs and to harmonize issuances and maturities of securities to avoid sharp swings in liquidity conditions. The CBL is examining the possibility of issuing CBL securities as an additional tool in the management of Liberia-dollar liquidity.

29. The implementation of the CBL's three-year financial plan has led to a sizeable reduction in operational deficits. Starting with Q1 2016, the CBL is providing quarterly financial statements with comments on the implementation of the CBL financial strategy to the Fund (*repeated SB for the fifth to eight reviews*). The 2016 US dollar spending was cut by US\$10 million compared to 2015. However, this reduction was somewhat lower than planned as the CBL had to address an US\$5.2 million unplanned domestic currency printing (the last printing took place in 2012) to address seasonal shortages of liquidity and replace the severely worn-out stock of banknotes, following the approval by the Legislature of the long-standing request by the CBL in January 2016. The CBL accommodated about 60 percent of the printing costs by substituting dollar expenditures with Liberian dollar equivalent for other line items in the budget, minimizing the impact on the execution of the financial plan in 2016. For 2017, we have been instructed by the National Legislature to replace the remaining legacy notes. This will likely raise our 2017 expenses by US\$7–10 million. Thus, we intend to initiate a review of our remaining 2017 expenses, with the aim of identifying some savings.

C. External Sector Policies

30. The country continues to face limited borrowing capacity, which we endeavor to balance with demands for growth-enhancing investment. In FY2016/17, we ratified external loans in the amount of about US\$218 million or US\$117 million in PV terms, thereby meeting the end-June 2017 PC ceiling on external borrowing (see Text Table 2). Although our debt stock remains low by regional standards, it has increased significantly in the last few years due to our considerable investment needs, including for the large-scale electrification and road projects to provide a foundation for economic growth. In recent years, the risk of debt distress has moved from low to moderate in a relatively short period after the completion of the HIPC debt relief in 2010. Relative to the December 2016 Debt Sustainability Analysis (DSA), the latest report shows that the debt to export ratio has slightly improved due to recent improvement in gold production and the exploitation of the new mine site for iron ore, but remains close to the high-risk of debt distress threshold in the baseline scenario.

Text Table 2. List of New External Loans for FY2016/17

Donor	Project	Nominal Value (in Millions of U.S. dollars)	Grant Element (percent)
Ratified in FY2016/17			
OFID	Gbarnga-Salayea Road Project	20.0	36
BADEA	Gbarnga-Salayea Road Project	12.0	42
	Additional Financing Agreement for the		
IDA	Accelerated Electricity Project	60.0	53
IDA	Youth Opportunities Project	10.0	53
CHINA EXIM BANK	Robert International Airport terminal Project	52.2	29
	Mano River Union Road Dev. & Transport		
AfDB	Facilitation Program	35.0	58
IDA	Liberia Urban Water Supply Project	10.0	53
IFAD	Tree Crops Extension Project	13.0	58
IDA	Budget Support	5.5	53

Source: Liberian Authorities

31. In light of this, we have been implementing measures to strengthen debt management, improve performance of the current loan portfolio, and closely control new loan acquisition. With these policies, the government intends to continue to moderate new borrowing within program targets, which have been designed to keep the risk of debt distress at a moderate rating.

- The debt management unit (DMU) will be appropriately staffed to strengthen the capacity of the Unit to closely monitor the evolution of the country's debt stock. Given the multiple layers of interagency approvals required by law for new loans (e.g., signing, ratification, legal opinion), the DMU has instituted measures to improve timely information flows, including having verified printed copies of all loan ratifications prior to entering them into the database.

- The government is developing a medium-term debt strategy (MTDS), with advice from the IMF and the World Bank, to govern borrowing policies over 2017–20; strategy development has already begun with a zero draft shared with the Fund and is expected to be finished within 2–4 months. This time period will afford the DMU the opportunity to incorporate key update and policy advice from the pending Debt Sustainability Analysis as well as soliciting Technical Assistance (TA) in completing the final document. The updated MTDS, consistent with the current debt strategy, proposes that borrowing will be prioritized for concessional loans and mitigating currency risk by focusing on US dominated loans rather than other currency denominated loans. Additionally, the government reiterates its commitment to restraining ratification of new external borrowing, putting more emphasis instead on raising the implementation rate of existing loans. In addition, we recognize the ongoing need to keep borrowing on a highly concessional basis.

