

EBS/07/150

December 19, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Liberia—Extension of the Staff-Monitored Program**

Attached for the **information** of Executive Directors is a paper on an extension of the staff-monitored program through March 2008 for Liberia. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Liberia indicating whether or not they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Powell (ext. 36932), Mr. Erasmus (ext. 35938), and Mr. Leichter (ext. 38752) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the African Development Bank, and the European Commission.

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

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INTERNATIONAL MONETARY FUND

LIBERIA

Extension of Staff-Monitored Program

Prepared by African Department
(In consultation with other departments)

Approved by David Andrews and Matthew Fisher

December 19, 2007

I. INTRODUCTION

1. **Liberia's ability to clear arrears and request Fund financing was delayed by the need for financing assurances for the Fund's provision of debt relief for Liberia. Staff and the authorities have therefore agreed on an extension of Liberia's staff-monitored program (SMP) to end-March 2008.** Sufficient pledges have just recently been received (subject to the formalizing of these pledges) for the Fund's provision of HIPC Initiative and MDRI-type beyond-HIPC debt relief for Liberia.¹ Discussions on a successor program for Liberia's SMP were held in Monrovia July 19-27, 2007, and were continued during October 25-26, 2007 in Washington, D.C. In this context, staff and the authorities agreed to extend the 2007 SMP to end-March 2008 in order to allow Liberia to maintain a continuous track record of satisfactory policy implementation before requesting a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF).² The extension also keeps open the possibility that Liberia could benefit from the proposed amendment to the PRGF-HIPC Trust Instrument which, if approved, would provide limited scope for performance under SMPs to be counted toward building the track record required to reach the HIPC Decision Point. A request for a PRGF/EFF is expected to be brought to the Executive Board for consideration following the settlement of arrears and lifting of sanctions, during the first quarter of 2008.

2. **The Board was most recently informed of the staff's assessment of recent developments under the SMP in an assessment letter circulated to the Board for information as FO/DIS/07/157, November 28, 2007.** Performance under the SMP to end-September was broadly satisfactory. Available information suggests that most quantitative

¹ PR No. 07/24, 11/12/07.

² See Letter from the Minister of Finance and the Governor of the Central Bank of Liberia (Appendix I).

benchmarks were met, as were five out of eight end-June and end-September structural benchmarks. On December 5, 2007 Liberia cleared its overdue obligations to the World Bank Group, amounting to US\$400 million, and the African Development Bank is scheduled to meet in late-December 2007 to discuss an operation to clear Liberia's arrears (US\$254 million).

II. THE PROGRAM THROUGH MARCH 2008

3. **The proposed extension of the SMP through March 2008 is based upon the macroeconomic and structural policies discussed with the authorities in the context of the negotiation of a new PRGF/EFF arrangement.** The main objectives of the program are to support economic reconstruction by maintaining a stable macroeconomic environment that could facilitate economic growth, job creation, poverty reduction, and progress toward achieving the MDGs, and to support key reforms in the Fund's core areas as part of a coordinated internationally-supported effort. The macroeconomic framework—which will be discussed in greater depth in the forthcoming staff report accompanying the request for the new arrangements—envisages a continuation of the economic recovery as further progress is made with reconstruction. Real GDP growth is projected to be 9.5 percent in 2008, similar to 2007, supported by strong growth in logging and services sector. Inflation is projected to fall to 8.5 percent by end-2008, while the current account deficit is projected to be about 38 percent of GDP. The revenue-to-GDP ratio is expected to strengthen further in 2008, in part due improvements in revenue administration, a further reduction in exemptions, and a resumption of logging and mining operations. The staff considers that the economic policies underpinning the macroeconomic framework, when combined with the financing expected in the context of the HIPC Initiative and beyond HIPC debt relief, would put Liberia on a trajectory toward restoring medium-term sustainability, and would be of a quality that would warrant support under an upper credit tranche arrangement.

4. **Three structural benchmarks have been added to the program for end-March 2008.** If a PRGF/EFF-supported program is approved before end-March 2008, these measures would be monitored under the new program. The additional benchmarks include (i) passage of legislation to allow the merger of the Bureau of the Budget into the Finance Ministry and to limit the transfer of resources between budget lines without legislative approval; (ii) preparing a chart of accounts, consistent with GFSM 2001-compatible budgetary classifications; and (iii) publishing a list of banks licensed to operate in Liberia as part of the strategy for the final resolution of abandoned and nonoperating banks. Quantitative benchmarks have also been agreed for end-March 2008 consistent with the approved budget for 2007/08 that is expected to form the basis of the program to be supported under the PRGF/EFF.

