April 24, 2008
Approval: 5/1/08

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 08/24-1

10:00 a.m., March 14, 2008

1. Liberia—Fourth Review of Performance Under the Staff-Monitored Program and Request for Three Year Arrangements Under the Poverty Reduction and Growth Facility and Extended Fund Facility; Enhanced Initiative for Heavily Indebted Poor Countries—Decision Point Document; Assessment of Risks to the Fund and the Fund's Liquidity Position; Restoration of Voting and Related Rights, Termination of Ineligibility to Use the General Resources of the Fund and of Suspension of the Right to Use SDRs

Documents: EBS/08/26 and Correction 1 and Correction 2 and Supplement 1 and Supplement 2; EBS/08/27 and Supplement 1 and Supplement 2; EBS/08/29; EBS/08/30; EBS/08/34; FO/DIS/08/20

Staff: Powell, AFR; Fisher, PDR

Length: 55 minutes

Executive Board Attendance

M. Portugal, Acting Chair

Executive Directors	**Alternate Executive Directors**
P. Gakunu (AE)	
L. Rutayisire (AF)	K. Assimaidou (AF)
	J. Maciel (AG), Temporary
	W. Mañalac (AU)
	Y. Ha (AU), Temporary
	S. Rottier (BE), Temporary
	K. Florestal (BR), Temporary
H. Ge (CC)	H. Li (CC), Temporary
	A. Guerra (CE), Temporary
	J. Perrault (CO), Temporary
A. Fayolle (FF)	
K. Stein (GR)	
	P. Ray (IN), Temporary
	G. Cipollone (IT), Temporary
	D. Kihara (JA), Temporary
	S. Rouai (MD), Temporary
	M. Choueiri (MI), Temporary
	Y. Yakusha (NE)
J. Henriksson (NO)	
	A. Tolstikov (RU), Temporary
A. Alazzaz (SA)	A. Al Nassar (SA)
	N. Raman (ST), Temporary
	A. Raczko (SZ)
M. Lundsager (UA)	
A. Gibbs (UK)	

B. Esdar, Acting Secretary
T. Orav, Assistant

Also Present
IBRD: A. Bassani, E. Graham, P. Maisterra. African Department: B.V. Christensen, L. Erasmus, A. Kouwenaar, T. Krueger, J. Leichter, J. Lizondo, R. Powell. External Relations Department: L. Mboto-Fouda. Finance Department: D. Andrews, Y. Bal Gunduz, E. Budras, J. Dalton, S. Fennell, I. Goodwin, J. Grochalska, C. Hatch, M. Kuhn, J. Lin, M. Manno, S. Marcelino, Y. Metzgen, P. Njoroge, R. Price, J. Ralyea, R. Sahay, C. Visconti, S. Wang, Y. Wong, D. Worrell, B. Yuen. Legal Department: I. Mouysset, G. Rosenberg, D. Siegel, B. Steinki, R. Weeks-Brown. Office of the Managing Director: G. Schwartz. Policy Development and Review Department: A. Espejo, M. Fisher, I. Hakobyan, J. John, E. Kpodar, A. MacArthur, J. Martijn, M. Rodriquez. Secretary's Department: A. Blazejewski, K. Meyers. Senior Advisors to Executive Directors: M. Kaplan (UA), C. Roos Isaksson (NO). Advisors to Executive Directors: S. Cerovic (NE), C. Denk (GR), A. Eng (ST), N. Imamura (JA), F. Jeske Schonhoven (FF), I. Mannathoko (AE), J. Thornton (UK).

1. LIBERIA—FOURTH REVIEW OF PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM AND REQUEST FOR THREE YEAR ARRANGEMENTS UNDER THE POVERTY REDUCTION AND GROWTH FACILITY AND EXTENDED FUND FACILITY; ENHANCED INITIATIVE FOR HEAVILY INDEBTED POOR COUNTRIES—DECISION POINT DOCUMENT; ASSESSMENT OF RISKS TO THE FUND AND THE FUND'S LIQUIDITY POSITION; RESTORATION OF VOTING AND RELATED RIGHTS, TERMINATION OF INELIGIBILITY TO USE THE GENERAL RESOURCES OF THE FUND AND OF SUSPENSION OF THE RIGHT TO USE SDRS

Mr. Gakunu and Ms. Mannathoko submitted the following statement:

My authorities request the support of Executive Directors for:

- Approval of the SMP review, a three-year arrangement under the Poverty Reduction and Growth Facility (SDR 239.02 million), and the Extended Fund Facility (SDR 342.77 million);
- Restoration of voting rights and eligibility to use GRF and SDR facilities;
- Approval of Liberia's qualification for assistance under the HIPC Initiative as per the decision point assessment;[1]
- Approval for the IMF to provide interim assistance between the decision and completion points, toward reducing the NPV of the debt to exports ratio to 150 percent; and
- An agreement that the HIPC completion point will be reached once the agreed triggers (Box 3) have been met.

The Liberian government has made every effort to ensure that the qualification criteria required for the decisions in (i), (ii), and (iii) above are satisfied, and the authorities are committed to working hard under the new program to reach the completion point in (v). The assessment of risk to the Fund shows that Liberia will be able to meet its obligations to the IMF under the above arrangements.

[1] In addition, on the process for clearing arrears, repaying the bridge loan needed to clear Liberia's arrears to the Fund will require exceptional access under both the PRGF and EFF. The staff propose an upfront disbursement of the entire amount under the EFF in view of the large financing requirements for clearing arrears.

Performance Under the Staff Monitored Program

In order to qualify for HIPC assistance, Liberia has had to establish a performance track record that meets the initiative's standards. It is encouraging to report that the country has done this. Performance under the SMPs through December 2007 has been satisfactory and successfully meets the standards for upper credit tranche conditionality. For the current SMP, the only criterion outstanding has been with regard to the continued accrual of external payments arrears on old debt. However, as Directors are aware, the accrual is attributable in part to delays in securing donor pledges for arrears clearance and in reaching the HIPC decision point so that the remaining Paris Club and commercial debt can be addressed under the HIPC framework. For their part, the authorities have undertaken not to incur arrears on the external debt that Liberia owes or guarantees, except for the external payments arrears already arising from government debt that is being renegotiated with creditors.

Last year, the authorities achieved all of the quantitative benchmarks, except for the one relating to Central Bank of Liberia (CBL) expenditure. However, missing the target did not compromise the underlying goal of keeping spending within budget. CBL expenditures in 2007 did exceed the ceiling agreed for the SMP, but this was a result of capital expenditure related to the printing of Liberian dollar banknotes in response to an increase in the use of Liberian dollars agreed under the program. The CBL, nevertheless, achieved a surplus and so did not compromise the underlying goal. In addition, the CBL target for increasing foreign assets was met. Notwithstanding the fact that the underlying goal was met, the authorities recognize the importance of meeting this benchmark and are committed to guarding against a recurrence of this type in the future.

The authorities have made good progress in achieving the structural benchmarks, though a number of them required more time than was programmed. Just one benchmark is outstanding from December 2007, relating to the development of a statistics plan. The authorities recognize the importance of finalizing the medium-term statistics plan and hope to reach agreement with the TA provider on the final document in time to meet the new end-March benchmark. In addition, they have commenced efforts to improve data production and dissemination, including for monetary and fiscal statistics. This will help to better inform policies implemented as part of the program.

New PRGF/EFF Program will enable Normalization of External Debt

The authorities expect that satisfactory performance under the PRGF/EFF-supported program will pave the way for comprehensive treatment of external debt through HIPC and other debt relief. Given their past track record, they believe that they can sustain strong program performance so that Liberia is able to receive debt relief by 2010 in the context of the HIPC and MDRI and beyond-HIPC debt relief. The relief will include financial assistance from other multilateral financial institutions, the Paris Club, and other official bilateral creditors. Liberia also expects to resolve its arrears to private creditors through an appropriate agreement.

Analysis of Repayment Capacity shows Little Risk to Fund

As long as performance is satisfactory under the PRGF and extended arrangements, there is limited risk from Liberia's failure to repay the Fund. In this regard, the authorities are strongly committed to effective program implementation, and intend to maintain a strong track record of policy implementation under the new program to help to mitigate risk associated with the repayment of obligations to the Fund.

Sustained Donor Support is Vital in the Face of Stringent Borrowing Constraints

For the program to continue to be successful, timely financial and technical support from donors will be essential. While the PRGF/EFF program is subject to considerable risks, these could be tempered with the sustained assistance of the development community. The authorities deserve this support from the international community. The authorities have so far received assistance from donors to rebuild capacity to formulate and implement policy, including in statistics and this may need to be broadened. Further assistance especially financial support, starting in the first year of the program, remains critical to enhance the authorities' efforts to meet various benchmarks (such as that relating to the anti-corruption commission).

Grant financing will be crucial to support reconstruction and rehabilitation. Since the debt sustainability analysis in the HIPC Decision Point document makes clear that Liberia is in debt distress and that there are risks associated with new borrowing, the authorities are increasingly dependent on the development community to provide grant-based support. We therefore, urge the donor community to come forward with adequate grant resources to enable Liberia to recover, and achieve sustainable growth. While the debt relief proposed will eventually create the fiscal space needed for reconstruction and poverty reduction investments, from the authorities' perspective, it is equally important that they get the necessary financing to rebuild the economy sooner rather than later. The current government, has to deliver on promises made to the people of Liberia.

Concluding Remarks

After a change of government, re-engagement with the IMF and other donors, and the implementation of an ambitious reform program, Liberia is now on the path to recovery. The authorities are grateful for all the support received so far which has helped them overcome various critical setbacks, including overwhelming arrears inherited from previous wartime regimes. The Liberian government remains mindful of the challenges ahead, and remains resolute in its commitment to carry out the necessary measures to rebuild the economy and reach the HIPC completion point. My authorities look forward to the continued support of Executive Directors and the development community in this regard.

Mr. Warjiyo and Mr. Eng submitted the following statement:

We thank the staff for the well-presented set of papers and Mr. Gakunu and Ms. Mannathoko for their helpful statement.

Liberia's continued satisfactory performance under the SMP despite significant capacity constraints and the difficult political environment is most encouraging. We believe that the SMP, underpinned by the authorities' strong ownership and commitment to the reform agenda, has set the cornerstone for sustainable progress going forward. The PRGF/EFF-supported program outlined for 2008-2010 is appropriately ambitious to that end, and we expect the accompanying debt relief and financial support to free up valuable fiscal space for the authorities to pursue wide-ranging reforms and sustain their poverty-reducing efforts. We take note of the risks to Fund resources arising from the program, but are adequately reassured by the mitigating factors cited in the staff's assessment. We support the proposed decision set forth in EBD/08/26, 2/28/08.

We also support the related decisions for lifting the remaining remedial measures upon clearance of Liberia's arrears, including:

Decision 1: Restoration of Liberia's Voting and Related Rights

Decision 2: Termination of Liberia's Ineligibility to Use the General Resources of the Fund

Decision 3: Lifting of Suspension of Liberia's Right to Use SDRs.

With the settlement of its arrears to the Fund and restoration of rights on March 14, Liberia can finally close a chapter in its history. We wish the authorities well in their endeavors as they chart the new path forward.

Ms. Lundsager and Mr. Kaplan submitted the following statement:

We enthusiastically welcome the Board's discussion of Liberia's clearance of arrears, new program, and HIPC Decision Point. We approve the decisions, and are pleased to provide bridge financing for the clearance of Liberia's arrears and its quota subscription.

We commend the staff team for their exceptional work to help bring Liberia to this point, under very difficult conditions on the ground. With the authorities' clear ownership of strong reforms, real progress has been made from a low base, and conditions are improving for the people of Liberia. The Fund's participation in Liberia's recovery remains an essential element of the international community's support.

We thank the authorities for their patience with the international community over the past two years, which has moved slowly to provide necessary support for arrears clearance and debt reduction. Today, however, we are very pleased to thank the one hundred and two IMF members, including a large number of emerging market and low income countries, that are contributing to the settlement of Liberia's arrears. We thank the staff members of FIN, LEG, PDR, and AFR who have labored behind the scenes to put this financing package together.

IMF arrears clearance successfully ends an important phase of Liberia's recovery. However, the PRGF/EFF paper makes clear that daunting challenges remain. Recovery depends critically, as Mr. Gakunu and Ms. Mannathoko state, on timely financial and technical support from donors. The Liberian authorities must also continue the high standard of performance that was observed under the SMP.

The PRGF/EFF program laudably focuses on improving revenue collection and budget execution. The program aims to raise revenue by 3 percent of GDP from 2008-2010, a reasonable goal given the expected revival of Liberia's revenue-generating mining and forestry industries. Going forward, however, we note that revenues are already high in comparison with many neighbors, and that the goal of increasing revenues in order to finance higher recovery spending will need to be carefully balanced with avoiding an excessive burden of taxation on private sector growth.

In terms of monetary policy, we note that the authorities' capacity is extremely limited, and that a exchange rate stability is the anchor for prices in this dollarized economy. The Fund has considerable cross-country experience with building up monetary policy institutions that we expect will be shared with Liberia over the course of the program, recognizing that de-dollarization is a longer-term goal. We join the staff in urging the authorities to avoid defending the exchange rate against downward pressure, given very limited reserves. We advise prompt completion of the safeguards assessment

We support the program's structural agenda, focusing on improving budget execution and public financial management. We similarly welcome the broad focus of the floating completion point triggers on governance, public financial management, and debt management. These measures seem appropriately designed to increase transparency and improve accountability in key parts of the government. In both areas, however, a prime vulnerability will be securing necessary agreement from the opposition-held legislature, particularly on passing the PFM Law and Anti-Corruption Act.