D. Implementation of the Structural Reform Agenda

Public Financial Management (PFM)

32. The government continues to make progress on its PFM reform agenda. The PFM reform strategy and its Action Plan (2017–20) was finalized on July 25, 2017 after several rounds of consultation with donors, including the IMF. The preparation of the strategy included review by a joint donor-government validation workshop. Furthermore, the Public Expenditure and Financial Accountability (PEFA) assessment, completed in July 2016, identified weaknesses in PFM and provided insights regarding priority areas for the reform strategy. Key highlights of the strategy include strengthening the legal and regulatory framework; improving budget credibility; mobilizing domestic revenue; establishing robust and linked Information Communication Technology (ICT) system and process; enhancing comprehensiveness and transparency of fiscal reporting; and strengthening external scrutiny.

33. The Government has embarked on efforts to amend the PFM Act of 2009 to reflect existing realities and needs. The draft amendments were submitted to the National Legislature on July 13th for approval. The amendments aim at strengthening fiscal responsibilities, encouraging more efficient budget execution and financial management functions, strengthening SOE governance, and promoting better internal controls, cash management, accountability and reporting. The proposed amendments also include sanctions for various breaches of the law.

34. The improvement in public procurement continues. The Public Procurement and Concessions Commission (PPCC) has introduced the Advanced Procurement Framework Agreement with the objective of accelerating procurement activities prior to the passage of the budget in order to avoid the costly delays that have characterized government activity in past years. This framework has enhanced the timely submission of procurement plans by Ministries and Agencies. Prior to the passage of the FY2016/17 budget, the PPCC approved and published 86 procurement plans on its website. This fell short of the 50 percent of Ministries and Agencies (M&As) specified in the SB for the eighth review, but is nonetheless a significant improvement compared to past years—M&As normally presented their procurement plans only after legislative approval of the budget, which created significant delays in the execution of procurement activities across government. In addition, the PPCC has developed, and will begin implementing, a strategy paper dealing with the

professionalization of procurement that outlines a four-prong approach: (i) vertical education in procurement; (ii) procurement certification; (iii) a professionals licensing regime; and (iv) continuing professional development. Furthermore, the PPCC has forged and will continue strategic partnerships with the Internal Audit Agency, the Accounting Services Unit under the CAG's office at the MFDP, and the Department of Economic Affairs at the Ministry of Justice to mitigate shortage of human resources.

35. The government is implementing the action plan addressing PFM weaknesses underlined in the GAC Audit on Special Procurement of the Ministry of Public Works for Construction of Roads and Bridges. All the contracts identified in this audit have been regularized and amounted to US\$23 million at end FY2014/15. An amount of US\$11 million was paid in the FY2016/17 budget to settle a large portion of these contracts; the remaining amount will be cleared during FY2017/18. The government has also taken steps to resolve deficiencies in spending controls identified by the audit. A project monitoring and evaluation unit has been established and staffed in the MFDP to strengthen public investment implementation. However, its effectiveness has been impeded by capacity and logistical challenges.

36. The government developed an action plan to reform the public investment management system with the help of IMF technical assistance. In July 2016, an IMF Public Investment Management Assessment identified various weaknesses in the current public investment practices, such as low investment efficiency, weak project monitoring system and capacity, and limited linkage between externally-financing projects and central government budget. The action plan to implement the PIMA recommendations is to be finalized in 2017, and implementation will commence in FY2017/18. Separately, as the first step of public investment management reforms, the government established a public investment database (SB for the seventh ECF review). The projects are categorized by their financing sources: external or domestic. They are being monitored by the Aid Management Unit and the Public Investment Unit, respectively. The government intends to improve the database system for public investment to ensure timely updates. At the same time, the MFDP is seeking to introducing regulation/guidelines that requires Ministries and Agencies to submit detailed project information to receive the financing resources of corresponding projects.

37. The government continues to improve the Integrated Financial Management Information System (IFMIS).

- IFMIS has been installed in about 50 M&As and efforts are ongoing to extend this further. Nonetheless, all transactions are processed by the IFMIS system, as those M&As in which IFMIS is not installed are required to have their transactions entered into the system by the MFDP. This is cumbersome, however, and work is therefore underway to extend IFMIS to more M&As. In addition, the government is working on introducing the budget module of IFMIS.
- The government has migrated 30 donor-financed projects from the Sun Accounting System to the Government National System (IFMIS) for accounting and reporting purposes. Beginning FY2017/18, to the extent possible, live IFMIS processing of these projects will commence, and new donor financed projects will be executed through IFMIS. The MFDP will

also continue and build upon its appraisal of externally-financed projects, particularly through systematic appraisal of debt-financed projects.

- As a part of an integrity check, the government requested the GAC to carry out a system audit of the IFMIS. The results are being analyzed, and follow-up actions will be initiated as necessary.