III. PROGRAM MONITORING AND NEXT STEPS

5. **Performance under the SMP is monitored on the basis of quantitative and structural benchmarks in Tables 1 and 2, Appendix I.** It is expected that discussions on a three-year PRGF/EFF arrangement will be finalized during a staff mission planned for mid-January 2008.³ The Board could consider the authorities' request for a PRGF/EFF arrangement before the end of the first quarter of 2008, once Liberia's arrears to the Fund have been cleared and Liberia's eligibility to use Fund resources has been restored.⁴ In that event, the quantitative benchmark on the accumulation of foreign exchange reserves will be adjusted to reflect disbursements under the arrangement. Moreover the quantitative benchmark on the token payments to the Fund will be replaced by a performance criterion on the non-accumulation of external payments arrears.⁵ Executive Directors will have the opportunity to express their views on performance under the program through 2007, and the strength of the program through March 2008 when considering the request for a PRGF/EFF arrangement.

6. **The Executive Board is to consider a paper "Proposals to Modify the PRGF-HIPC Trust Instrument-Further Considerations and Proposed Decision" in mid-January 2008.** If the proposals in that paper are approved by the Board, a preliminary HIPC Initiative document could be considered by Fund and IDA Boards shortly thereafter, with a view to reaching a decision point under the HIPC Initiative immediately following an arrears clearance operation and approval of a three-year PRGF/EFF arrangement.

IV. STAFF APPRAISAL

7. **The staff consider that the macroeconomic and structural policies envisaged under Liberia's SMP through end-March 2008 meet the standards that are associated with arrangements in the upper credit tranches, apart from program financing assurances.** Staff also consider that an extension of the SMP is warranted in order to provide policy continuity in the run-up to arrears clearance and the approval of a successor arrangement. It would also keep open the possibility that Liberia could benefit from the

³ The mission will also review performance under the SMP through end-2007.

⁴ Currently, there are three sanctions against Liberia: (i) suspension of the voting rights; (ii) ineligibility to use the Fund's resources; and (iii) suspension of Liberia's rights to use SDRs. Lifting these sanctions would require a decision by the Executive Board taken by a 70 percent majority of the total voting power for sanction (i), and by a majority of votes cast for sanctions (ii) and (iii).

⁵ External payments arrears arising from government debt that is being renegotiated with creditors, including Paris Club creditors, will be excluded from this conditionality.

proposed amendment to the PRGF-HIPC Trust Instrument, which if approved, would provide limited scope for performance under SMPs to be counted toward building the track record required to reach the HIPC Decision Point.

8. **Ongoing difficulties with obtaining legislative support for the government's proposed reforms and significant capacity constraints pose risks for achieving the program's objectives.** The government should continue to work with the legislature to move the reform agenda forward, while continued support from the international community is also important.

Liberia. Appendix I – Letter of Intent

Monrovia, December 18, 2007

Mr. Dominique Strauss-Khan
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Mr. Strauss-Khan:

We would like to request a three-month extension of the current staff-monitored program (SMP) through March 2008. Such an extension will allow Liberia to maintain its track record of satisfactory policy implementation under the SMP in advance of concluding discussions with Fund staff on the government's policy framework to be supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF)/Extended Fund Facility (EFF), which we expect to do by end-January 2008. We propose that the quantitative and structural benchmarks indicated for end-March 2008 in the attached Tables 1 and 2 be incorporated as either benchmarks or performance criteria for end-March 2008 since we expect the PRGF/EFF program to be approved by end-February 2008.

We believe that Liberia's performance under the SMP continues to be strong. The policies and measures set forth in the letters of intent dated January 18, 2007 and June 28, 2007 and the accompanying Memoranda of Economic and Financial Policy (MEFP), and in the attachments to this letter, reflect the understandings reached with the IMF staff during missions in November 2006, April and July 2007, and during discussions in Washington, D.C. in October 2007. We believe these measures will allow us to achieve the objectives of the program, but will take any additional measures that may become necessary for this purpose. We will continue to consult closely with the IMF staff on our adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. The government will provide the IMF staff with all the information it requests to assess implementation of the SMP.