We appreciate the staff's low income debt sustainability analysis, which shows that HIPC relief will markedly improve Liberia's debt profile, but still leave the country vulnerable to external shocks. In particular, Liberia is sensitive to a reduction in donor grant allocations. Although the sensitivity analysis shows that very limited, highly concessional borrowing would pose less of a risk to Liberia's debt profile, we strongly support the zero ceiling in the PRGF/EFF and counsel the authorities not to borrow.

With these remarks, we welcome Liberia back to the Fund as a fully normalized member in good standing, and wish the authorities the greatest success.

Mr. Shaalan and Ms. Choueiri submitted the following statement:

We thank staff for a comprehensive set of reports and Mr. Gakunu and Ms. Mannathoko for their insightful statement.

Review of Performance Under the Staff-Monitored Program and Request for Three-Year Arrangements Under the Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF)

The Liberian authorities continue to implement sound macroeconomic policies and reforms under the Fund-supported staff-monitored program (SMP). This is reflected in sustained robust growth and stable inflation. Notwithstanding severe capacity constraints and a challenging political environment, performance under the SMP remained broadly satisfactory, with virtually all end-December 2007 quantitative indicators and structural benchmarks observed, albeit with delay. Accordingly, we concur with staff that implementation of the SMP through December 2007 met the standard of upper credit tranche conditionality, with the exception of the continued accrual of external payments arrears, which we regret.

The fiscal strategy remained geared toward establishing a track record of effective budget implementation. Improved tax and customs administration, and enforcement of the tax code helped achieve an appreciable revenue over performance. Going forward, the challenge for the government is to ensure that expenditure targets are achieved without weakening procedures for approving, controlling, and monitoring spending, as underscored by staff.

Given the high degree of dollarization, the central bank's focus on the exchange rate as the main indicator of domestic monetary conditions, and its management of Liberian dollar liquidity toward maintaining broad nominal exchange rate stability, remain appropriate. However, persistent inflationary pressures, mainly on account of higher food and oil prices, call for further efforts to improve the monetary policy framework, particularly as these pressures may permeate throughout the economy. Further efforts are also needed to strengthen the financial sector balance sheet and the supervisory framework.

Notwithstanding progress achieved under the SMP, Liberia continues to face a fragile socio-economic situation, including widespread poverty, weak social indicators and institutional development, as well as acute capacity constraints. Building on policies and reforms launched under the SMP, the authorities' ambitious three-year program appropriately aims at addressing the aforementioned challenges. We therefore support the authorities' program, as well as their request for a three-year PRGF/EFF-supported arrangement to underpin it. Satisfactory performance under the PRGF/EFF-supported program is critical to address Liberia's unsustainable external debt, by allowing for comprehensive treatment of external debt under the HIPC Initiative and beyond-HIPC debt relief. In this connection, we can go along with the proposal to grant Liberia access under the exceptional circumstances clause, although Liberia is not expected to meet three of the four criteria for exceptional access. Nonetheless, we should not lose sight of the fact that requests for exceptional access in non-capital account cases need to be justified "in light of the four substantive criteria." We would therefore have preferred a more rigorous interpretation of the rules to preserve the credibility of the exceptional access framework. We regret the loose appreciation of the four criteria for exceptional access.

In light of the considerable risks highlighted by staff, continued commitment to the program's objectives, in addition to a vigorous implementation of the government's anticorruption and domestic debt resolution strategies are of particular importance. At the same time, continued donor support and timely and coordinated delivery of technical assistance are essential to the success of the authorities' program. Staff note that a number of structural benchmarks in the first year of the program require the support of donors. We would be grateful for further elaboration in this regard, including the steps envisaged to ensure these benchmarks are met, should donor support be delayed or fall short of projections.

In addition to maintaining macroeconomic stability and encouraging reconstruction, the program focuses on a comprehensive policy framework to improve welfare and address those factors that have given rise to past political instability, in line with the authorities' poverty reduction strategy. This emphasis is particularly welcome. So is the commitment to a balanced cash-based budget, with no external or domestic borrowing until at least all domestic claims have been resolved, a comprehensive debt management strategy has been drafted, and the necessary institutions have been built up. At the same time, continued training and support to line ministries, alongside enhanced public financial management, would help improve the pace and quality of spending. Sustained efforts to improve public expenditure management and enhance transparency would also facilitate the absorption of donor-financed expenditures into the budget. In this connection, we concur with staff that a medium-term macro-fiscal framework for better budgeting is essential to the success of the poverty reduction strategy and civil service reform.

We take positive note of the extensive technical assistance provided by various donors in such areas as monetary and fiscal policy, financial sector reform, civil service reform, auditing, statistics, governance, and judiciary and security sector reform. We also echo staff's call for continued donor support. In this connection, and given the weak institutional and implementation capacity of the country, we would be grateful for staff's comments on the effectiveness of donor coordination, and the steps that are envisaged to reinforce it.

Enhanced Initiative for Heavily Indebted Poor Countries—Decision Point Document

We thank the staffs of the Fund and IDA for preparing the assessment of Liberia's eligibility and qualification for assistance under the Enhanced HIPC Initiative, further to the recent discussion of the preliminary HIPC document. We will focus our comments on issues raised by staff for discussion.

We agree that Liberia is eligible for assistance under the Enhanced HIPC Initiative, in view of its status as a PRGF-eligible and IDA-only country, and its unsustainable external debt burden, even after the application of traditional debt relief mechanisms, and we recommend approval of the decision point.

Liberia has prepared an Interim Poverty Reduction Strategy Paper and continued satisfactory implementation of the current SMP, which, according to staff, meets the standards of upper-credit tranche conditionality. We take positive note of progress achieved in clearing arrears to some multilateral creditors and reaching agreements with almost all other multilateral creditors on an approach to arrears clearance. Efforts to clear arrears with commercial creditors, which represent 34.3 percent of Liberia's total external debt as of end-June 2007, remain essential. We agree that the amount of debt relief proposed is sufficient to reduce the NPV of debt to export ratio to the HIPC Initiative threshold of 150 percent, and that the IMF should provide interim assistance between the decision and completion points in line with existing guidelines. We welcome the inclusion of a social sector trigger and agree that the HIPC floating completion point will be reached when the triggers in Box 3 have been met.

We finally support the Amendment of SDR Suspension Decision. We also support the decision to restore Liberia's voting and related rights, as well as the termination of Liberia's ineligibility to use the general resources of the Fund and the decision to lift suspension of the right to use SDRs.

With these remarks, we express our hope that the authorities will implement their ambitious program and put the economy on a sustainable path.

Mr. Sadun and Mr. Cipollone submitted the following statement:

We thank the staff for the high-quality set of papers and the focused analysis on the key issues at stake. We want to again congratulate the staff for their pro-active response to the challenges posed by the Liberian case.

We welcome the continued progress under the SMP and the achievement of all benchmarks, including fiscal revenues, which continued to outperform, and a comprehensive plan for recapitalizing commercial banks in line with the central bank policy.

Looking forward, the program designed by the authorities puts the emphasis on the right issues. Additional strengthening of tax administration will help to further increase the ratio of revenue to GDP; closer coordination and centralization of all spending decisions in the Ministry of Finance will improve the planning and allocation process for resources; and developing a medium-term budget framework will help ensure a sustainable budgetary policy in the coming years.

We welcome the informative statement by Mr. Gakunu and Ms. Mannathoko that reiterates the authorities' commitment to a timely and comprehensive implementation of the 2008-10 PRGF/EFF program.

Growth: What else is there beyond the mining sector?

Thanks to the lifting of the UN sanctions, economic activity will strengthen in 2008 and over the longer term. With regard to the composition of GDP, mining will be the key, if not the sole, driving force for growth. Given the heavy reliance on the mining sector and the high volatility of commodity prices, we urge the authorities to implement policies that would foster the expansion of other sectors over the medium term.

Fiscal: Is the recurrent spending running too fast?

We welcome the sharp increase in revenues, which would reach 27 percent of GDP by the end of the program. We know that the budget is cash-based and that the authorities do not intend to borrow during the program. Spending, mostly public wages, will increase in 2008 and continue to do so in 2009 and 2010. While higher wages are a necessary tool to attract more qualified staff, which would also help address existing capacity constraints, we still need to keep in mind that once salaries are increased, it would be difficult to reduce them in the event of lower growth of revenues. Thus, we encourage the authorities to continue with a cautious approach in this area in order to avoid a potential crowding out of more productive spending, such as investment, in favor of public wages. In paragraph 16 of the MEFP, the authorities are committed to completing the reform process by mid-2008, can staff elaborate more on how the process has been implemented so far?

Capital spending has been lower-than-projected thus far in 2007-08, which continues to indicate the serious problems facing the authorities in budget execution. Against this background, we are skeptical about the feasibility of the projected capital spending increase over the medium-term. In this context, we wonder whether there has been any progress in incorporating projects financed by other donors outside the budget into the medium- term budget framework, considering the magnitude of donor assistance financed outside the budget. Staff comments are welcome.

Monetary: What is the de-dollarization strategy?

Given the highly-dollarized economy, we agree with staff that monetary authorities can exercise limited power in controlling inflation, which is driven by the exchange rate. With the depreciation of the U.S. dollar, the inflationary pressures stemming from the exchange rate will increase rather than decline. Thus, while high currency volatility is undesirable, the authorities should avoid targeting any specific value, in light of the low level of reserves. We share the staff's views that the de-dollarization should be market driven, though we are not sure whether the authorities' plan, including the printing of higher-denomination bills and improving their quality, would have much of an impact on de-dollarization. We encourage staff to consider the "best practices" that can be drawn from experiences of other countries

Debt sustainability analysis: Sustainability hinges on growth prospects.

From the debt sustainability analysis, it is clear that the achievement of the completion point will be essential to ensure debt sustainability. Moreover the sensitivity analysis clearly shows the vulnerability of debt sustainability to the GDP and export growth shocks, as well as to the concessionality of new borrowing. Given the need for sizable external resources for reconstruction, grants are the only option to prevent the country from falling back into a debt distress situation. Finally, we would like to reiterate that the sustainability heavily hinges on the growth assumption; therefore we call on the authorities to re-double their efforts to remain steadfast in implementing the economic reforms program.

Mr. Charleton and Mr. Ladd submitted the following statement:

We thank the staff for an extensive set of documents that thoroughly analyses the issues confronting the Board as we normalize Liberia's relations with the Fund. We have expressed our views on many aspects of Liberia's situation in several meetings since last summer, and therefore need not comment extensively here.

As we did at the time of the Preliminary Document discussion, we agree that Liberia qualifies for assistance under the HIPC Initiative and recommend approval of Decision Point. We agree with the staff's recommendations regarding amount and delivery of assistance, and with the floating completion point triggers set out in Box 3 of EBS/08/27.

Regarding the Completion Point triggers, at the time of the discussion of the Preliminary Document, this Chair noted that even after generous debt relief, Liberia will not be in a position to handle the burden of even concessional debt for some time, and any borrowing should be avoided. The sensitivity analyses and the Debt Sustainability Analysis bear this out. The balanced cash-based budget is therefore appropriate for the near term and, as borrowing resumes in the medium-term, it should be prudently managed and on as concessional terms as possible.

We recognize that, notwithstanding good progress under the staff Monitored Program, significant challenges remain in establishing transparent and accountable governance. We support the strong reform agenda the authorities have laid out (EBS/08/27, Paragraph 30) and highlight the importance of public debt management, public expenditure management and the commitment to the Liberia Extractive Industries Transparency Initiative.

The staff rightly points out the key risks to the growth outlook and the possible consequences of a "lack of headway" in terms of donor support, confidence, investment and output growth.

We agree with donor agencies that the Interim PRSP is an ambitious document. Its main pillars are sound and the Liberia Reconstruction and Development Committee, consisting of the President herself, Ministers and international partners, is a potentially effective rudder for implementation and good venue for close consultation.

Regarding the methodology for estimating commercial debt, it seems as reasonable approach as any, given the destruction of documents. Although this approach would be available in the future for other similarly situated countries, the use of this particular method for Liberia should not foreclose consideration of practical alternatives if a different set of information is available or different assumptions are justified under the circumstances. Given the particularities of each remaining HIPC case, uniformity of treatment need not necessarily imply identical treatment.

The arrears clearance strategy is consistent with the approach which the staff first laid out last summer: financing assurances for debt relief and arrears clearance, bridge loan to clear arrears, new financing to clear bridge loan, and onward into HIPC interim and eventually HIPC completion-point and beyond-HIPC relief. However, the more elaborate process is boiled down in many minds to "refunds from SCA1 and burden-shared deferred charges will be used to clear arrears." Of course, it is apparent to us that this would be equivalent to immediate and unconditional debt relief, but it still may pose a communications issue, e.g.: "Why are you lending Liberia even more money?"

