

**FOR  
AGENDA**

EBS/08/141  
Supplement 1

December 4, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Liberia—Staff Report for the 2008 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility Arrangement, Financing Assurances Review, and Requests for Waiver and Modification of Performance Criteria—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2008 Article IV Consultation with Liberia, the first review under the three-year arrangement under the Poverty Reduction and Growth Facility Arrangement, the financing assurances review, and requests for a waiver and modification of performance criteria for Liberia (EBS/08/141, 12/4/08), which is tentatively scheduled for discussion on **Monday, December 22, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Liberia indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Powell (ext. 36932), Mr. Erasmus (ext. 35938), and Mr. Gottschalk (ext. 35876) in AFR.

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

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

LIBERIA

**Staff Report for the 2008 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Request for Waiver and Modification of Performance Criteria—Informational Annex**

Prepared by the African Department  
(In collaboration with other departments)

Approved by Michael Atingi Ego and Patricia Alonso-Gamo

December 3, 2008

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**Appendix I. Liberia—Relations with the Fund**  
(As of October 31, 2008)

**I. Membership Status:** Joined 03/28/1962; Article XIV

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>% Quota</b>
Quota	129.2	100.0
Fund holdings of currency	472.0	365.3
Reserve position in Fund	0.0	0.0

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>% Allocation</b>
Net cumulative allocation	21.0	100.0
Holdings	7.2	34.3

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>% Quota</b>
PRGF Arrangements	207.3	160.4
Extended Arrangements	342.8	265.3

**V. Latest Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
EFF	03/14/2008	03/13/2011	342.8	342.8
PRGF	03/14/2008	03/13/2011	239.0	207.3
Stand-By	12/07/1984	12/06/1985	42.8	8.5

**VI. Projected Payments to the Fund<sup>1</sup> (Expectation Basis)<sup>2</sup>**

(SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Principal					57.13
Charges/interest	<u>4.04</u>	<u>12.39</u>	<u>12.39</u>	<u>12.39</u>	<u>12.10</u>
Total	4.04	12.39	12.39	12.39	69.23

<sup>1</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

<sup>2</sup> This schedule represents all currently scheduled payments to the IMF, including repayment expectations and repayment obligations. The IMF Executive Board can extend repayment expectations (within predetermined limits) upon request by the debtor country if its external payments position is not strong enough to meet the expectations without undue hardship or risk.

**Projected Payments to the Fund (Obligation Basis)<sup>3</sup>**

(SDR million; based on existing use of resources and present holdings of SDRs):

		<u>Forthcoming</u>			
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Principal					28.56
Charges/interest	<u>4.04</u>	12.39	<u>12.39</u>	<u>12.39</u>	<u>12.25</u>
Total	4.04	<u>12.39</u>	12.39	12.39	40.81

**VII. Implementation of HIPC Initiative:**

## Enhanced Framework

## A. Commitment of HIPC assistance

Decision point date	Mar 2008
Assistance committed by all creditors (US\$ million) <sup>4</sup>	2,845.5
Of which: IMF assistance (US\$ million)	700.2
(SDR equivalent in millions)	428.1
Completion point date	Floating

## B. Disbursement of IMF assistance (SDR million)

Assistance disbursed to the member	15.0
Interim assistance	15.0
Completion point balance	--
Additional disbursement of interest income <sup>5</sup>	--
Total disbursements	15.0

**VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):** Not applicable

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<sup>3</sup> This schedule is not the currently applicable schedule of payments to the IMF. Rather, the schedule presents all payments to the IMF under the illustrative assumption that repayment expectations – except for SRF repayment expectations – would be extended to their respective obligation dates by the IMF Executive Board upon request of the debtor country. SRF repayments are thus only shown on their current expectation dates, unless already converted to an obligation date by the IMF Executive Board.

<sup>4</sup> Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

<sup>5</sup> Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

## **IX. Safeguards Assessment**

An update safeguards assessment of the Central Bank of Liberia (CBL) was completed in August 2008. The update found that while the CBL had largely addressed the measures to increase transparency recommended by the 2007 interim safeguards assessment, significant risks exist in the control framework of the bank. Of particular concern during the course of the assessment was a delay in the assumption of co-signing authority for CBL financial matters by the Fund-supported Special Advisor. The assessment also found that internal audit capacity was weak and that the Audit Committee was not exercising effective oversight of CBL financial reporting, audit, and control systems. A priority measure to utilize the services of an external auditor to conduct a series of special audits was completed in August 2008 and it indicated that the monetary data submitted by the CBL are accurate and in compliance with TMU definitions, and that progress has been made to improve some aspects of the overall control environment, including the assumption of co-signing authority by the Special Advisor. The CBL has also made progress in implementing other safeguards recommendations, including drafting investment guidelines for CBL financial resources.

## **X. Exchange Rate Arrangement**

Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers. The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. The current exchange rate arrangement is a managed float, with no predetermined path for the exchange rate. The exchange rate of the Liberian dollar is market determined, and all foreign exchange dealers, including banks, are permitted to buy and sell currencies. Liberia's exchange rate at end-October 2008 was L\$63.5=US\$1.

## **XI. Article IV Consultation**

The 2006 Article IV consultation discussions were held in Monrovia during February 16-March 1, 2006 in Monrovia. The staff report (Country Report No. 06/166, 5/08/06) was discussed by the Executive Board on April 26, 2006 and is posted on the IMF website.