38. The implementation of the Treasury Single Account (TSA) remains a priority. Indeed, it is one of the key priority areas that have been outlined in the new PFM Strategy and Action Plan. The MFDP has established a new unit, the Treasury Single Account Section (TSAS), charged with the installment of the TSA. TSAS is designing a TSA structure based on the Liberian treasury system, with the support of the IMF, and is expected to finalize it in December 2017. Outreach to M&As on the importance of the TSA has started and the Office of the Comptroller and Accountant General has made several presentations and workshops to M&As to deepen their understanding of the TSA and distributed a cash management template to M&As for capacity building. We anticipate implementation of the TSA by July 1, 2018.

39. The government made best faith efforts to finalize an agreement with concession companies on the deferral of social contributions (SB; seventh review). Due to the commodity price shock, foreign concession companies in the resource sector requested that the government defer their social contribution payments totaling about US\$10–US\$13.5 million per year. In view of the important role these companies play in the domestic economy, the government decided to accept partial deferral (50 percent of their payment) up to FY2018/19. Based on negotiations with the foreign companies, the government negotiated the agreement in Memorandums of Understanding (MOU) indicating the length of the deferral (four years starting FY2015/16) and the repayment schedule. An MOU was then signed with one concession company in May 2017. However, MOUs were not finalized with the other mining companies as they had ceased operating in Liberia.

40. The government intends to tighten the control on SOEs to minimize fiscal risk.

- To this end, publication of the quarterly SOE report will continue, including the financial statements of covered SOEs (SB for the eighth review). Publication of the Q2 and Q4 reports was delayed from the timeline of the SBs due to delay in data submission to the MFDP and the administrative procedure of publication. However, following this initial delay, the MFDP now intends to continue to publish the report on a quarterly basis. The coverage of the September 2016 report already included analysis of SOEs liabilities and investments and their sources of financing; and identified substantial amount of liabilities for 15 out of 37 SOEs, including deferred income and on-lending of external loans contracted by the government. We intend that the reports in FY2017/18 will widen their coverage to at least 18 SOEs.
- To identify the size of contingent liabilities of the central government, the MFDP is preparing an inventory of the debt of SOEs as of end-June 2017 including creditor, terms, and currency denomination to help properly track the evolution of debt in the sector. This will be completed by end-2017.

- Furthermore, the MFDP finalized by end-October 2017 a stock-taking compliance report of how well the SOEs comply with the PFM Act and regulations, and mandated reporting obligations.

41. The government continues to commit to strong expenditure control to avoid arrears.

To this end, the MFDP/Comptroller and Accountant General's office circulated letters to Ministries and agencies and vendors to ensure compliance of expenditure procedure so that all the public spending commitments issued are backed by cash availability. In addition, the CAG's Office plans to conduct training for Comptrollers of line Ministries and Agencies in the second half of the FY2017/2018 in adhering to expenditure control protocols as outlined in the PFM Regulations.

42. The government will minimize the slowdown of reform progress stemming from the political transition. Upcoming political transition could delay ongoing reforms through changes in priority and/or human and resource allocation. To secure continuity, the PFM Reform Coordination Unit at the MFDP has a core team of competent staff who are mostly civil servants to provide orientation and training in key PFM areas for newly appointed officials. A mid-year review of the PFM strategy and action plan will be carried to incorporate changing and new priorities of the newly elected government.

Revenue Administration

43. Revenue administration continues to improve. The Liberian Revenue Authority (LRA) became operational in July 2014. Its corporate five-year strategic plan, finalized in 2016, envisages four strategic goals: (i) administer revenue legislation in an effective, fair, and transparent manner; (ii) maximize voluntary compliance; (iii) build an effective institution at all levels through excellence in leadership, accountability, technical and real infrastructural capacities; and (iv) transform revenue administration by utilizing effective Information and Communication Technology (ICT). Key achievements so far include: (i) the setup of the institution; (ii) completion of the strategic plan; (iii) introduction of first phase of strategic management system; (iv) introduction of desk audit system for large taxpayers on withholding taxes; (v) completion of sectorial audit manuals; (vi) provision of taxpayer education through workshops; (vii) implementation of goods and services tax return for some industries and online filing system; (viii) introduction of the auditing of loss making companies in an attempt to defer filing of losses; and (ix) the signing of MoU with other government agencies, such as Liberia Anti-Corruption Commission (LACC).

44. Additional efforts are needed to improve the capacity of the LRA to further mobilize domestic revenues. Capacity development in natural resource revenue management, innovation and expansion of automation of the tax administration system, and a comprehensive staff integrity management program are needed to continue the improvement in domestic revenue collection and transparency. These reforms will however require significant contributions from external partners to ensure successful implementation, especially in the areas of tax and customs modernization, IT, and capacity development complimented by hard and soft infrastructure support.