Regarding the proposed decisions in EBS/08/30, page 3, we support the restoration of voting and related rights, the termination of ineligibility to use the resources of the Fund, and the lifting of the suspension of the right to use SDRs, as specified.

Regarding Liberia's progress under the SMP and its request for a three-year PRGF-EFF arrangement, we agree with the staff's appraisal and support the request. We note the staff's thorough consideration of the increased risk to the Fund and the importance of prompt legislative action to maintain reform momentum. We also appreciate Appendix 2, the assessment of Liberia against the Exceptional Access Criteria and Appendix 3, which outlines the order of operations to be taken today.

The decisions and actions taken today are the culmination of several years of hard work by the Fund staff and management and the Liberian authorities. We congratulate all involved and wish the Liberian authorities the best of luck in the execution of their ambitious program.

Mr. Stein and Mr. Denk submitted the following statement:

This Board meeting constitutes a pivotal milestone for Liberia. Many elements had to fall into place to get to this point. First and foremost, the Liberian authorities have delivered an impressive performance track record under the most daunting circumstances. Second, the Fund has appropriately exercised flexibility in adapting its policies in a measured and well-focused manner. Third, the international community has shown a heartening degree of solidarity in providing financing assurances for freeing Liberia from its completely unsustainable debt burden. This moment also calls for a special word of thanks to all the staff members who have worked tirelessly in an extraordinary cross-departmental endeavor to bring all the required elements together.

The resulting package is convincing and we stand ready to support all of the proposed decisions in the sequence outlined by the Secretary. We also agree with the thrust of the staff's analysis and recommendations and would like to highlight the following points:

Liberia has staged a remarkable rebound in economic activity over the past years. The authorities have taken commendable strides toward strengthening macroeconomic stability and furthering the implementation of the structural reform agenda. These achievements notwithstanding, severe risks to Liberia's economic outlook still lie ahead, calling for continued unwavering commitment to structural reforms and prudent macroeconomic management. Moreover, still large infrastructural and developmental obstacles will necessitate ongoing efforts to secure donor support and technical assistance in the years ahead.

We concur that Liberia's performance under the SMP has been broadly satisfactory. We also reiterate our view that the SMP met the standard of upper credit tranche conditionality, with the exception of continued accrual of external payments arrears. This exception was unavoidable, as Mr. Gakunu and Ms. Mannathoko have convincingly argued in their concise statement.

We consent to the authorities' request for a three-year PRGF/EFF arrangement. The dedicated pursuit of solid, reform-oriented policies under challenging political and economic circumstances is laudable and warrants the support of the Fund and the international community. Structural conditionality under the program is well-designed, building on the progress made under the SMP and the objectives identified in the government's interim PRSP. Strong ownership and timely implementation should pave the way for a more efficient use of public resources and sustainable growth in the future.

We also agree to the granting of exceptional access under the exceptional circumstance clause. This will enable Liberia to pay back the bridge loan clearing its arrears to the Fund and to regain a sustainable balance-of-payments position over the medium term. In that context, however, we would like to draw attention to the fact that this constitutes a special case that does not lend itself as a precedent for the general application of the exceptional access framework.

As recommended by the staff, we agree that Liberia is eligible for HIPC debt relief and support approval of the decision point. Moreover, we agree with the provision of interim assistance by the Fund between the decision and the completion point in line with the existing guidelines. The triggers clarified by staff and the authorities following the discussion of the preliminary HIPC document seem appropriate and promise to induce a decline in poverty rates within a stable macroeconomic environment.

Successful debt management and macroeconomic stability critically hinge on the country's ability to reach the HIPC completion point at an early date. This will require the authorities' full commitment to further structural reforms (including the formulation of a debt management strategy) and solid fiscal balances. Slippages in reform implementation and failure to complete program reviews or fulfill triggers would have serious consequences given Liberia's tense external position. Against this backdrop, enhancing institutional and administrative capacity will have to remain the authorities' top priority, supported by assistance from Liberia's international donor partners. Maintaining fiscal discipline is crucial not only with respect to program performance, but also in the face of possible additional financing needs. As rightly pointed out by the staff, unexpected increases in the interest rate on the EFF purchase could cause higher debt service payments to fall due in the interim period until the HIPC completion point.

Finally, we fully support and warmly welcome the normalization of relations between Liberia and the Fund.

Mr. Rutayisire submitted the following statement:

We thank the staff for its concise report and Mr. Gakunu and Ms. Mannathoko for their helpful statement on Liberia.

We welcome the international community's sustained involvement in the process of normalizing Liberia's relations with external creditors. In particular, these efforts have contributed to achieve the clearance of Liberia's arrears to the Fund and led to today's request to restore its voting and related rights, while paving the way toward the decision point under the HIPC initiative. The solidarity and actions of the international community, including low-income countries, in helping clear Liberia's arrears vis-à-vis the Fund ought to be commended. We are appreciative of such strong implications of international community in assisting Liberia to normalize its cooperation with development partners. This highlights the importance of a pro-active approach and timely involvement in securing positive prospects toward recovery for a post-conflict country. We hope that the Fund will draw useful lessons from this case and that it will involve in a similar manner in countries experiencing comparable political and economic difficulties, including other countries with protracted arrears. The process ownership and the commitment to sound reforms by the Liberian authorities also carry much weight in this outcome.

Based on the good performance achieved by Liberia up to date and the results achieved to clear the protracted arrears to the Fund, we fully support the proposed decisions on the restoration of Liberia's voting and related rights, the termination of Liberia's ineligibility to use the general resources of the Fund and the decision on lifting of suspension of the right to use SDRs. We also support the three-year arrangement under the PRGF and under the Extended Fund Facility, as well as Liberia's qualification for assistance under the enhanced HIPC initiative.

Program Performance and Future Cooperation with the Fund

We welcome the commitment to the SMP program shown by the Liberian authorities over the last two years. The positive outcomes obtained, through the implementation of Governance and Economic Management Assistance Program (GEMAP), notably in the areas of governance, institutional capacity building, and reconstruction efforts, reflect well the authorities' resolve to restore macroeconomic stability and put the country on a sound recovery path. Real GDP, which declined by over 30 percent in 2003, grew up by 7.8 percent in 2006 and 9.5 percent in 2007. Inflation remained stable, albeit at double digits. The external deficit narrowed, due mainly to the positive effects of strong export growth. The near-term outlook appears favorable, with growth rate remaining strong and inflation evolving toward single digits.

Going forward, it is reassuring to note from Mr. Gakunu and Ms. Mannakhoto's statement that the authorities are confident that they can sustain strong performance under a new PRGF/EFF program. We support this new arrangement, which, if implemented satisfactorily, will facilitate a comprehensive debt relief, which is critical for Liberia to improve its debt profile. We find the main objectives of this program appropriate, notably the need to sustain economic reconstruction by creating a stable macroeconomic environment that would underpin rapid economic growth, job creation, and poverty reduction. We also welcome the authorities' commitment to strengthen governance. Support from the international community, in a timely and predictable manner, will remain essential to helping Liberia address capacity constraints and meeting the considerable challenges ahead.

Turning to specific policies areas:

Fiscal Policy

We commend the authorities for their firm engagement with regard to the strengthening of revenue collection, through enhancement of domestic tax and customs administration and encourage the authorities to implement the recommendations made by previous FAD missions. These include notably the measures aimed at lowering top corporate and personal tax, while increasing the goods and services tax (GST), phasing in implementation of the ECOWAS common external tariff, facilitating tax payments at commercial banks, and introducing additional tax categories for businesses with turnover above the GST threshold.

On the expenditure side, focus on improving the capacity of ministries and governmental agencies to design a realistic and prioritized cash monthly plans is an important step toward a better control of budget execution. Though the need to reinforce the internal and external auditing systems has been well underscored in the report, we also note that fiscal affairs are more transparent in Liberia since the Ministry of Finance is posting quarterly fiscal reports on its website and local newspapers. We also welcome the staff's suggestion to ensure close links between government's medium-term objectives set out in the PRSP, the annual budget, the poverty reduction strategy and the MDGs.

Monetary and Financial Sector Policies

Given that the exchange rate remains the main transmission mechanism through which monetary conditions affect prices in Liberia, we welcome the authorities' statement to keep the exchange rate stable through foreign exchange auctions. In this regard, the staff's recommendations to strengthen the Central Bank of Liberia (CBL)'s ability to conduct more effectively monetary policy by collecting more data on volumes in the foreign exchange market and the flow of remittances, to pursue efforts to regularize the number of informal foreign currency traders, and to complete plans for possible introduction of credit and deposit auctions, deserve close attention.

Regarding the financial sector, the actions underway to address the domestic banking sector's weaknesses through restructuring and recapitalization should be carried out. The implementation of correctives measures identified recently by CBL, as well as the envisaged onsite inspections twice a year for each bank go in the right direction. As regard the CBL, we welcome the improvement of its financial position, as well as the intention to rebuild net foreign exchange assets, introduce additional monetary policy instruments, and pursue the implementation of International Financial Standards.

Structural Reforms

We take note of the good progress made with respect to governance in Liberia, including the adoption of EITI in July 2007 and the adoption in 2006 of the national anticorruption strategy. The envisaged independent anticorruption commission for which legislation was already submitted to the legislature is a welcome development. We therefore call on the international community to keep providing TA to Liberia in this area in order to make the anticorruption commission fully operational once the aforementioned legislation is adopted.

We fully support the authorities' efforts in favor of private sector development, especially the elaboration of solid regulation to better manage natural resources and increase agricultural productivity. In this connection, the actions underway aiming at enforcing the auctions of timber sales and forest management contracts during 2008, implementing the new forestry law, and finalizing the national mineral policy should be accelerated. In the same vein, we encourage efforts to restore electricity generation in Monrovia and rehabilitate roads, health facilities, and schools, the realization of which and other reconstruction efforts will require substantial resources. Given the borrowing constraints facing Liberia going forward, we urge the international community of donors to commit and deliver the necessary grants.

With these remarks, we wish the Liberian authorities every success in their future endeavors.

Mrs. Mañalac and Mr. Ha submitted the following statement:

We thank staff for the comprehensive set of papers and Mr. Gakunu and Ms. Mannathoko for their insightful statement.

We agree with staff's assessment and support the conclusion of the 4th review under the Staff-Monitored Program, together with the authorities' request for a PRGF-EFF arrangement. We commend the Liberian authorities for their ongoing commitment to reform to improve public financial management and governance, including the launching of the Liberia Extractive Industries Transparency Initiative. However, we express some concern over the slippage in the 2007/08 budget, which reflected revisions by the opposition-controlled legislature. It remains critical that budget procedures for approving, controlling and monitoring spending are strengthened to ensure that external confidence in the pace of economic reforms is not undermined.

We agree that Liberia qualifies for debt relief under the HIPC initiative and support the approval of the decision point. We note the downward revisions to GDP growth and FDI following the Board discussion of the preliminary HIPC document. We also support the tightening in the debt management trigger point. More generally, the floating completion point triggers are broadly acceptable as these focus on institutional reforms and improvements in public financial management, governance and debt management, which are necessary conditions to ensure a stronger and more stable macroeconomic environment. As we did during the discussion on the Preliminary HIPC document, we stress the importance for Liberia to avoid reaccumulating unsustainable debt. In this context, the authorities' "no borrowing" policy over the next few years is appropriate.

We note that the EFF arrangement exposes risks to the GRA, but in this regard, we are reassured by staff's assessment, together with the authorities' demonstrated commitment to economic reform. Lastly, we support the decisions to restore Liberia's voting right and eligibility to use the general resources of the Fund, and to lift the suspension on the right to use SDRs. With these brief remarks, we wish the authorities success.

Mr. Silva-Ruete and Mr. De la Barra submitted the following statement:

We thank the staff for the set of papers related to Liberia's request for financing and the decision point for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, which gave us a better understanding of this important matter for Liberia.

In the last two years, Liberia has passed important milestones to reach economic and political stability. We commend the authorities for making good progress with macroeconomic policy and structural reforms, leading to the recovery of economic growth in 2006 and 2007. We hope that this growth will be sustained in the coming years.

Liberia has made good progress in strengthening macroeconomic policy performance and deepening the structural reform agenda. The authorities have taken important steps to solidify the peace and bring the political transition process to a successful conclusion. Continued peace and security are essential to form the basis for sustained growth and development.

We welcome the performance of Liberia under the SMP which has the upper-credit tranche standards, noting that further progress is needed in the fiscal sector, where the authorities intend to amplify the tax base and improve the budget administration. The continued strong revenue performance and containment of spending pressures are commendable. Stronger revenues and strengthened expenditure management could provide room to ensure that they will not weaken procedures for sound spending

We also commend the efforts toward implanting a debt-resolution strategy, given the weak sustainability of Liberia's debt situation; the authorities should strive for balanced budgets. Due to the need to secure a sustainable debt-to-exports ratio, it is important to reach debt relief from bilateral and commercial creditors as soon as possible, given the high vulnerability to external shocks and export performance, as highlighted in the staff report. It is therefore important that critical policy measures be implemented, as suggested by the staff.

In view of the large challenges Liberia still faces, in particular the widespread deep poverty, a continued commitment to sound economic policies will be essential to bring about the sustained strong growth necessary for poverty reduction and progress toward the Millennium Development Goals (MDGs). Such an effort will also require significant technical and financial assistance from the international community for many years to come.

