

**IMMEDIATE  
ATTENTION**

EBS/03/121

CONFIDENTIAL

August 19, 2003

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Liberia—Overdue Financial Obligations to the Fund—Review Following  
Suspension of Voting and Related Rights—Postponement**

Attached for consideration by the Executive Directors is a paper on Liberia's overdue financial obligations to the Fund—review following suspension of voting and related rights—postponement.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **noon on Tuesday, September 2, 2003**. In the absence of such a request, the draft decision that appears on page 4 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Questions may be referred to Ms. Wagner (ext. 38847) and Mr. Honda (ext. 34284), in FIN.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:  
Department Heads

INTERNATIONAL MONETARY FUND

**Liberia—Overdue Financial Obligations to the Fund—  
Review Following Suspension of Voting and Related Rights—Postponement**

Prepared by the Finance, African, and Legal Departments

(In consultation with the Policy Development and Review Department)

Approved by Eduard Brau, Abdoulaye Bio-Tchané, and François Gianviti

August 18, 2003

**I. INTRODUCTION**

1. **This paper discusses recent security and economic developments in Liberia and reviews Liberia's overdue financial obligations to the Fund.** The Executive Board last reviewed Liberia's arrears to the Fund on March 5, 2003. On that occasion, the Board suspended Liberia's voting and related rights in the Fund, after determining that Liberia had failed to strengthen its cooperation with the Fund in terms of policies and payments to the Fund.<sup>1</sup> The Board decided to hold its next review of Liberia's arrears to the Fund by September 5, 2003.

2. **Since the last review, the civil war in Liberia has intensified, and only limited new information on economic developments has been available.** As the staff has lost contact with the authorities, news services are the main source of information on developments in Liberia. Given that it is currently not possible to field a mission to Monrovia to gather relevant information for assessing Liberia's cooperation with the Fund,<sup>2</sup> it is proposed to postpone the review of Liberia's overdue financial obligations to the Fund by another six months. A draft decision on the proposed postponement for adoption by the Executive Board is provided in Section IV.

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<sup>1</sup> Decision No. 12955-(03/19), adopted March 5, 2003, appears in the attachment.

<sup>2</sup> The UN has, however, requested a Fund staff member to participate in a fact-finding mission to Liberia once the security situation improves sufficiently. This request is currently under consideration.

## II. RECENT DEVELOPMENTS

3. **In May 2003, the UN Security Council unanimously renewed its sanctions against Liberia for another year and broadened them to include, in addition to a ban on diamond exports and arms imports, a ban on timber exports from July 2003.** This action was taken in view of Liberia's continuing support of the Revolutionary United Front rebels of Sierra Leone and was aimed at curtailing the main sources of funding for arms imports. Moreover, in June, the UN Special Court investigating war crimes in Sierra Leone issued an arrest warrant against President Taylor.

4. **The civil war in Liberia has intensified in recent months, bringing chaos to the country.** The government has lost control over more than 80 percent of the territory, but still holds on to most of Monrovia and some areas in the northeast. The main rebel group, Liberians United for Reconciliation and Democracy, has taken over large areas of Liberia's northwest and has gained control of the capital's port and main commercial area. Another rebel group, the Movement for Democracy in Liberia, has seized control of most of the timber logging areas in Liberia's east, including the port of Buchanan. Liberia's formal economy has largely collapsed.

5. **On August 1, the UN Security Council authorized a multinational force to help implement a ceasefire in Liberia, and the UN Secretary General has appointed a high-level Special Representative to oversee its activities in the country.** A first deployment of Nigerian soldiers has already arrived in the country, preparing the way for the deployment of a larger force. On August 11, President Taylor handed over the presidency to the vice president, Moses Blah, and left the country, accepting an offer from Nigeria to grant him asylum.

6. **Staff has received little of the information it had requested from the authorities to use as a basis for assessing Liberia's cooperation with the Fund.** Some monetary data were made available, but no fiscal data or updates on actions to strengthen fiscal accountability and transparency. According to the latest monetary data, broad money growth was flat between September 2002 and March 2003, reflecting a drawdown of deposits and an associated increase in currency in circulation. The growth in base money, by 11.5 percent during the same period, was due in part to the central bank's currency issuance for financing its operations. The exchange rate has been subject to considerable volatility since September 2002 but, overall, it depreciated by 7 percent vis-à-vis the U.S. dollar between September 2002 and April 2003.