45. The LRA is establishing a robust and integrated compliance management program. The LRA is aware that streamlining and strengthening of compliance controls are crucial to improve execution and revenue mobilization. A compliance management framework (CMF) was developed to

define strategies for the large taxpayer segment, which account for over 80 percent of total collection, in the first half of 2017. The strategy includes the development of risk analysis to support mitigation strategies that include audit and enforcement activities, as well as education and service options. The compliance management focuses on core risks (registration, filing, payment and accuracy of declarations) and the sectors dominant in the large taxpayer office (LTO). The large taxpayer framework will be adapted to the medium and small taxpayer segments to the extent that economic sectors overlap. In addition, effective control of large taxpayer compliance will be critical to enable the LRA to more effectively introduce and administer the value-added tax when it is initiated in 2019.

Tax Policy Reforms

46. The government plans to introduce a VAT but implementation will not take place until 2019 due to logistical constraints. The introduction of the VAT will provide additional scope to improve revenue generation, efficiency, and performance, and is required as part of a regional ECOWAS agreement. The VAT Steering Committee has been reconstituted with the Minister of Finance and Development Planning as Chair and the Terms of References for the VAT Steering Committee (VSC) and the VAT Project Team (VPT) have been finalized. In addition, the MFDP is currently closely collaborating with the LRA in the preparation of a VAT White Policy Paper, roadmap for implementation, and a draft VAT Act. An IMF technical assistance mission on the capacity of the LRA to implement and administer the VAT took stock of progress so far, and recommended delaying the implementation of the VAT until 2019 to allow for the necessary preparations. The government will commence stakeholder's engagements which are scheduled to commence by December 2017 and submit the VAT bill for ratification by 2019, while developing the capacity of the LRA to effectively implement the VAT.

47. Following key modifications last year, the government is again reviewing the Liberia Revenue Code (LRC) to address a range of shortcomings. A range of tax policy and non-tax policy challenges had arisen in the implementation of the existing LRC that are hindering government's efforts to raise and administer revenues. A review conducted by the MFDP in collaboration with the LRA and through a consultative process identified a number of key problematic tax policy issues including: (i) the design of presumptive tax; (ii) limitation of interest deduction; (iii) taxation of indirect transfer interest in immovable property; (iv) excise taxation of beverages with reference to the World Trade Organization (WTO) and the Economic Community of Western African States (ECOWAS) compliance requirements; (v) taxation of telecommunication services; (vi) fuel tax exemptions; and (vii) special investment tax incentives, covering both direct and indirect taxes. The government is committed to streamlining the tax incentive regime by eliminating the differentiation based on region, local content and additional jobs. The government will also apply one uniform accelerated depreciation scheme for companies. The review of the revenue code is also necessary in the context of our membership of the WTO to make tax policies WTO compliant. Key also is simplification of the LRC to facilitate tax administration and compliance. The amendments relating to the presumptive tax, excise taxation of beverages and telecommunication, and investment incentives, complemented by an additional increase in goods and services tax and tobacco excise, were submitted to the Legislature in a bill attached to the FY2016/17 budget and approved in September. Finally, to collect the currency composition of tax receipts, LRA will move from the end of previous month rate to the previous day's rate.

Monetary and Financial Sector

48. The CBL is committed to promptly addressing the high level of NPLs in the banking system. The situation of non-performing remains a major challenge facing the banking sector. The CBL has requested Fund TA (AFRITAC West 2) for an assessment of the main drivers of NPLs, an evaluation of the ongoing measures to address NPLs, and recommendations to address the high NPL ratio. The central bank will intensify supervision of credit risk management by monitoring asset quality on a bank-by-bank basis and ensure commercial banks have adequate systems and controls in place, and comply with CBL Prudential Regulation concerning Asset Classification, Loan Loss Provisions and Suspension of Interest on Non-Performing Loans and Advances.

49. The CBL is upgrading its IT system of the national payment system as part of the creation of a common system for West African Monetary Zone (WAMZ) members. The new Temenos T24 system replaces the previous Bankmaster software and covers all the CBL's domestic and foreign exchange operations through front, middle, and back office processing, as well as payments. The system has interface with the payment and clearing systems, Automated Clearing House (ACH), Automated Checking Processing System (ACP), Real-Time Gross Settlement System (RTGS), and the Scriptless Securities Settlement System (SSSS). Following some difficulties in launching the system, the CBL is now reconciling back valued entries that were in Bankmaster core banking application to ensure that all transactions are posted in T24. Once the teething problems are resolved, the CBL will focus on producing a daily analytical balance sheet to inform the work of the LWG.