The Central Bank of Liberia (CBL) has managed a surplus as well as it has met the desired level of foreign assets, with the help of slow government spending. The monetary policy is limited because the high level of dollarization, however, the authorities should keep a vigilant eye on the exchange rate, which should not only be the anchor for domestic inflation. The active use of the new instruments should help ensure a reduction in inflation toward the program's objective and improved management of the liquidity impact of large and irregular inflows of external budgetary assistance. We welcome the progress made on recapitalizing banks and the intention to improve regulatory oversight.

The medium-term program set forth sound objectives and if Liberian authorities continue to conduct the economic policies in line with those objectives, the economy will enhance the possibility of achieving the main issues of the PRSP. The deepening of structural reforms is key in this regard. The authorities have made progress in the broad consultative process undertaken toward completing the full PRSP, which is now expected to be completed by mid-2008. Continuing to keep a balanced budget on a cash basis will be important in this context.

Liberia's external debt situation will remain difficult even after HIPC debt relief, and strong economic policies, prudent debt management, and continued donor support on highly concessional terms will be needed to ensure a sustainable external debt in the medium term,

Technical and financial assistance from the IMF is crucial for Liberia. Since the authorities have demonstrated a clear commitment regarding the policies during the SMP, we are of the view that Liberia should receive immediate financing under the PRGF/EFF and we agree with an upfront disbursement under the EFF considering the distress on external debt.

Liberia's debt situation is particularly worrisome. Even after traditional debt relief, debt indicators remain unsustainably high. The ratio of debt-to-exports of goods and services is extremely high (1,576 percent), way above the threshold of 150 percent: hence, Liberia has taken the necessary steps to reach its decision point under the Enhanced HIPC Initiative and, consequently, it should start receiving interim assistance until Liberia reaches the completion point.

The triggers for Liberia's floating completion point include specific and monitorable policy measures on public expenditure management, governance, debt management, structural reforms and key social sectors that are essential for success of the Enhanced HIPC Initiative. We agree with the triggers listed in Box 3 of EBS/08/27 and we hope that all triggers are achieved immediately three years after the decision point date.

The EFF arrangement represents an important exposure of the Fund to Liberia. However, Liberia will receive assistance for debt relief under the HIPC and there will also be a strong monitoring from the staff under the three-year PRGF. Most importantly, the authorities have a strong commitment to the program implementation. In addition, the donor community has also declared clear intentions to help Liberia rebuild its economy. Therefore, we believe Liberia will strengthen its growth and its external position in order to repay its obligations to the Fund.

Liberia has made important progress in conducting economic policies as well as reforms to restore its credibility in the international community, which has led to strengthening financial resources to clear its arrears with the Fund and other international financial institutions. Once these arrears are cleared, Liberia will have the right to restore its voting and related rights at the IMF. Therefore, we fully support the proposed decision in this regard. Since the staff has not found Liberia's breaching of the obligations under Article XXVI, Section 2, we also support the proposed decisions 2 and 3 of EBS/08/30.

We wish the Liberian authorities every success in their challenging endeavors and we look forward to the completion point being reached in the envisaged time frame.

Mr. Yakusha and Ms. Cerovic submitted the following statement:

We thank staff for a useful set of papers and Mr. Gakunu and Ms. Mannathoko for their informative statement.

We commend the authorities for the progress made in maintaining stability and improving the macroeconomic situation. Liberia's performance under the SMP has been substantial. GDP growth has accelerated reaching 9.5 percent in 2007, inflation was stable, and public financial management has improved. However, as one of the poorest counties in the world, highly vulnerable to external and internal shocks, Liberia faces very difficult challenges to improve the socio-economic situation.

We agree that Liberia is eligible for assistance under the HIPC Initiative leading to the proposed amount of debt relief, and we recommend approval of the decision point. We also broadly support the suggested floating completion point triggers, mainly focused on public financial management, debt management and governance. However, while we understand the reason for weakening the formulation of one governance trigger regarding EITI, we suggest incorporating a formulation that will acknowledge the importance of engagement by civil society, as it was defined in the preliminary HIPC document. Given that the Decision Point Document remains largely unchanged from the preliminary HIPC document that was recently discussed in the Board, we will focus our comments on the proposed PRGF and EFF.

We support the request for a PRGF and EFF arrangement, and we welcome the authorities' commitment to continue with sound macroeconomic polices and further strengthening public financial management, monetary policy, the financial sector and governance. We agree with staff that the main objective of the program should be to sustain economic reconstruction by creating a stable macroeconomic environment.

We commend the authorities for the improved fiscal revenue performance. However, we concur with the staff that revenue administration is to be further strengthened through improving the tax and custom administration, reinforcing fiscal institutions, extending tax collection and broadening the tax base. On the expenditure side, we urge the authorities to improve budget execution, provide more transparency and ensure that expenditures do not exceed cash plans. In this regard, we see merging the Bureau of the Budget into the Ministry of Finance as critical to increase transparency and restrain transfers between budget line items. Liberia is highly dependent on foreign aid, and a sound and transparent fiscal policy is key to attracting donor support. We therefore welcome the proposal for a medium-term fiscal framework which is essential to ensure predictable financing of spending in the social and physical infrastructure while achieving PRSP goals. We note that the authorities intend to increase civil service wages, and we agree with staff that this should be part of a comprehensive civil service reform.

On monetary policy, staff's recommendation on maintaining price stability through exchange rate stability raises questions. Especially, we wonder how feasible this goal is, given a very low level of foreign reserves. We would also appreciate if staff could elaborate on the proposed measures for promoting dedollarization of the economy. What is the likelihood of a counterproductive outcome?

Turning to the external sector, we are concerned about the envisaged widening of the current account deficit to 94 percent of GDP (excluding grants), aggravating the external position and making it more difficult to regain debt sustainability. Moreover, we have the impression that the baseline scenario for LIDSA is based on very optimistic assumptions, while the combination of shocks presented in sensitivity analyses may well come true. Given that the baseline scenario assumes full delivery of traditional debt relief, it would also include debt relief by commercial creditors. Therefore, we would appreciate further information on discussions and possible progress made with private creditors. Further elaboration on baseline LIDSA would be welcome too. Having said this, we reiterate the importance of developing a strong debt management strategy to facilitate the rescue and reduce the exposure to risks.

Finally, we urge the authorities to improve the quality of macroeconomic statistics in order to allow for a better understanding and monitoring of the economy. In that regard, we welcome technical assistance provided by the Fund and other donors.

Ms. Agudelo and Ms. Florestal submitted the following statement:

We thank staff for a set of very useful papers and Mr. Gakunu for his informative statement.

Under the two successive SMPs, the authorities have shown strong determination to achieve macroeconomic stability and to implement reforms critical to improving governance and consolidating peace and security. The Fund has played a decisive role in reaching a solution to the arrears problem opening the way to unblocking vital financial assistance through debt relief. Granting exceptional access to GRA resources, which Liberia will only be able to repay with timely delivery of HIPC assistance, is indeed a testimony of the Fund's willingness to fully participate in the international effort to help Liberia achieve its reconstruction and growth objectives. We welcome the Fund's willingness for flexibility under Liberia's exceptional circumstances and hope that similar behavior will be extended to other countries when warranted.

We support granting Liberia access to PRGF and EFF funds as requested by the authorities and approval of the decision point and delivery of interim assistance under the enhanced HIPC initiative. However, it is important to stress that there is absolutely no room for complacency or slippage. Continued delivery of extensive financial and technical assistance is paramount for success as well as sustained determination by the authorities to implement reforms. Furthermore, the risk of debt distress is high and the capacity of repayment to the Fund is highly dependent on reaching the completion point in a timely fashion.

Several downside risks are noted in the staff report including that of not obtaining the opposition-led Parliament's approval for several key legislative reforms and the large dependence on the support of donors. The weak state of the statistical database complicates the decision-making process as well as monitoring and evaluation possibilities. Staffs' concession that monetary and fiscal statistics are "adequate to monitor program implementation" is in sharp contrast with its assertion that there are "serious data deficiencies which hamper surveillance." Additional clarification is welcome.

Like staff, we would stress the need for donor support to be as much as possible on grant terms. However, an explicit commitment from the authorities to avoid external indebtedness would be welcome, even after all domestic arrears have been resolved, so long as the completion point has not been reached. In the same sense, we would welcome an official engagement to give exclusive priority to grant financing.

Liberia's large dependence on TA and the presence of foreign controllers in all aspects of public financial management help fill an important resource gap and, at the same time, contribute to enhancing donor confidence. However, capacity building is extremely important for long-run sustainability. Staff's confirmation that the triggers for the floating completion point have been designed to ensure that Liberia exits successfully from the GEMAP-supported fiduciary arrangement is reassuring.

The program envisages keeping inflation in single digits starting as early as 2008. Inflation, excluding food, has indeed been relatively stable and decreasing throughout 2007. However, total CPI has been quite volatile and rising at the end of 2007 while the exchange rate has also shown some unusual movements during that last quarter. Given Liberia's high level of dollarization and thus important exchange rate pass-through and considering the rising trend in international food and petroleum prices, we remain skeptical about the authorities' ability to maintain inflation in single digits in the short run. Moreover, as staff acknowledges, monetary policy is limited by the low level of reserves while the exchange rate will necessarily remain as the nominal anchor of monetary policy until dedollarization is achieved. Nevertheless, like staff, we wish to stress that dedollarization should remain a market-driven process.

Fiscal sustainability is highly dependent on the capacity of the Government to limit permanent expenditures to reliable and sustainable sources of fiscal revenues. Staff's assertion that the 2007/08 budget allocation is not consistent with medium-term objectives is worrisome particularly in relation to the fact that the PRSP, which is being finalized, is assumed to be consistent with the IPRSP, which is presently being implemented. The strict reporting requirement for the county development program administered by local authorities outside the commitment control system is laudable. Nevertheless, we share staff concerns regarding the risk that these programs undermine the credibility of the commitment control system.

Liberia's projected growth hinges primarily upon the efficient exploitation of its natural resources. Sustaining efforts to increase transparency and improve governance in the exploitation of natural resources is critical. We welcome efforts to strengthen the legal and regulatory framework and production capacity.

Mr. Kiekens and Mr. Rottier submitted the following statement:

We thank the staff for the eight papers that they have prepared for today's meeting. Also, because there have been at least twelve Board meetings—not always easy but very interesting—in less than two years on Liberia, we have already expressed most of our views on the issues that are being discussed today. Hence, we can be brief.

We agree with the staff's conclusions on Liberia's performance under the SMP. We also agree with the proposed PRGF/EFF funded program. We support the HIPC Decision point decision as well as the other decisions on the table.

The Liberian authorities have satisfactorily implemented the recent SMP. As a result, economic performance was encouraging despite the still difficult circumstances. However, the country continues to face formidable challenges. A continuous stable macroeconomic environment needs to prevail in order to achieve sustained and rapid economic growth and poverty reduction. The economy must become less dependent on the mining sector.

The authorities must build on what has already been achieved in the realm of fiscal and monetary policy. Public financial management must be strengthened by developing a comprehensive legal framework. Institutional capacity must also be enhanced. Similarly, improving the governance situation and combating corruption should be priority areas on the authorities' agenda.

We urge the opposition-controlled legislature to take full ownership of its role and responsibilities in the process of economic reconstruction and the functioning of Liberia's institutions.

The purchase under the EFF arrangement would significantly increase the Fund's exposure to Liberia in the GRA. This EFF exposure will disappear when Liberia reaches the completion point but it is not without risk. Mitigation of this risk will entirely depend on Liberia's performance under the program. If the economic process falters and the interim HIPC assistance withheld, Liberia will not be able to cover the debt service which is falling due. Therefore, it is most crucial that Liberia's authorities maintain the strong policy commitment they have shown in executing the SMP.

The debt sustainability analysis reveals that Liberia will remain in debt distress unless full debt relief (HIPC and beyond HIPC) can be delivered, underlining the importance of reaching the completion point on time. Even then prudent debt management remains necessary. Therefore, we strongly support the zero ceiling on new external borrowing set by the PRGF and EFF.

The authorities should continue to pursue good faith discussions with Liberia's commercial creditors, who represent 1/3 of the external debt, in order to agree on a settlement of commercial claims comparable to that for multilateral claims. Could the staff please provide us more information on the attitude of the commercial creditors in general and, more specifically, on the likelihood that some creditors will hold out or litigate?

We would like to get a short assessment from PDR and/or the World Bank representative on how the large amount of pre-decision point debt relief provided by the World Bank fits within the HIPC framework.

With these comments, we wish the authorities success in implementing the necessary policies which will help the country strengthen its economy and recover to pre-war levels and beyond.

Mr. Gibbs and Mr. Thornton submitted the following statement:

We welcome the notification that sufficient financing assurances have been received to allow these decisions to be taken, and we acknowledge the generous contributions from across the Fund's membership that have made this possible. This meeting represents a milestone in Liberia's reengagement with the international community following two decades of conflict and instability. Even by the standards of the Heavily Indebted Poor Countries, Liberia stands out for the scale of debt burden in comparison to the available economic resources. As a result of these accumulated arrears, HIPC and MDRI will by themselves do little to improve the budgetary situation. Debt relief is therefore necessary but not sufficient to ensure Liberia's long-term viability, and the continued support of the international community, including through the government's budget, will be necessary for the foreseeable future.