Sincerely yours,

/s/

Antoinette M. Sayeh
Minister of Finance

/s/

Joseph Mills Jones
Governor of the CBL

Attachments: Quantitative Indicators for 2007 to March 2008
Structural Benchmarks for 2007 to March 2008

Table 1. Liberia: Quantitative Indicators 2007-08 (cumulative basis from end of fiscal year, unless otherwise noted)

(Millions of U.S. dollars)												
	Mar. 07		Jun. 07		Sep. 07		Dec. 07		Mar. 08			
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Prog.
Fiscal												
Floor on revenue collections	84.5	105.9	120.9	146.8	40.9	43.7	79.9	77.3	139.5			
Floor on fiscal balance ^{1/}	-19.5	24.0	-19.5	16.7	-13.7	...	0.0	-13.7	-13.7			
Ceiling on new noncash tax/duty payment (continuous basis)	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0			
Ceiling on new domestic borrowing (continuous basis)	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0			
Ceiling on new external borrowing (continuous basis)	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0			
Ceiling on new domestic arrears/payables (excluding the arrears arising from the current debt outstanding) (continuous basis)	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0			
CBL (calendar year basis)												
Ceiling on expenses	1.3	1.0	2.6	2.3	3.9	3.5	5.3	5.3	1.4			
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Floor on CBL's cash-based budget balance	-0.1	0.7	0.0	1.3	0.1	1.8	0.0	0.0	0.0			
Floor on the CBL's net foreign exchange position	22.7	24.3	26.8	29.8	29.3	31.5	31.6	31.6	34.6			
Other												
Floor on payments to the Fund (in US\$) (continuous basis)	540,000	540,000	720,000	720,000	180,000	180,000	360,000	360,000	540,000			

1/ Starting in September 2007, the fiscal balance, on a commitment basis, is defined as the difference between (a) total central government revenue plus budget support (excluding project grants), and (b) total current expenditure plus investment expenditure (excluding foreign-financed investment expenditure). The program target for the floor on fiscal balance allows for a deficit given the accumulation of surpluses in the government's account at the central bank from the previous fiscal year.

Table 2. Structural Benchmarks for January 2007-March 2008 SMP

<u>Measures</u>	<u>Target dates</u>	<u>Status</u>
Fiscal Policy		
Commence implementation of the domestic debt resolution strategy, and develop a plan to settle cross-debts between the government and state-owned enterprises	End-March 2007	Implemented by mid-April 2007
Submit a balanced cash-based budget for 2007/08 for legislative approval	End-May 2007	Implemented by May 17, 2007
Develop and implement a comprehensive plan to reform the investment incentive code and submit legislation to repeal Section 204(e) of the Liberia Revenue Code of 2000, as well as the 2004 Act amending the code, which allowed the government to enter into ad hoc tax concession agreements with individual investors	End-June 2007	Implemented by end-September 2007
Reorganize administration of domestic taxes by taxpayer segmentation	End-June 2007	Implemented by end-June 2007
Adopt legislation to merge the Bureau of the Budget into the Ministry of Finance and to limit transfers between budget lines without legislative approval to a cumulative total of no more than 30 percent	End-March 2008	
Prepare a chart of accounts, consistent with GFSM 2001-compatible budgetary classifications	End-March 2008	
Financial Sector		
Establish clear audit selection and rotation procedures and criteria for the CBL to select an internationally reputable audit firm to conduct the CBL's future external audits, pursuant to ISA, beginning in financial year 2007	End-March 2007	Implemented by mid-June 2007
Develop a restructuring plan for the remaining undercapitalized banks consistent with the CBL's Bank Reconstruction and Resolution Policy	End-June 2007	Ongoing
Appoint an auditor, consistent with the criteria above, to audit the CBL's financial accounts for 2007	End-September 2007	Implemented by end-September 2007
Publish a list of banks licensed to operate in Liberia as part of the strategy for the final resolution of abandoned and nonoperating banks	End-March 2008	

Table 2. Structural Benchmarks for January 2007-March 2008 SMP (Concluded)

Other Areas		
Replace the Monrovia CPI with the Harmonized CPI	End-February 2007	Implemented by end-February 2007
Submit required legislation for establishment of an independent anticorruption agency for legislative approval, consistent with the government's anticorruption strategy	End-September 2007	Implemented by end-September 2007
Submit for legislative enactment an administrative procedure law that establishes a transparent process for the issuance of regulations pursuant to the Liberia Revenue Code of 2000, and submit legislation to repeal other laws and revoke regulations that are inconsistent with the law	End-September 2007	Draft legislation submitted to the President in September
Develop a comprehensive medium-term national statistical plan	End-December 2007	