50. Enhanced monitoring of GN Bank continues. Based on recent assessment of the capitalization needs of the bank, GN Bank remains adequately capitalized with sufficient liquidity. The bank has strengthened its financial positions mainly by renegotiating deposit rates and containing operational expenses. However, provisions will be taken in line with prudential regulations of the CBL as the grace period for the remaining non-performing legacy loans from FIBLL ends at the end of September 2017. The CBL is currently carrying out a detailed on-site assessment of the bank.

51. The CBL prepared and published an Action Plan to address the gaps in its governance and supervisory and regulatory framework exposed by the failure of FIBLL. After closing FIBLL, a forensic audit covering the transactions of the bank from 2006 through the closure of FIBLL on June 4, 2016 was commissioned from KPMG. This report examined the circumstances that led to the closure of the bank and the resulting CBL's exposure to FIBLL of about US\$17.5 million as of June 4, 2016. The report indicated the existence of shortcomings within FIBLL and in CBL's governance and supervision capacities, as well as likely cases of fraud within FIBLL, and has been made available to the Ministry of Justice by the Executive. In light of the revelations contained in the report, we have adopted a response based on transparency and comprehensive reform. While it would be premature to publish the entire forensic audit, as this would compromise the course of judicial procedures, we published the executive summary of the report with names and other identifiers redacted. We believe this will provide the public with sufficient detail to ensure they are aware of what has transpired and what the relevant issues are. With the context thus clearly described, we also published a time bound Action Plan of reform, adopted in consultation with Fund staff, as a means of assuring the public that existing deficiencies in CBL's internal systems are being addressed. The Executive agreed to publish the full forensic audit once it is determined that this will not interfere with the appropriate course of judicial procedures.

52. As the entire Action Plan will take time to have its anticipated impact, we have included in it a number of fast-acting interim measures to ensure adequate safeguards for CBL resources. These consist of (i) compilation of monthly reports on foreign exchange withdrawals from the CBL within two weeks of month end (beginning with completion of a report by November 15, 2017 for the month of October 2017) and timely submission of these reports to the CBL Board of Governors (BOG) at every Board meeting; (ii) semi-annual external audits on the foreign exchange reserves of the CBL to be submitted to the CBL Board of Governors, with the first report to include the period July 1-December 31, 2017 and to be completed within six weeks of the period end, and to be shared with Fund staff no later than eight weeks of the period end. To this end, we will engage as a prior action an external auditor to conduct this audit in accordance with the terms of reference prepared in consultation with Fund staff. The monthly and semi-annual reports indicated in (i) and (ii) will be made available to Fund staff without delay.

53. The CBL will continue to work towards a crisis preparedness and management framework to help protect financial stability. The CBL is currently reviewing gaps in the safety net system with emphasis on powers and tools for emergency liquidity, and bank resolution and drafting related regulations.

- The CBL, with technical assistance from the Monetary and Capital Markets department of the IMF, developed in May 2017 operational procedures specifying terms and conditions for the provision of emergency liquidity assistance (SB seventh review). The framework was finalized on time in May 2017. The CBL has revised the standing credit facility and reserve requirement regulation and both regulations were issued. In addition, the new reserve requirement framework provides banks access to additional liquidity by allowing them to draw down on some of their reserves during the maintenance period.
- The CBL has also drafted a preliminary crisis management and bank resolution framework. Further work in this area is contingent on the amendment of the Financial Institutions Act (FIA) that will enable the adoption of legislation underpinning a special resolution regime (SRR) allowing prompt resolution of failing banks without court involvement. Additional TA will be needed in the areas of crisis management and bank resolution to review the ongoing work, and the CBL has made a request to the IMF in this regard. Additionally, consistent with our commitment under the ECF arrangement, we will continue to avoid undertaking quasi-fiscal activities to preserve our financial position and our ability to act as a lender of last resort.

54. The government and the CBL are implementing measures to contain the withdrawal of correspondent banking relationships (CBR). To date, every Liberian bank has lost at least one CBR. The CBL is taking a lead role by aggregating metrics of the extent of the problem, engaging parent jurisdictions of the respondent banks, advocating for global banks' action at various international fora, and working closely with the commercial banks. Efforts are in train to improve the overall Anti-Money Laundering (AML) and Combatting the Financing of Terrorism (CFT) environment. The Anti-Terrorism Act that criminalizes the financing of individual terrorists for any purpose was passed by the legislature. The CBL has established a dedicated AML/CFT supervision unit and is working with other stakeholders, including the Financial Intelligence Unit (FIU). The AML/CFT Unit of the CBL has

concluded the AML/CFT risk-based examination of all the nine commercial banks and the first follow up inspections of these five banks were completed in March 2017. The US Treasury, World Bank and the IMF continue to provide technical support toward strengthening the AML/CFT system of Liberia. The FIU has also been active in addressing gaps in AML/CFT laws relating to financing of terrorist activities and criminalization of illicit trafficking of goods—and was instrumental in the Legislature’s passage of three anti-terrorism Acts in early 2017. The FIU has also increased Liberia’s work with the Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA), the West African Financial Action Task Force (FATF)-styled regional body to which it belongs, as evidenced by its completion of a Mutual Evaluation Report in May 2011, seven follow-up reports, and regular participation in GIABA plenaries, including hosting the 2017 plenary.