In a short period of time the authorities have made impressive strides in stabilizing the economy, restoring government finances to a sound footing, and laying the basis for the provision of basic services. The last few months have also witnessed an impressive participatory process to develop a high-quality Poverty Reduction Strategy. However, we recognize the scale of the remaining challenges: the security situation remains fragile in view of the large number of demobilized combatants lacking regular employment, the government lacks a majority in parliament, and endemic corruption and low capacity pose challenges for even the most reformist administration.

In view of the authorities' strong commitment to reform, as attested by their performance under the UCT-equivalent SMPs, we approve the proposed PRGF and EFF arrangements. Given the unique circumstances, it is clear that the exceptional access is necessary. As staff note, the scale of the proposed purchase under the EFF arrangement poses significant risks in light of Liberia's very limited payment capacity. This points to the need for continued strong engagement by the Fund team during the interim period. In particular, the flexibility available with regard to the provision of interim HIPC assistance should be deployed if necessary. We also welcome the World Bank's intention to ensure strongly positive net flows to Liberia throughout the process, and encourage other multilateral development banks and creditors to aim to achieve a similar result. Going forward, this should be a model for involvement in other similarly placed states entering the debt relief process.

We also agree that, in view of its track record, status, and the results of the DSA, Liberia has met the conditions for reaching the HIPC Decision Point and we support the proposed provision of debt relief. We support the proposed HIPC Completion Point triggers, and welcome the change to the EITI trigger, which sets a more realistic goal for the envisaged timeframe, although full compliance is of course still the end-goal.

Finally, we approve the restoration of Liberia's voting and related rights, and the termination of ineligibility to use general resources of the Fund, and the lifting of the suspension of the right to use SDRs. With these comments, we fully support the comprehensive reform plans of the government, and wish the authorities every success with their endeavors.

Mr. Raczko and Mr. Gasiorowski submitted the following statement:

We agree with the staff's opinion that Liberia's overall performance under the Staff Monitored Program has been satisfactory. However, it is unfortunate that some of the structural benchmarks were not achieved on time and that one of the December 2007 quantitative indicators was missed. We also noted that the Central Bank of Liberia (CBL) achieved a surplus and that the higher than approved expenditures are of minor importance to the assessment of the performance under the SMP.

The proposed Three-Year PRGF/EFF program poses a very high risk because the staff's projections are based on very optimistic assumptions. Moreover, some key elements for a successful implementation of the program depend on factors, which are beyond the control of the authorities, such as the level of donor support and FDI inflows. Additionally, we should have in mind that the parliament is controlled by the opposition. The staff's information on the level of political support for the proposed program will be very welcome.

Despite of these risk factors we support the program as a necessary part of the government's reform agenda and as a key component of Liberia's debt relief strategy. On the other hand, for the sake of the Fund's reputation and equality-of-treatment, it is very important that the program stands on its own merits. Liberia must be treated no different from other PRGF countries. Upcoming program reviews should thus be examined in a manner that applies the same standards as for other PRGF countries.

We note that the staff has rightly converted the five delayed SMP benchmarks into performance criteria and benchmarks under the new PRGF/EFF arrangement. It is very important for the credibility of the program that these are fulfilled as a priority.

We understand that the 2007/08 budget deficits would be financed by the 2006/07 budget surplus. Does this not imply a violation of the principle that the government's budget should be balanced on a cash basis? It is important that there are no negative precedents set at such an early stage.

Regarding the monetary policy, double digit inflation may undermine the authorities' program. The efforts to put monetary policy on a sounder footing should thus be made with high priority. From this perspective, we fully agree that the exchange rate should be the anchor for monetary policy. However, since Liberia also imports goods from the European Union and Asia, we wonder how much the recent depreciation of the dollar has contributed to inflation in Liberia being higher than projected. Ideally, in order for the exchange rate anchor to best fulfill its role in ensuring price stability, the anchor currency should also be the currency in which the largest share of trade takes place.

We fully concur with the staff's assessment that Liberia is eligible for HIPC debt relief under the export window. We also agree that the amount of debt relief is sufficient to reduce the NPV of the debt-to-export ratio below the 150 percent threshold. Finally, we agree that Liberia will qualify for unconditional debt relief once the completion point triggers have been met.

However, we caution against being too ambitious on the time frame for reaching the completion point. In view of the previous delays in implementing structural reform as well as tensions between government and Parliament, we believe that the successful implementation of all criteria is more crucial to the country's long-term economic prospects than the precise timing of the HIPC process.

We would like to repeat that, in terms of tracking progress against the proposed benchmarks, we would suggest to explicitly establish strong links with Performance Measurement and Debt Management assessment frameworks. A full assessment of Public Expenditure and Financial Accountability prior to the Completion Point could serve as an adequate progress tracking mechanism.

The four key issues in the PRSP are national security, economic growth, governance and infrastructure/basic services. As in the preliminary HIPC document, we find no information on the extent of security problems in the PRGF document. Clearly, improving security has at least a fiscal dimension. Why is this not taken into account?

We had already stressed in the discussion on the preliminary HIPC document that there was an additional risk to the projections due to data problems. With the final HIPC document released only six weeks after the preliminary version, we already see evidence of this. The estimates for end-of-period consumer price inflation in 2007 is 2.2 percentage points and for the 2007 current account deficit 6.2 percentage points higher than in the preliminary document. We would like to ask the staff how the monitoring of the program criteria will be operationalized in the absence of—as the staff states—official national accounts and when significant challenges remain in establishing a transparent and accountable government?

As Mr. Shaalan and Ms. Choueiri we would like to stress that the clearance of arrears with commercial creditors remains essential. Could the staff provide the latest information on the current stage of the negotiations with the non-Paris club and commercial creditors?

We support the three decisions: to restore Liberia's voting and related right; to terminate the ineligibility of Liberia to use GRA resources; and to restore Liberia's right to use SDRs.

Mr. Alazzaz submitted the following statement:

I thank the staff for the well-written set of papers and Mr. Gakunu and Ms. Mannathoko for their helpful statement. The Liberian authorities are to be complimented for strengthening macroeconomic performance and policy implementation under the staff-monitored program (SMP). Indeed, as the staff notes, performance under the SMP through December 2007 was broadly satisfactory with the authorities achieving all but one of the quantitative benchmarks and also making good progress in achieving structural benchmarks. The strengthened policy implementation is reflected in the recovery of economic activity, while inflation remains broadly stable. I am also encouraged that the prospects for 2008 are favorable with growth expected to remain strong and inflation projected to decline to single-digit levels.

That said, Liberia continues to face daunting challenges, including an unsustainable debt burden and a high level of poverty. Moreover, Liberia is unlikely to achieve any of the MDGs by 2015. This underscores the need to accelerate reforms in order to further strengthen macroeconomic stability, achieve rapid economic growth, create jobs, reduce poverty, and progress toward achieving the MDGs. In this regard, efforts should continue to strengthen expenditure discipline and revenue mobilization, improve public financial management, implement public administration reform, ensure price stability, rehabilitate infrastructure, and remove obstacles to private sector development. To this end, I welcome the three-year PRGF/EFF-supported program requested by the authorities, which appropriately builds on successes achieved in the SMP. I also note that exceptional access under both the PRGF and EFF is required to repay the bridge loan needed to clear Liberia's arrears to the Fund.

While the proposed program is subject to considerable risks, I am reassured to note in the statement of Mr. Gakunu and Ms. Mannathoko that the authorities are strongly committed to effective program implementation and intend to maintain a strong track record to mitigate risk associated with the repayment of obligations to the Fund. I, therefore, support the authorities' request for three-year arrangements under the PRGF and the EFF.

Turning to the decision point document for the enhanced HIPC Initiative, I concur with the staffs' assessment that Liberia qualifies for assistance under the HIPC initiative and support approval of the decision point. I also agree that the Fund should provide interim assistance between the decision and completion points in line with existing guidelines. In this connection, I welcome the progress made in clearing Liberia's arrears to some multilateral creditors and in reaching agreements with almost all other multilateral creditors on an approach to arrears clearance. Indeed, efforts to normalize relations with all creditors should continue. I also agree that the HIPC completion point will be reached when the triggers in Box 3 have been met. Here, building the necessary capacity, along with the firm ownership of the triggers by the authorities, will help achieve a successful outcome. To this end, the World Bank and the Fund should continue to provide the needed technical assistance to help achieve those triggers.

Finally, I support the proposed decisions on the restoration of voting and related rights, termination of ineligibility to use the General Resources of the Fund and of suspension of the right to use SDRs following the clearance of arrears.

With these remarks, I wish the authorities further success in meeting the policy challenges ahead.

Mr. Ge and Ms. Li submitted the following statement:

We welcome the opportunity to discuss some relevant issues on Liberia, and thank staff for a set of comprehensive and well-written papers, and Mr. Gakunu and Ms. Mannathoko for their helpful statement.

We are encouraged by Liberia's ongoing improved economic development and macroeconomic management as well as its generally good track record under the SMP of the UCT. We agree that the authorities' strong efforts to strengthen fiscal management and economic governance, together with donor support from the international community are crucial for Liberia's sustainable recovery.

Based on Liberia's good performance, the authorities' strong commitment to sustain economic reconstruction and its good cooperation with the Fund, we broadly support the conclusion of the fourth review of the SMP, and agree to arrange a three-year PRGF/EFF-supported program for Liberia to facilitate its comprehensive debt relief.

At the last discussion on Liberia—HIPC preliminary document, we raised a concern on whether its six smaller multilateral creditors agreed on their debt clearance. We appreciate staff's positive update on this issue in the paper, and welcome their intention to negotiate arrears clearance, and hope they can reach an agreement at an early stage. In the context, we agree that Liberia qualifies for assistance under the HIPC Initiative, has reached the decision point, and that the Fund should provide interim assistance between the decision and completion points in line with existing guidelines. We also support the main completion triggers for Liberia, and agree that the HIPC floating completion point will be reached when the triggers are met.

If as expected, Liberia clears it arrears to the Fund on March 14, 2008, we will support all of the three decisions proposed by staff—restoration of voting and related rights, termination of ineligibility to use the general resources of the Fund, and suspension of the right to use SDRs—on page 3, Document EBS/08/30 issued on March 3, 2008.

With all of the above positive measures, we wish Liberian authorities every success in their future policy endeavors.

Mr. Kotegawa and Mr. Kihara submitted the following statement:

We thank the staff for their extensive work in order to prepare this very large and complex operation. This chair can support the proposals presented by the staff.

It is truly heartening that one of the protracted arrears cases could be resolved after today's discussion. Nonetheless, the Liberian authorities still have a long way to go to achieve sustainable economic development for their country. We ask the authorities to continuously make their best efforts in order to reach their next milestone, namely the Completion Point (CP), by accumulating a favorable track record under the Poverty Reduction and Growth Facility (PRGF). The staff's close monitoring also will be important since the Fund will bear relatively large financial risks before Liberia reaches CP.

The SMP Review, and New Program Request

We congratulate the authorities for their sound performance under the staff-monitored program (SMP), through December 2007. According to the authorities' explanation, one quantitative benchmark, i.e., the ceiling on expenses for the Central Bank of Liberia (CBL), was missed due to higher capital expenditures necessary to the work of the CBL. We would like to ask for the staff's views on this missed quantitative benchmark.

We support the new program's emphasis on economic governance, particularly regarding public financial management and anticorruption efforts, revenue administration, and the financial sector. The country's prudent fiscal policy administration, which supports the current practice of maintaining a balanced case-based budget and refrains from any new domestic or external borrowing during the three-year program, seems reasonable.

With regard to public financial management, we note that transfers between budget-line items, late in the 2006/07 fiscal year, resulted in an outturn that differed significantly from the budget approved by the legislature. We commend the staff for their timely response that expressed concerns about this issue, and would like to hear the staff's views on: (i) the progress made in adopting legislation to limit transfers, and (ii) whether these transfers resulted in increases in spending under country development funds, which are outside the commitment control system.

With a highly-dollarized and open economy, the current CBL policy stance, which focuses on exchange rate stability, is reasonable. The fact that the external audit of the CBL's financial accounts for 2006 was completed is encouraging. Nonetheless, this is still a first step toward making progress in the area of sound financial management, and we encourage the staff and authorities to conduct continuous consultations on this front.

The Heavily Indebted Poor Countries (HIPC) Decision Point

We commend the staff for their additional work in revising the medium-term economic projections and CP triggers in response to the Board's discussion of the preliminary document.

Nonetheless, we still view the presented economic projection as ambitious, while, as shown in the sensitivity analysis, Liberia's external debt situation continues to be vulnerable to various shocks. Since each shock assumed under the sensitivity analysis seems to correlate with each other, the risk of falling into the presented fifth scenario could be relatively high. In this sense, we ask the staff to provide appropriate support in the area of debt management, and ask the authorities to conduct sound fiscal policies and prudent external borrowing.

As repeatedly pointed out, a successful resolution of Liberia's debt burden requires the broad participation of creditors, including non-Paris Club creditors and private creditors. We welcome the staff's update on any further progress made on negotiations with private creditors following the Board discussion on the preliminary document. With regard to the relationship with multilateral creditors, we wonder why ECOWAS has not yet been able to confirm its intention to negotiate Liberia's arrears clearance. Although Liberia's arrears to ECOWAS are not large, the Fund should call for a swift resolution of this issue.