### III. ARREARS TO THE FUND AND OTHER MULTILATERAL CREDITORS

7. **At end-July 2003, Liberia's arrears to the Fund amounted to SDR 501 million (703 percent of quota), an increase of SDR 2.7 million since the last review** (Table 1). Liberia's forthcoming obligations to the Fund are estimated to amount to SDR 3 million for the remainder of 2003 and SDR 6 million annually thereafter (Table 2). In 1997, Liberia committed to token payments of US\$50,000 per month to the Fund and promised to increase such payments to US\$75,000 per month starting in July 2003.<sup>3</sup> Payments continued through May 2003, but have since stopped. As of end-July 2003, Liberia's arrears to the World Bank Group amounted to US\$383 million (US\$35 million to the IDA and US\$348 million to the IBRD). Arrears to the African Development Bank Group amounted to SDR 143 million at end-May 2003.

Table 1. Current Overdue Financial Obligations  
(In millions of SDRs, as of July 31, 2003)

Type of obligation	Total amount overdue	Date of the longest outstanding overdue obligation
Principal	223.7	
Repurchases	200.8	5/30/1985
Trust Fund repayments	22.9	7/25/1985
Interest and Charges	277.1	
Quarterly charges	134.5	5/6/1985
Semiannual charges	80.5	7/18/1985
Assessments	0.1	4/30/1986
Net SDR charges	23.6	8/1/1988
Trust Fund interest	2.3	6/28/1985
Special charges (GRA)	31.1	5/28/1986
Special charges (TF)	5.0	5/28/1986
<b>Total</b>	<b>500.8</b>	

<sup>3</sup> Finance Minister Charles Bright committed to an increase in the monthly payments to \$75,000, starting in July 2003, in his letter dated March 3, 2003.

Table 2. Projected Forthcoming Financial Obligations  
(In millions of SDRs)

Type of obligation	Outstanding as of 7/31/2003	Forthcoming 1/			Total through 2005
		2003	2004	2005	
Repurchases	200.8	--	--	--	200.8
Periodic charges	215.0	2.4	4.7	4.7	226.7
Trust Fund repayments and interest	30.2	0.1	0.1	0.1	30.5
GRA special charges	31.1	--	--	--	31.1
Net SDR charges	23.6	0.4	0.8	0.8	25.6
<b>Total</b>	<b>500.8</b>	<b>2.8</b>	<b>5.6</b>	<b>5.6</b>	<b>514.7</b>

1/ Subject to change in light of Liberia's payments to the Fund and changes in the SDR interest rate.

#### IV. CONCLUSION AND PROPOSED DECISION

8. **The highly unsettled political and security situation in Liberia and the lack of reliable data on economic developments preclude an assessment of Liberia's economic policy performance.** In these circumstances, staff proposes that the next review, which is scheduled to take place before September 5, 2003, be postponed to no later than March 5, 2004. The Managing Director can call for a review at any time during this period if warranted by developments in Liberia. Accordingly, the following draft decision, which may be made by a majority of the votes cast, is proposed for adoption by the Executive Board:

Paragraph 4 of the Decision No 12955-(03/19) adopted on March 5, 2003 shall be amended by replacing "within six months of March 5, 2003" with "no later than March 5, 2004."

**INTERNATIONAL MONETARY FUND  
Liberia—Overdue Financial Obligations to the Fund  
—Suspension of Voting and Related Rights**

**Executive Board Decision No. 12955-(03/19)  
Adopted March 5, 2003**

1. On April 8, 2002, the Managing Director submitted a complaint to the Executive Board pursuant to Article XXVI, Section 2(b), setting out the facts on the basis of which it appeared to him that Liberia had persisted in its failure to fulfill its obligations under the Articles of Agreement of the Fund after the expiration of a reasonable time period following the declaration of ineligibility under Article XXVI, Section 2(a) on January 24, 1986 (EBS/02/63). The complaint was communicated to the authorities of Liberia on April 18, 2002.
2. Having considered the complaint of the Managing Director and the views of Liberia, the Fund finds that Liberia has persisted in its failure to fulfill its obligations under the Articles of Agreement after the expiration of a reasonable time period following the declaration of ineligibility under Article XXVI, Section 2(a).
3. The Fund regrets the continuing nonobservance by Liberia of its financial obligations to the Fund, urges Liberia to resume their observance as a matter of the highest priority, and decides that, pursuant to Article XXVI, Section 2(b) and Schedule L of the Articles of Agreement, the voting and related rights of Liberia in the Fund are suspended effective March 5, 2003.
4. The Fund shall review this decision within six months of March 5, 2003.