55. The CBL is implementing the recommendations of the recent safeguards assessment. In addition to implementing the three-year financial plan described in ¶30, the CBL has also strengthened its financial position through the establishment of an asset and liability committee (ALCO) in April 2017 to oversee issues of risk management, balance sheet, and financial performance (structural benchmark for the eighth review). The ALCO had its first meeting in August 2017, at which time its leadership requested a TA on ALCO Pack from the IMF. The CBL has also completed the following reforms: (i) the published version of the CBL Act is kept up to date to reflect the most recent amendments; (ii) the CBL has completed an external quality assurance review of the internal audit function; (iii) the CBL regularly reviews commercial banks’ external audit reports against their prudential returns (and results are reported to the Board of Governors); (iv) any deviations noted during Regulation and Supervision Department (RSD) reviews are documented and necessary actions taken against banks involved; and (v) the CBL has enhanced the governance structure of the CBL by reviewing a Board Charter with more detailed operational rules and guidance for the Board and its committees.

56. Several reforms are underway to strengthen financial infrastructure and improve access to finance.

- The CBL established the collateral registry in June 2014 as a means of perfecting security interest in movable assets, such as personal property and inventories, and establishing priority of secured parties based on the date and time of registration of a security interest.
- During the fourth quarter of 2016, the Liberian Bankers Association (LBA) with support from the CBL resumed the publication of the names of non-compliant delinquent borrowers.
- The CBL has established 12 rural community finance institutions (RCFIs) across eight counties for communities’ banks and issued a new regulation for credit unions to facilitate access to finance to the unbanked public in the country including the rural areas. Funding from IFAD will allow us to increase the number of RCFIs to 19 in the course of five years. The CBL has also enacted regulation on agent banking to create an enabling environment for offering financial services and enhance financial inclusion.

57. An amendment to the 2014 mobile money regulations allows financial institutions (banks, non-bank financial institutions and non-bank financial service institutions) to apply for licenses. The CBL has issued two licenses to the non-bank financial institutions created by the two

mobile networks to provide mobile money services and, at the same time, provide a conduit for access to finance.

58. The CBL has substantially strengthened the consumer protection framework. Regulation concerning interest determination and display of interest rates and charges and computation of lending rates brings transparency to the loan market and protects customers from fraud. Regulation concerning consumer protection and market sets minimum standards for financial institutions in dealing with their customers and requires financial institutions to establish and implement efficient and effective mechanisms for handling consumer complaints.

59. The CBL in collaboration with the government has adopted a financial sector implementation plan (FSDIP). The FSDIP is a comprehensive plan aimed at complementing ongoing efforts to reform the financial sector with focus on promoting access to finance, improving the legal and regulatory environment of the financial system and enhancing the national payment system. The plan which is being implemented in partnership with the World Bank intends to build an inclusive financial system and strengthen the role of the financial system in supporting economic growth and development.

External Sector

60. The government is following through on the implementation of the country's WTO post accession plan to further improve the business climate in the medium term. Liberia became the 163rd WTO member on July 14, 2016. The benefits of WTO membership, including lower cost of imports and wider export market access owing to reduced trade barriers, will fully materialize only in the medium term. Within Liberia's accession package are key commitments to integrate the country into the multilateral trading system. The government has commenced the implementation of the required legislative reforms that will help improve domestic business environment, thereby facilitating domestic and foreign investment. Key elements of the post accession plan include comprehensive reforms in trade facilitation, removing barriers to trade, trade integration, economic diversification, and agricultural value chains.

61. The government has commenced the implementation of the ECOWAS Common External Tariff (CET). The implementation of the CET by ECOWAS member states started in January 2014, but its introduction in Liberia was delayed by the Ebola epidemic. As the only ECOWAS country yet to implement the ECOWAS Trade Liberalization Scheme (ETLS), the government will continue to work to ensure the implementation of the CET along a four-year phasing-in timeline. The CET was approved by the legislature in September, 2016 and some products have already been migrated to the CET.