With these remarks, we wish the authorities success under the new Fund program.

Mr. Henriksson and Ms. Roos Isaksson submitted the following statement:

We thank staff for their detailed set of papers on Liberia. We are pleased that we have reached this historical point after lengthy discussions, since a normalization of the relationship with the Fund, arrears clearance, debt relief and Fund arrangements are all vital prerequisites in building a better future for Liberia. We support all the proposed decisions. Moreover, we are in broad agreement with staff's analysis of the economic situation in Liberia, and would only like to offer a few points for emphasis.

Recent economic developments have been encouraging. Progress has specifically been made in improving public revenue collection and public financial management. Nonetheless, many challenges remain in rebuilding the economy and widespread poverty persists. We, therefore, acknowledge the need of supporting the progress made by the authorities. In this regard, we agree, as during earlier discussions, that arrears clearance of Liberia's large debt stock, followed by HIPC Initiative assistance, as well as MDRI-type debt relief from multilateral and bilateral creditors will be supportive to economic stability. Moreover, we support providing interim assistance as stipulated by the HIPC framework.

Already in February we agreed that the DRA confirms that Liberia qualifies for debt relief under the HIPC Initiative by reaching its decision point. Liberia has fulfilled all requirements to qualify and reach the decision point. Liberia has prepared an I-PRSP and continues to show solid progress under the current SMP. Moreover, still outstanding arrears are now to be cleared in light of secured financing pledges from multilateral creditors. However, we would appreciate a clarification on the status of arrears clearance from the smaller multilaterals.

We also welcome the revised set of HIPC completion point triggers, especially the inclusion of basic social triggers. We agree that the completion point will be reached when the triggers have been met and satisfactory assurances of participation from other creditors have been received.

Nevertheless, the current situation in Liberia presents significant risks. The sensitivity analysis of Liberia's future debt position, as well as the joint DSA, reveal that the debt ratio is extremely vulnerable to lower growth, set backs in the reform progress and new borrowing. Against this background we would again like to stress the need to adhere to concessional financing to avoid the build up of new debt. In addition we would like to underline our concern over still large outstanding debt to commercial creditors. And as we have highlighted during previous discussions, we would have appreciated an update on the status of the discussions with these creditors.

We also note that internal parliamentary difficulties, as well as insufficient institutional capacity, are major impediments to growth and reforms. In view of these risks, we agree that the authorities have to press ahead even harder to strengthen public institutions and economic governance to ensure that growth will be strong, inclusive and sustainable going forward. And the policies and structural reforms under the PRGF-EFF program—building on the current SMP and the forthcoming PRSP—must be at the center of the authorities' policy agenda so as to reach the HIPC Initiative completion point on time. Yet, we note that the ability to achieve the MDGs is challenging, and we acknowledge the pressing need for further donor supported technical assistance and capacity building.

In this context we also take note of the risks to the Fund's liquidity position should Liberia not perform satisfactory under the PRGF-EFF program due to the proposed PRGF access and the exceptional access to GRA resources. In this regard we welcome the authorities' strong commitment to the program as expressed by Mr. Gakunu and Ms. Mannathoko in their statement.

Finally, we welcome the Managing Director's notification that sufficient financing assurance has been secured to finance the debt relief to Liberia, implying that the financing modalities will become operational after today's arrears clearance. We also welcome the reinstatement of Liberia's voting and related rights, as that imply a normalization of the relations between the Fund and Liberia.

With these remarks, we wish the Liberian authorities the very best success.

Mr. Kishore and Mr. Ray submitted the following statement:

We thank the staff for a series of informative papers on Liberia, which clarified issues relating to the Liberian economy and its relationship with Fund, and Mr. Gakunu and Ms. Mannathoko for their statement.

The staff assessment gives a mixed picture of the economy. While the performance of the Liberian economy under the SMP had been broadly satisfactory during 2007, the staff pointed out that risks, such as, pre-condition of prompt legislative actions or reigning in inflationary expectation, cast doubts about the extent of success in the future course of the program. It is our considered view that, based on the evidence presented in the staff papers, it is difficult to take an objective call on the future of the program. This becomes all the more complicated in view of the fact that the average growth for Liberia during the next five years is projected at 7 percent and is higher than the projections for the sub-Saharan Africa (at 5 percent).

Nevertheless, being aware that Liberia has undergone considerable trauma in its recent history, as part of the international community, we feel that an opinion on the country's eligibility need not be a hostage to such objective criteria alone. Thus, going by the recent track record of declared sincerity of the authorities in pursuing the reform programs, we support the decisions for extending the PRGF and EFF Loans to Liberia. We also agree that Liberia qualifies for the HIPC initiative and support the approval of the decision point as well as restoration of voting rights and eligibility to use GRF and SDR facilities.

We note from the staff papers that Liberia is a highly dollarized economy with both Liberian and U.S. dollar being legal tender in the economy and U.S. dollar currency accounting for about 95 percent of the broad money. Since such dollarization complicates the economic management, we are in broadly in agreement with thrust of the argument for de-dollarization and would call for the early adoption of various proposals put forward by the staff.

With these remarks, we wish the Liberian authorities every success in their efforts to face the challenging future.

Mr. Lushin and Mr. Tolstikov submitted the following statement:

We commend Liberia's continued satisfactory performance under the SMP, which attests to the authorities' strong commitment to prudent economic policies and reforms. Despite the recent recovery of economic activity, Liberia continues to face daunting challenges and will need substantial support from the international community to succeed. In this regard, the Board discussion on the resolution of Liberia's protracted arrears to the Fund, the PRGF/EFF program and HIPC Decision Point is an important milestone. We note the extraordinary efforts made by the Fund staff and management to make this exceptional case possible. The international community has also demonstrated its solidarity and generosity as more than one hundred countries have provided contributions necessary to finance arrears clearance to Liberia.

The strong track record under the SMP achieved under the challenging political and economic circumstances confirms ownership and dedication of the authorities and upholds the request for the PRGF/EFF program. We agree that the program objectives and conditionality are appropriate, well-designed and consistent.

We support the program's emphasis on strengthening public financial management and improving transparency. The revenue performance (24 percent of GDP) looks commendable in comparison with other post-conflict countries and the program envisages its further increase of about 3 percentage points to more than 26 percent of GDP. However, we also take note that on page 48 of EBS/08/26 staff inform us that: "with much activity in the informal sector and only limited information on the formal sectors, real GDP may be underestimated". Some other indicators, such as the current account deficit at 94 percent of GDP in 2008, support this suggestion. Therefore, we will not be surprised if gradual improvement of Liberia's statistical capacity will reveal lower revenue performance.

The achievement of single-digit inflation should be the primary objective of monetary policy. In a highly dollarized economy, the exchange rate remains the most important nominal anchor. Therefore, the authorities are appropriately targeting relative exchange rate stability, but, taking into account limited international reserves, not a particular level of the exchange rate. The monetary policy framework should be strengthened by developing new tools for liquidity management.

We support the authorities' ambitious structural reform agenda, especially their efforts in strengthening governance, improving transparency and fighting corruption. As limited institutional capacity remains one of the main risks for the program, the capacity building should remain a priority. Technical and financial assistance of the international community should be maintained until the situation improves.

We agree that Liberia is eligible for HIPC debt relief and support the approval of the decision point. We also approve the provision of interim assistance between the decision and the completion points. We support the completion point triggers specified in Box 3 of EBS/08/27.

We note that HIPC debt relief will substantially improve Liberia's debt situation but the country will remain vulnerable to external shocks. Therefore, the authorities should adhere to the "no borrowing" strategy. The country will depend on donors' assistance for achievement of its development goals for many years ahead. Strong performance under the program is of utmost importance for continued donors' support.

Finally, we welcome the resolution of Liberia's protracted arrears to the Fund and support the related decision proposed in EBS/08/30: the restoration of Liberia's voting and related rights, the termination of Liberia's ineligibility to General Resources of the Fund and the lifting of suspension of the right to use SDR.

We wish the authorities success.

Mr. Fayolle submitted the following statement:

We thank the staff of the Fund and the Bank for their excellent work in guiding Liberia toward the HIPC decision point. We are also grateful to Mr. Gakunu and Ms. Mannathoko for their helpful statement.

Review of performance under the SMP and request for a three-year PRGF/EFF-supported program

We commend the authorities for the continued satisfactory performance under the program, although we take note that the completion of a number of structural benchmarks required more time than programmed.

We welcome the focus—notably on building a comprehensive debt management strategy and on fiscal prudence—of the PRGF/EFF-supported program, which is well-articulated with the interim-PRSP.

With respect to the 2008 program, we share staff's concern regarding the revision brought by the legislature to the draft budget: the substantial increase in civil service wages should have been considered as part of a comprehensive civil service reform; and the "county development program" poses a serious challenge to expenditure controls, since it is set outside the commitment control system.

We take note that the external audit of CBL's financial accounts for 2006 concluded that its accounting system was inconsistent. We fully support staff's emphasis on completion of the CBL safeguards assessment, which are an essential guarantee for Fund's operations. We would be grateful if staff could elaborate on the findings of the safeguards mission that visited Monrovia at end-February.

Liberia is a special turnaround case that has benefited from several exceptions under the HIPC framework: it has reached its decision point on the basis of a SMP of UCT quality; it will receive access to Fund financing under the exceptional circumstances clause, with a frontloaded disbursement schedule; and its arrears to the World Bank have been cleared thanks to the exceptional IDA/IBRD arrears clearance framework. The Bretton Woods institutions have demonstrated great flexibility in dealing with Liberia. We expect the other country cases that will come to our attention in the period ahead to benefit from the same kind of flexibility.

We approve the proposed decision regarding Liberia's request for a three-year arrangement under the PRGF and the EFF. This incidentally shows how important the PRGF is for the Fund and its membership.

Reaching the HIPC Decision Point

We take note that Liberia has fulfilled all requirements allowing it to qualify for debt relief under the HIPC Initiative by reaching its decision point. We welcome the revision of the completion point trigger relating to EITI-compliance and to the debt management unit and the subsequent agreement reached with the authorities on the full set of completion point triggers.

However, the large share of commercial creditors in Liberia's total stock of debt poses an important challenge to the burden sharing principle included in the HIPC framework. We fully support the authorities in pursuing their good faith discussions with Liberia's commercial creditors in order to agree on a settlement of commercial claims on financial terms consistent with the comparable treatment principle. We would appreciate staff's comments on the status of these negotiations.

Lifting of Sanctions

We agree that the clearance of Liberia's arrears allows for lifting the sanctions imposed by the IMF and thus paves the way for the restoration of its voting and related rights, as well as the termination of its ineligibility to use the general resources of the fund and the lifting of suspension of its rights to use SDRs.

Risks to the Fund and the Fund's Liquidity Position

Almost all of Liberia's debt service to the Fund will be covered through HIPC and beyond-HIPC debt relief, since Liberia's debt service capacity is very low: this will mitigate any risk of non-payment of scheduled debt service, provided that the program performance is satisfactory. This provision highlights the considerable risks to Liberia's capacity to repay the Fund. In particular, we take note that governance weaknesses remain a major challenge, although the authorities have made noteworthy progress under the GEMAP, as well as by implementing financial management measures. To this respect, we welcome the assurances given by Mr. Gakunu and Ms. Mannathoko that the authorities are strongly committed to effective program implementation and intend to maintain a strong track record of policy implementation under the new program to help to mitigate risks associated with the repayment of obligations to the Fund.

All in all, the impact on Fund liquidity—a reduction of the forward commitment capacity by 0.3 percent—will not be significant. Therefore, we agree with staff that the Fund's liquidity position is not endangered, although the risk of non-repayment by Liberia is significant.

Mr. Rojas and Mr. Guerra submitted the following statement:

We would like to thank staff and management for the work done in order to normalize relations with Liberia. The set of staff reports illustrates Liberia's progress in reestablishing sound economic and social conditions as well as the challenges that lie ahead. We hope that the Fund will continue to be an important pillar in the development of the Liberian economy through close surveillance and capacity building.

We thank Mr. Gakunu and Ms. Mannathoko for the comprehensive statement. We support the proposed decisions namely the approval of the Staff Monitored Program review, the three-year arrangement under the PRGF and the requested Extended Fund Facility. The Liberian authorities have demonstrated full ownership of policies under the SMP within a context of very difficult circumstances. We support the restoration of voting rights, the eligibility for the use of the GRF and SDR facilities, the approval of qualifications for assistance under the HIPC initiative and the provision of interim assistance between the decision and the completion point. Finally, we also support the proposed agreement that the HIPC completion point will be reached once the agreed triggers have been met.

Looking ahead, it is important that the IMF, with the help of the donor community, continues to support the authorities in order to better manage public expenditure, which is a precondition for the efficient implementation of the government's poverty-reduction strategy. The allocation of increased public income must give priority to health and education. Also, given the high percentage of the population that faces food insecurity, it is important that authorities implement policies to try to diminish the effect of food price inflation.

We are concerned by Liberia's vulnerability regarding its ability to service its external debt after HIPC relief, particularly if borrowing is required to compensate for potential limited external assistance, to address reform objectives, or if the external environment becomes unfavorable. In face of this, we believe that a sound country-owned debt management strategy is crucial.

In the financial sector, it would be fundamental to continue with the process of strengthening the Central Bank of Liberia. This is important not only because the central bank is a cornerstone of the stability of the financial and exchange rate systems, but because at this stage the CBL can serve as pillar also for the overall institutional development. At this juncture it is important that the CBL continues to improve its international position and expenditure management.

Finally, looking ahead, it remains crucial that Liberia continues good faith discussions with its non-Paris Club official bilateral creditors and with commercial creditors, in order to reach an agreement to settle these bilateral claims on comparable terms to multilateral claims.

With these remarks, we wish authorities every success in their endeavors.

Mr. Gakunu informed Directors that Liberia's House of Representatives had passed the Budgetary Transfer Act, which was likely to receive Senate approval in the near future. The new legislation demonstrated the authorities' commitment going forward, although they remained cognizant of the challenges on the legislative front.

Mr. Rouai made the following statement:

We sincerely thank all the IMF staff who worked tirelessly to bring Liberia back into the international financial community. The IMF's relevance may be questionable these days, but we have no doubt that the Liberian authorities regard the institution for what it is—an international cooperative institution, where over 100 countries have joined efforts to help a country in need. Of course, most credit should go to the authorities, who have exhibited an impressive commitment to reform and have delivered a strong economic performance under the most daunting circumstances. We also thank Mr. Gakunu and Ms. Mannathoko for their helpful statement.

We have no difficulty in supporting the rather complex financial package engineered by staff and support the proposed decisions and the sequence of steps outlined by the Secretary. We also agree with the thrust of the staff appraisal and policy recommendations.

Staff rightly emphasize the risk associated with the significant increase in the Fund GRA exposure to Liberia as a result of the purchase under the EFF-supported arrangement. Although this risk is time limited and will be extinguished when Liberia reaches the HIPC completion point, we urge the authorities to adhere to the PRGF-supported program to benefit continuously from interim HIPC assistance and to reach the completion point as soon as possible.

While we commend the authorities for the better-than-projected revenue performance, we share staff's concern about the transfers between budget line items occurring late in the FY 2006-07. We welcome the interim measures, and agree with staff on the importance of legislation to merge the Bureau of the Budget into the Ministry of Finance and limit transfers between budget line items.

Liberia will continue to remain highly dependent on foreign aid even after benefiting from debt relief under the HIPC Initiative and the MDRI. In this regard, we share Mr. Rutayisire's assessment that the Governance and Economic Management Assistance Program was helpful in improving governance and strengthening donor confidence in the authorities' management of public resources. In this connection, we are not comfortable with the Fund involvement in the cosigning of financial transactions of the Central Bank of Liberia, and we wonder why donor representatives were not appointed for this task.

Staff point to the vulnerability and risk of higher debt service payment associated with a rise in the rate of charge on the EFF purchase. At the occasion of the recent Board discussion on the basic rate of charge under a new income model, some Directors were not convinced of the importance of updating the margin proposed by staff from 100 to 95basis points over the

SDR interest rate. While the difference seems small, the impact on Liberia is not negligible, since the country will be subject to the basic rate of charge as well as surcharges and adjustment of deferred charges under the burden sharing mechanism. We hope that Directors will bear this case in mind when reviewing the basic rate of charge for next fiscal year.

We commend the authorities for their decision to deposit the additional access under the PRGF-supported program in their SDR account. In the same vein, we note that Liberia is also participating in IMF debt relief by committing its share of the refund of SCA-1 and deferred charges, amounting to SDR 2.1 million. Given Liberia's important financial needs, and since commitments to date exceed the estimated cost of IMF debt relief to Liberia, we urge the Board to allow Liberia to keep its share of the refund and to deposit it in its SDR account.

Finally, we admit that we are intrigued by the design of the EFF-supported program. While we understand and indeed support the frontloading of all the EFF access in the first tranche, it is not clear why the EFF should lapse, which basically means that the EFF will come to an end even before the Chairman delivers today's concluding statement on Liberia. Staff clarifications would be welcomed.

With these remarks, we wish the authorities all success.

The staff representative from the African Department (Mr. Powell), in response to Directors' questions and comments, made the following statement:

I will speak first on the quality of statistics and the economic projections, followed by political issues and donor relations, program and structural issues, and the debt negotiations.

On statistics, certainly capacity is weak, as we have made clear. A great deal technical assistance (TA) has been provided, especially on the fiscal and monetary side recently from the Fund and from the Bank. However, internal audit remains very weak in both the government and the Central Bank of Liberia (CBL). There has been improvement on the Consumer Price Index, but the real problems are with the balance of payments statistics and the national accounts. We have a full-time person at the central bank working on balance of payments statistics, and an important part of the program concerns building a statistical plan so that we can get a clear road map for going forward with good coordination between all the donors.

We have slightly updated the economic projections. As we have said before, projections in this situation are very uncertain, especially given the weakness of the data. Compared to the last projections provided to Directors, we have knocked down the medium-term growth rates to about 3.8 percent, but clearly in the near term growth is going to be much stronger in view of the post-conflict rebound and the removal of UN sanctions.

There was a question about the impact of the depreciation of the U.S. dollar on inflation. Certainly, the depreciating dollar impacts import prices from the EU. However, it was food inflation from local products that really pushed the inflation rate up last year, reflecting structural factors and stronger income growth. We will keep the inflation projections under review.

There was a question about the security situation and its impact on the projections. The security situation is stable, albeit still fragile. The UN military force is presently scheduled to remain until 2010. The macro framework and the projections assume that peace and stability is maintained, which would allow for a recovery in FDI and private sector activity.

There were questions on political and donor issues. How much political support is there for the program? As Mr. Gakunu has made clear, this is a very strongly owned program from the President and the government. Of course, Liberia operates under a U.S.-style political system, and there is an opposition-led legislature, which causes difficulties at times, but the relationship has been improving. There has been a lot of contact between the legislature and not only the President but also donors. Whenever we are there we have extensive contacts legislators. For example, as Mr. Gakunu said, we are very hopeful that the budget transfer law will go through. I understand that the recently adopted legislation would limit transfers between budget lines without legislative approval to a cumulative total of no more than 20 percent, which is less than the 30 percent we set as a benchmark, and that is quite encouraging.

There was a question on structural benchmarks and the required donor support. A number of structural benchmarks require budget support and technical assistance, in particular, the public financial management laws. The Fund, the Bank, and the U.S. have all been working in concert on these issues. Civil service reform is another important to area for donor support, and again the World Bank and the U.K. Department for International Development (DFID) have been active in that regard. Donors are also providing financial support in some situations; e.g. the Anti-Corruption Commission will require support from donors, and I know that DFID has indicated that it would be prepared to support efforts in that area once legislation is enacted.

Donor coordination is not perfect, but it has been pretty good. There are a few important committees for coordinating donor efforts; e.g., the GEMAP steering committee and a government-led committee. Both are chaired by the President, which shows the importance the country attaches to the donor coordination and having high level ministers at all the donor coordination meetings. The poverty reduction strategy is going to be finalized very shortly, and that will also help with coordinating the donor process.

Turning to program issues, there was a question on the content and timing of the civil service reform. The President has made it clear she wants the reform plan by the end of March. I know the World Bank is working very hard with DFID on moving that forward. Critical in this effort will be implementation capacity as well as political will.

There were questions on medium-term spending and getting donor assistance into the budget, which remains a challenge. Budget implementation continues to lag revenues, although it has picked up in the last couple of months. Considerable assistance is going into improving budget implementation, which is at the core of the program. Of course, pulling together donor data is very important. During our last mission, we met with all donors in an effort to get the best understanding possible.

There was a question concerning staff's views on the CBL exceeding its ceiling on expenditure. The story here was essentially that the CBL had higher than expected income because it realized interest income on dollar balances stemming from government underspending. This unforeseen income was devoted to capital expenditure on new Liberian dollar notes, which was certainly a reasonable investment. That said, our advice to the central bank has been to be cautious about assuming significant interest income. As the government begins to implement its budgets more effectively, one should expect a commensurate decrease in such interest income.

There was a question on the feasibility of having an exchange rate anchor for monetary policy, given the low level of reserves. We certainly agree with the concerns expressed in this regard. There is little room for active monetary policy, given the very high level of dollarization. We have urged the authorities not to try and target a level of the exchange rate. The exchange rate is an indicator they can use to manage Liberian dollar liquidity, but that is about as far as it goes. Of course, the Monetary and Capital Markets

Department and the African Department are working with the authorities in their efforts to strengthen the monetary policy framework.

Briefly on dollarization, we have consistently advised the authorities that increasing the demand for Liberian dollars should be a market-driven process. There would be clear risks if they tried to force the issue, and it should thus be a long-term goal. We will probably take up that issue more in the Article IV consultation later in the year.

Finally, I will turn to debt issues. Several Directors have asked about the status of negotiations with commercial creditors. You will recall there was a meeting in New York last summer, and subsequently the parties were waiting on a HIPC preliminary document. Soon after that came out, a new meeting was arranged, which took place earlier this month. The Finance Minister was in attendance, meeting all the key private creditors. The Fund and the Bank attended part of the meeting, although not the negotiations themselves. I made a presentation to the creditors on the HIPC process and the preliminary document. I think it was a very positive meeting. There is no specific deal on the table as yet, and the creditors are continuing to talk with the financial advisors, including on the reconciliation. I am not expecting major revisions to the debt estimates that we have in the document today, but there is still some discussion ongoing, particularly on the interest calculations. I expect another meeting to take place quite soon, possibly as soon as April, and the authorities are hopeful to have a deal this year, if possible.

Is litigation a possibility? Of course, there are no guarantees. These deals are voluntary, but certainly after this meeting I personally was quite optimistic that all sides see the benefits of reaching an agreement and taking advantage of this window of opportunity on Liberia.

Finally, the were debt questions concerning the smaller multilaterals. The large multilaterals have all been able to clear their arrears. Of the smaller multilaterals, five of the six have indicated their intention to agree to an arrears clearance operation consistent with the HIPC framework. There was a question on the one that has not made a clear commitment yet, ECOWAS. They are relatively small, and as far as I am aware, they have not taken part in HIPC so far.

The staff representative from the Policy Development and Review Department (Mr. Fisher), in further response to Directors' questions and comments, made the following statement:

> Let me step back a little bit on the use of the Extended Financing Facility (EFF) in this case. This is a unique transaction, and I would like to share with you some of the thoughts that led us to propose the structure that you see before you today. This is not like a traditional, blended arrangement, which would involve a PRGF and EFF arrangements disbursed in parallel. Liberia cannot afford to take on hard money. However, we need the GRA money in order to muster the resources required to repay the bridging financing. Furthermore, going forward, as we provide new money under the arrangement, we do not want to provide nonconcessional financing under an EFF—we want all of the new resources to come from the PRGF. This means that all of the EFF resources will benefit from HIPC and beyond-HIPC treatment. The new PRGF money will be concessional and serviced by Liberia on its own. I think that is very important both for Liberia, but also as a signal of our commitment to help this country with resources on appropriate terms , which we hope creates a demonstration effect that others will emulate.
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> Even if we had designed the arrangement along more conventional lines, the conditionality and the monitoring under the EFF and PRGF arrangements would have been identical. Accordingly, we consider that the conditionality and monitoring that we have under the PRGF provides us with the same safeguards for the GRA exposure as we would have had under a blended arrangement.
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> On the specific question of why the EFF lapses, it is a settled principle of Fund law that once all of the resources committed under an arrangement have been fully disbursed, the arrangement automatically lapses. The reason this seems unfamiliar is that we have not done this before. I think it is an important precedent, but at this stage I would see its applicability being limited down the road just to Sudan and Somalia.
>
> If I may, I would like to turn to a question from Mr. Kiekens asking about how the large amounts of pre-decision point debt relief provided by the World Bank fit in with the HIPC framework. There is an agreement among multilaterals that concessional financing of arrears clearance operations in the timeframe of the decision point will be counted toward relief at the completion point. In effect, what we do is we take the relief that the Bank has already given, and we add that back into the debt stock for calculating the common reduction factor, and then we give the Bank the credit for the fact

they have already given Liberia relief. This is a practice that came out of a March 1998 agreement between multilaterals. It was notified to the Board in SM/98/68, issued on the March 10, 1998, and it has been used on a number of occasions. This practice was first applied in the case of Guyana, which concerned the settlement of arrears to the OPEC fund. In the case of Liberia, there is one policy innovation I should just mention for completeness. We have in this case applied debt relief to a bilateral creditor. In February of last year, China forgave just over $15 million of debt. At the time, this relief was not explicitly identified as being a part of the HIPC Initiative, but in our view this contribution is fully consistent with the objectives of the Initiative, and that if we were not to count it, the impact would be to reduce the common reduction factor and thus alleviate somewhat the burden on other creditors. What we have done for purposes of the calculation is to add back in China's claim as if it had not been forgiven in working out the common reduction factor, but then recognize that China has already forgiven this debt.

Mr. Gakunu made the following concluding statement:

The decisions and transactions undertaken here today constitute a pivotal point for the Liberian economy. They mark the culmination of several years of hard work by my authorities, Fund staff and management, and reflect the valued support of member countries and Executive Directors. On behalf of my authorities, I would like therefore, to express their deep gratitude to all involved.