Business Climate

62. The provision of an enabling environment for private sector development remains a priority of the government. A Land Rights Act that will help secure land rights and clearly define mechanisms for acquiring land has been submitted to the Legislature. Access to electricity is improving. The Mount Coffee hydropower project is now operational producing about 66 MW of power bringing the country's total installed capacity to about 104 MW. Thanks to the savings made possible by the use of relatively cheap hydropower energy, the government has reduced electricity

tariffs—among the highest in Africa—from US\$0.49 to US\$0.39 per kilowatt hour. Currently the binding constraint is the low level of connectivity to the grid, which prevents the majority of the installed capacity from being sold. However, work to increase the number of connections is underway as a priority and, as this progresses, average cost per delivered kilowatt hour will fall, enabling further price reductions to take place. Moreover, through the Cote d’Ivoire, Liberia, Sierra Leone, and Guinea (CLSG) connection project, we have been able to provide electricity to remote counties in the country at a cheaper rate compared to the Monrovia area tariff. The West Africa Power Pool CLSG project will begin building new transmission and distribution lines before the end of 2017 in order to catalyze regional energy trade and this will further reduce the tariff.

Capacity Development

63. Capacity development is a priority of the government and continued Fund support will be needed. Capacity building is one of the key factors of our medium-term strategy, Agenda for Transformation, and is also at the core of each strategic pillar under the government’s revised PFM reform strategy. Key areas for capacity development include public financial management, public investment management, reform administration, natural resource taxation, monetary policy framework, financial regulation and supervision, and statistics. In January 2017, the government formalized a Memorandum of Understanding on Capacity Building Framework with the IMF along the lines of the country’s TA priorities and this has been shared with other donors. The government will continue working with the IMF and other stakeholders to achieve our capacity development objectives. A comprehensive training curriculum focused on macroeconomic and fiscal policy is currently being developed and will be administered in September 2017 to strengthen these functions.

E. Statistics

64. The government continues to make good progress in improving the quality of statistics.

- *The National Establishment Census (NEC).* The Liberia Institute for Statistical and Geo-Information Services (LISGIS) has completed NEC on July 3, 2017. It contains turnover data of over 80,000 establishments. The summary report is expected to be published in November 2017.
- *The Household Income and Expenditure Survey (HIES).* The survey was originally conducted in 2014, but the project was stalled by the Ebola crisis after 6 months of data collection. The statistical abstract of the 2014 HIES was published in March 2016. The update was completed in January 2017, and the statistical abstract will be published soon.
- *The National Accounts:* LISGIS is revising national account estimates with technical assistance from the IMF and the World Bank, and has made important progress towards preliminary estimates for 2008–13. Additional data collection is needed to revise the national account estimates, but the funding has not been secured yet.

- *Consumer Price Index (CPI)*: LISGIS has already used the first half of 2014 HIES data collected to update the CPI basket and weights, with support from the World Bank and IMF's Statistics Department.

65. The CBL has produced a preliminary version of a new customs-based trade dataset. The CBL has been working on a new customs-based exports and imports data series using the Automated System for Customs Data (ASYCUDA) software package. The new data cover all the businesses whose goods go through customs, unlike the old trade data provided by the Bureau Inspection Valuation Assessment Control (BIVAC). The CBL has completed extending the ASYCUDA-based dataset back to January 2010 with some ongoing minor corrections in the series.

PROGRAM ISSUES AND MONITORING

66. We are requesting waivers for missed program performance criteria as specified above in our Letter of Intent.

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, June 2016–June 2017
(Millions of US dollars, unless otherwise indicated)

	Jun. 16			Dec. 16				Jun. 17		
	Program	Actual	Status	Program	Adjusted	Actual	Status	Program	Actual	Status
Performance criteria¹										
Floor on total revenue collection of the central government ²	473.7	452.9	Not Met	196.6	196.6	194.5	Not met	493.5	465.5	Not Met
Ceiling on new external arrears of the central government (continuous basis) ³	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	Met
Ceiling on new domestic borrowing of the central government ⁴	144.5	75.0	Met	186.4	186.4	150.5	Met	186.4	173.3	Met
Floor on CBL's net foreign exchange position ⁵	192.3	178.0	Not Met	181.0	160.5	166.9	Met	188.5	146.2	Not Met
Ceiling on CBL's gross direct credit to central government	352.9	353.4	Not Met	353.9	371.2	368.9	Met	372.0	398.1	Not Met
Ceiling on the present value of gross external borrowing by the public sector ⁶	97.0	0.0	Met	101.2	101.2	109.0	Not Met	140.7	117.0	Met
Indicative Targets										
Ceiling on net domestic assets of the CBL ⁵	25.2	45.9	Not Met	30.0	50.5	33.8	Met	39.0	163.6	Not Met
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	Met
Floor on social and other priority spending (percent of total actual expenditure, excluding contingencies) ⁷	32.5	37.9	Met	32.5	32.5	38.6	Met	32.5	36.5	Met
Memorandum items:										
Total spending on education, health, social development services (percent of total actual expenditure, excluding contingencies)	25.0	23.6		25.0	25.0	13.7		25.0	16.2	
Programmed receipt of external budget support grants and committed external loans ^{1,8}	140.0	96.1		66.2	66.2	62.0		88.4	90.1	

Sources: Liberian authorities and IMF staff estimates and projections.

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

² Total central government revenue collection includes all tax and non-tax receipt but excludes all contingent revenues and budget support grants.

³ The authorities represent that they dispute the validity of the claims vis-a-vis Taiwan Province of China. There is also an ongoing litigation in New York between Liberia and Taiwan Province of China with respect to these claims. Accordingly, any arrears on such claims are not treated as arrears for purposes of the continuous performance criteria on arrears and the Fund's arrears policy.

⁴ Includes issuance of treasury bills, domestic loans, advances, and any government debt instrument such as long-term securities issued in the domestic market. December 2014 actual borrowing included the disbursement under the ECF augmentation of SDR32.3 million. Targets after December 2014 includes disbursement under the ECF augmentation of SDR32.3 million and the RCF of SDR32.3 million.

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

⁶ An adjustor of up to 5 percent applies in case deviations from the ceiling are prompted by a change in the financing terms.

⁹ Effective from June 30, 2015, the nominal indicative target is replaced by the new PC on PV of gross external borrowings by public sectors.

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

⁸ The PC excludes the grants for Mount Coffee executed by the Liberian Electricity Company.

Table 2. Liberia: Structural Benchmarks for the Seventh ECF Review (End-December 2016 to End-May 2017)			
Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Expand the existing database of externally-financed projects to cover cost overrun, project implantation delay, and payment arrears.	End-December 2016	Strengthen the monitoring particularly of multi-year investment projects to ensure adequate budgetary allocations.	Met. The database was merged with the one of the domestically financed public investment projects.
Formalize the agreement with the four largest foreign concession companies, including the length of the deferment (no more than four years from FY2015/16) and payment schedule.	End-February 2017	Improve natural resource revenue management.	Not met. Only one company signed the Memorandum of Understanding. The remaining three companies stopped operations in Liberia.
Publish quarterly reports on the financial performance of State Owned Enterprises (SOEs) for FY2016/17Q1 and Q2.	End-March 2017	Improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	Not met. Q2 report was published on May 16, 2017.

Table 2. Liberia: Structural Benchmarks for the Seventh ECF Review (Concluded)

(End-December 2016 to End-May 2017)

Measure	Target Date	Justification	Current Status-Risks
Enhancing monetary operations and developing the financial sector			
Submit to the Fund staff the final report of the forensic audit of First International Bank of Liberia, and make the results available without delay to the relevant judicial authorities, consistent with Liberian laws.	End-May 2017	Safeguard against vulnerabilities in the banking sector and the CBL's financial position.	Not met. The report was shared with the IMF on June 7.
Develop a framework for Emergency Liquidity Assistance and bank crisis management.	End-May 2017	Ensure that emerging liquidity problems in the financial sector are tackled early with minimal impact on financial stability.	Met.
For Q1 2017, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.	End-May 2017	Ensure that efforts are being implemented to facilitate a gradual return to financial viability.	Met.

Table 3. Liberia: Structural Benchmarks for the Eighth ECF Review (End-December 2016 to End-September 2017)			
Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
At least 50 percent of M&As with budget allocation lines to submit to the PPCC the spending and procurement plans for recurrent and PSIP expenditure based on the draft FY2017/18 budget.	End-June 2017	Strengthen budget process and improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	Not met. The budget process was delayed.
Publish quarterly reports on the financial performance of State Owned Enterprises (SOEs) for FY2016/17Q3 and Q4. The Q4 report should include summary financial statements.	End-September 2017	Improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	Not met. The publication of the Q4 report is planned in end-November.
Enhancing monetary operations and developing the financial sector			
Set up an asset liability committee (ALCO) to oversee issues of risk management, balance sheet, and financial performance.	End-April 2017	Strengthen the CBL's management of assets and liabilities and its financial position.	Met.
For Q2 2017, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.	End-September 2017	Ensure that efforts are being implemented to facilitate a gradual return to financial viability.	Met.

Table 4. Liberia: Prior Action for the Seventh and Eighth ECF Reviews

Measure	Target Date	Justification	Current Status-Risks
Prior Actions			
Engage with an external auditor that conducts semi-annual audits on the CBL's foreign exchange reserve based on the terms of reference agreed with Fund staff. Staff should receive an audit engagement letter as confirmation.		Strengthen safeguards of public resources.	