The staff teams from Finance, Africa Region, PDR, and Legal have collaborated successfully and worked hard to produce outstanding work that has enabled Liberia to reach this point, and for this we are grateful especially to Mr. Powell and his team. I also thank, the United States and the one hundred and two member states that contributed to Liberia's arrears clearance—and note in particular the sacrifice made by the low income countries that participated in this process.

Today's transactions to fulfill IMF arrears clearance mark an important milestone towards Liberia's recovery. They will enable Liberia's meaningful re-engagement with the Fund, participation in HIPC and a vehicle to address the remaining arrears with the Paris Club and commercial creditors. Executive Directors approvals of decisions requested by my authorities—in particular approval of PRGF/EFF support and of Liberia's qualification for the HIPC decision point will provide the necessary requisite measures for Liberia to move forward. We thank Executive Directors for this. On this latter point, I hope that the positive mood of this board would permeate to that of the World Bank next week.

Liberia is now on the path to recovery following its re-engagement with the IMF and other donors, and the implementation of its ambitious reform program. My authorities have been especially encouraged by the interest and goodwill shown in measures to support their efforts to overcome the significant challenges. While progress has been made, the government remains mindful of the challenges ahead. They are therefore reassured by this support and remain committed to delivering to the best of their ability, on the promises made to the people of Liberia and to the international community. They intend to carry out the necessary measures to rebuild the economy and reach the HIPC completion point. My authorities hope for the continued support of Executive Directors and the development community in this regard.

In conclusion, I would like to reiterate the views in the grays and statements today by quoting from one of them: the gray of Mr. Stein and Mr. Denk "Many elements had to fall into place to get to this point. First and foremost, the Liberian authorities have delivered an impressive performance track record under the most daunting circumstances. Second, the Fund has appropriately exercised flexibility in adapting its policies in a measured and well-focused manner. Third, the international community has shown a heartening degree of solidarity in providing financing assurances for freeing Liberia from its completely unsustainable debt burden. This moment also calls for a special word of thanks to all the staff members who have worked tirelessly in an extraordinary cross-departmental endeavor to bring all the required elements together. Thank you.

The Acting Chair (Mr. Portugal) determined that the required majority favored moving forward on the proposals under discussion. He adjourned the meeting at 10:33 to allow staff to undertake the necessary procedures related to the clearance of arrears.

The Acting Chair (Mr. Portugal) reconvened the meeting at 10:52 a.m. and asked the Director of the Finance Department to inform the Board on the status of Liberia's arrears clearance.

The Director of the Finance Department (Mr. Kuhn) confirmed that Liberia had cleared its arrears to the Fund in full. The arrears clearance was made possible by a bridge loan in SDRs from the United States in an amount of slightly over SDR 543 million. Liberia had received the loan and used the proceeds for the following payments: SDR 30 million in net SDR charges; SDR 251.4 million in GRA charges; SDR 199.7 million in GRA repurchases; SDR 31.06 million in GRA special charges; and SDR 22.9 million in trust fund repayments and special charges.

The Acting Chair (Mr. Portugal) thanked Directors and their authorities for their efforts. The Board unanimously approved the decisions to (i) restore Liberia's voting and related rights; (ii) terminate its ineligibility to use the Fund's general resources; and (iii) terminate the suspension of the right to use SDR. The Acting Chair adjourned the meeting once again at 10:57 to allow the staff to handle the procedures for obtaining Liberia's consent to the increase in its quota and receive payment to that effect.

The Acting Chair (Mr. Portugal) reconvened the meeting on Liberia at 11:05 a.m. He called on the Director of the Finance Department to report on the question of the consent and payment of the increase in Liberia's quota.

The Director of the Finance Department (Mr. Kuhn) confirmed that the IMF had obtained Liberia's consent to, and payment for, the increase in its quota by SDR 57.9 million to a total of SDR 129.2 million. One-quarter of the increase was made in SDRs, financed by a second bridge loan from the United States. Liberia had made a repurchase of the established reserve tranche positions, which was used to repay the second tranche of the bridge loan. The remainder was paid in local currency, which had been confirmed by the Fund. Liberia's new quota of SDR 129.2 million had therefore taken effect.

The Acting Chair (Mr. Portugal) confirmed the Board's support for the requested PRGF/EFF-supported program as well as the Decision Point under the HIPC Initiative and Interim Assistance, the latter being approved in principle and contingent upon the consent of the World Bank Board.

Mr. Fayolle wondered what would happen if the World Bank did not approve the HIPC Decision Point document.

The Acting Chair (Mr. Portugal), noting that the HIPC Initiative required the participation of all creditors, considered that the strategy for Liberia would likely unravel in the event the World Bank did not approve the Decision Point.

The staff representative from the Policy Development and Review Department (Mr. Fisher) confirmed the Acting Chair's understanding, as Liberia would likely be very hard pressed to make repayments when the first set came due in three months time.

The Acting Chair (Mr. Portugal) made the following summing up:

Executive Directors welcomed Liberia's clearance of its long-standing arrears to the Fund, and the consequent restoration of the country's voting and related rights in the Fund and of its eligibility to use the Fund's general resources and the right to use SDRs. The normalization of relations with the Fund marks an important step towards reintegrating with the international community.

Directors welcomed the Liberian authorities' continued satisfactory implementation of policies under their Fund staff-monitored program (SMP), which they considered met the standard of upper credit tranche conditionality. Prudent policies have helped to maintain macroeconomic stability, support the ongoing economic recovery, and strengthen public financial management and the financial sector. Directors commended the close alignment of the macroeconomic policy framework with the poverty reduction strategy, and the authorities' focus on establishing strong public institutions. They considered the authorities' new three-year economic program to be an ambitious and appropriate response to Liberia's medium-term economic challenges. Directors stressed that continued solid program implementation will be critical to achieve the program's objectives, and in this regard they encouraged the authorities to continue to strengthen their cooperation with the legislature. Directors also called on the international community to continue providing the necessary financial and technical assistance.

Directors welcomed the strong increase in fiscal revenues, which have exceeded budget targets. They agreed that fiscal policy under the program is appropriately anchored on a balanced cash-based budget, and that new borrowing should be considered only after all domestic claims have been resolved, a comprehensive debt management strategy has been finalized, and institutional arrangements for debt management have been strengthened.

Directors welcomed the improvements in public financial management, particularly the measures taken to avoid further accumulation of domestic arrears. They observed that the challenge for the authorities now is to improve budget implementation without weakening procedures for approving, controlling and monitoring spending. Directors encouraged the authorities to adopt a comprehensive public financial management law, which would improve budget preparation and implementation and allow for a more efficient allocation of government resources to achieve poverty reduction goals.

Directors considered that in the current heavily dollarized environment, monetary policy is appropriately anchored on seeking to maintain broad exchange rate stability. They supported ongoing efforts to strengthen the tools for liquidity management. They underscored that de-dollarization will need to be a market-driven process, supported by policies that maintain macroeconomic stability, ensure a sound banking system, peace and political stability. They recommended the quick completion of the safeguard assessment.

Directors stressed the importance of advancing with reforms to promote good governance. They welcomed the submission of legislation for the establishment of an independent anti-corruption commission, Liberia's participation in the Extractive Industries Transparency Initiative, and actions taken to ensure full transparency in the management of fiscal revenues from the extractive industries.

Directors emphasized the importance of improving macroeconomic statistics, particularly GDP and balance of payments data. In this regard, they encouraged the authorities to complete and implement the comprehensive national statistical development strategy.

Directors noted that the exceptional level of access under the Extended Arrangement presents a significant increase in the Fund's financial exposure to Liberia and that, in the absence of HIPC and post-HIPC Initiative debt relief, Liberia's projected payments to the Fund would exceed its capacity to repay. They underscored that strong program implementation will be crucial to the timely provision of HIPC debt relief.

Directors agreed that Liberia's Fund staff-monitored program qualifies under the amended PRGF-Trust Instrument to allow Liberia to reach the decision point and for assistance under the Enhanced HIPC Initiative. They supported Liberia's request for interim HIPC Initiative assistance towards its debt service obligations falling due to the Fund over the next 12-month period. They welcomed the progress achieved in the authorities' discussions with creditors in the context of the HIPC Initiative, and looked forward to the completion of these discussions following the decision point. They supported the authorities' intentions to finalize bilateral agreements with Paris Club creditors shortly, and to seek agreements on comparable terms with non-Paris Club bilateral and private commercial creditors.

Directors supported the coverage and content of the HIPC completion point triggers, which focus on public financial management, debt management, and governance. Since the sustainability of Liberia's external debt depends on continued growth-enhancing reforms and prudent fiscal and debt management policies, reliance primarily on external grant financing will remain essential going forward.

The Executive Board took the following decisions:

Restoration of Voting And Related Rights

The Fund decides that the voting and related rights of Liberia, suspended on March 5, 2003 under Executive Board Decision No. 12955-(03/19), are restored. (EBS/08/30, 3/3/08)

Decision No. 14079-(08/24), adopted
March 14, 2008

Termination of Ineligibility to use the General Resources of the Fund

The Fund decides that Liberia is no longer ineligible to use the general resources of the Fund as was provided for in Executive Board Decision No. 8134-(85/169) G/S/TR, adopted on November 25, 1985. (EBS/08/30, 3/3/08)

Decision No. 14080-(08/24), adopted
March 14, 2008

Lifting of Suspension of the Right to use SDRs

The Fund decides that the right of Liberia to use SDRs, suspended with effect from January 24, 1986 under Executive Board Decision 8134-(85/169) G/S/TR, adopted on November 25, 1985 are restored. (EBS/08/30, 3/3/08)

Decision No. 14081-(08/24), adopted
March 14, 2008

Poverty Reduction and Growth Facility, and Extended Fund Facility—Three-Year Arrangements

1. The government of Liberia has requested three-year arrangements under the Poverty Reduction and Growth Facility Trust, in a total amount equivalent to SDR 239.02 million, and under the Extended Fund Facility, in a total amount equivalent to SDR 342,768,309.

2. The Fund approves the arrangements set forth in EBS/08/26, 2/28/08.

Decision No. 14082-(08/24), adopted
March 14, 2008

Enhanced Initiative for Heavily Indebted Poor Countries—Decision Point and Interim Assistance

1. Based upon the external debt sustainability analysis for Liberia (EBS/08/27, 2/28/08), the Fund, as Trustee (the "Trustee") of the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (the "Trust"), established by Decision No. 11436-(97/10), February 4, 1997, as amended, decides that:

(i) in accordance with Section III, paragraphs 1 and 2 of the Trust Instrument (the "Instrument"), Liberia is eligible and qualifies for assistance under the enhanced HIPC Initiative as defined in the Instrument;

(ii) the completion point for Liberia will be reached on the date when the Trustee determines that:

(a) Liberia has satisfactorily implemented the policy reforms described in Box 3 of Liberia's decision point document under the enhanced HIPC Initiative (EBS/08/27, 2/28/2008);

(b) Liberia has a stable macroeconomic position and is satisfactorily implementing its Fund-supported program; and

(c) Liberia has prepared a Poverty Reduction Strategy Paper and has satisfactorily implemented its poverty reduction strategy for at least one year;

(iii) the external debt sustainability target for Liberia is 150 percent for the present value of debt-to-exports ratio;

(iv) in accordance with Section III, paragraph 3(a) and 3(b) of the Instrument, SDR 428.1 million of assistance shall be made available by the Trustee to Liberia in the form of a grant to permit a reduction in the net present value of the debt owed by Liberia to the Fund, and

(v) in connection with the interim assistance contemplated under Section III, paragraph 3(d) of the Instrument,

(a) satisfactory assurances have been received regarding the exceptional assistance to be provided under the enhanced HIPC Initiative by Liberia's other creditors, and

(b) the Trustee shall disburse to Liberia as interim assistance the equivalent of SDR 15.03 million to an account for the benefit of Liberia established and administered by the Trustee in accordance with Section III, paragraph 5 of the Instrument. The proceeds of the grant shall be applied by the Trustee towards Liberia's debt service payments on its existing debt to the Fund as they fall due, net of expected payments from Liberia equivalent to at least SDR 0.44 million for the twelve-month period from the date of this decision.

(c) for the purpose of Section III, paragraph 3(d) of the Instrument, the conditions for disbursement under 1(v)(b) above are that, on the basis of the information provided by Liberia, Liberia has met: all of the indicative targets that have been found to have been met with respect to the fourth review under the staff monitored program for Liberia EBS/08/26, 2/28/2008;

(vi) in accordance with Section III, paragraph 3(e) of the Instrument, the Trustee shall disburse the remaining balance of the assistance committed to Liberia under paragraph (iv) of this decision at the completion point, together with interest on amounts committed but not disbursed during the interim period, calculated at the average rate of return per annum on investment of resources held by or for the benefit of the Trust.

2. Paragraph 1 shall be become effective on the date on which the Fund decides the World Bank has concluded that Liberia has reached the decision point under the enhanced HIPC Initiative (EBS/08/27, 2/28/2008). (EBS/08/27, Sup. 2, 3/13/08)

Decision No. 14083-(08/24), adopted
March 14, 2008

APPROVAL: May 1, 2008

SHAILENDRA J. ANJARIA
Secretary