## **XII. Technical Assistance**

<u>Subject</u>	<u>Department</u>	<u>Date</u>
Mission: assessment of TA needs	MFD	Dec. 2003
Mission: monetary operations, foreign exchange, auctions, banking supervision, payments system	MFD	May 2004
Mission: monetary operations, foreign exchange auctions, banking supervision,	MFD	Aug. 2004

payments system		
Mission: monetary operations, foreign exchange auctions, payments system	MFD	Feb. 2005
Mission: bank restructuring	MFD	May 2005
Mission: monetary operations, foreign exchange auctions, banking supervision, payments system	MFD	Aug. 2005
Mission: negotiation on chief administrator post	MFD	Dec. 2005
Chief Administrator for the CBL	MFD long-term	Feb. 2006
Mission: bank restructuring, monetary operations, payment systems, and central bank accounting	MFD	June 2006
Advisor: foreign exchange auction	MCM	Aug. 2006
Mission: bank restructuring	MCM	Aug. 2006
Mission: bank restructuring	MCM	Oct. 2006
Mission: bank restructuring, monetary operations, payment systems, and central bank accounting	MCM	Feb. 2007
Mission: bank restructuring	MCM	Mar. 2007
Mission: central bank accounting, and national payments system	MCM	April 2007
Mission: bank restructuring	MCM	Apr./Jun. 2007
Advisor: central bank accounting	MCM	Jul. 2007
Resident expert: bank supervision	MCM	Aug. 2007
Resident expert: payments system	MCM	Sept. 2007
Mission: central bank accounting	MCM	Oct. 2007
Mission: central bank accounting	MCM	Mar./Jun. 2008
Mission: assessment of TA needs	FAD	Dec. 2003
Mission : public expenditure management	FAD	May 2004
Mission : public expenditure management	FAD	July 2004
Mission : tax administration	FAD	Sep. 2004
Mission : public expenditure management	FAD	Dec. 2004
Mission : public expenditure management	FAD	Feb. 2005
Mission : forestry tax policy	FAD	Feb. 2005
Mission : public expenditure management	FAD	May 2005
Mission : public expenditure management	FAD	Dec. 2005
Mission : public expenditure management	FAD	Feb. 2006
Mission: public financial management	FAD	Mar. 2006
Mission: tax policy	FAD	May 2006
Mission: revenue administration	FAD	Aug. 2006
Advisor: tax administration	FAD short-term	Oct. 2006

Advisor: public financial management (resigned in Feb. 2007)	FAD long-term	Nov. 2006
Mission: tax administration	FAD	Feb./Mar. 2007
Mission: tax policy	FAD	Apr. 2007
Advisor: public financial management	FAD long-term	May. 2007
Mission: customs administration	FAD	Jun./Jul./Oct. 2007
Mission: tax administration	LEG	Jun./Sept./Oct. 2007
Mission: extractive industries tax	FAD	Aug./Sept. 2007
Mission: PFM	FAD	Oct./Nov./Dec. 2007
Mission: tax policy for mining	FAD	Dec. 2007
Mission: customs administration	FAD	Jan. 2008
Mission: revenue administration/tax administration	FAD	Apr. 2008
Mission: assessment of TA needs	STA	Dec. 2003
Mission: balance of payments statistics	STA	May 2004
Mission: balance of payments statistics	STA	July 2004
Mission: government finance statistics	STA	July 2004
Mission: national accounts	STA	July 2004
Mission: monetary and financial statistics	STA	Aug. 2004
Mission: government finance statistics	STA	Jan. 2006
Mission: consumer price statistics	STA	May 2006
Mission: government finance statistics	STA	June 2006
Mission: monetary statistics	STA	Nov. 2006
Mission: balance of payments statistics	STA	Nov. 2006
Mission: CPI	STA	Jun. 2007
Mission: monetary statistics	STA	Oct./Nov. 2007
Resident expert: balance of payments	STA	Jan. 2008
Mission: revenue code	LEG	Oct. 2006
Mission: tax legislation	LEG	Jul./Oct. 2007
Mission: tax policy for mining	LEG	Dec. 2007

### **XIII. Resident Representative**

A resident representative has been posted in Monrovia since April 2, 2006.



**Appendix II. Liberia—Joint World Bank-IMF Work Program, 2008-09**  
(As of October 31, 2008)

Title	Products	Provisional timing of mission	Expected delivery date
A. Mutual information on relevant work programs			
1. World Bank work program in next 12 months	1. Finalize Joint Country Assistance Strategy with African Development Bank	Mission already completed (June 2008)	November 2008
	2. Draft regulations and user manuals for the Public Procurement and Concessions Act	July – November 2008	November 2008
2. IMF work program in next twelve months	1. 2008 Article IV consultation, and First Review of PRGF-EFF Program.	September 22-October 6, 2008	December 2008
	2. Cross-country experience with de-dollarization	Selected issues paper prepared as part of 2008 Article IV mission.	December 2008
	3. Second Review of PRGF-EFF Program and joint DSA	March 2009	May 2009
3. Work jointly performed	Assist authorities with developing decentralization strategy.	Joint mission to be decided	March 2009
	Assist authorities with modernization of tax administration through ongoing advice (Fund) and preparation of automation (WB)		continuous
B. Requests for work program inputs			
Fund request to the Bank	1. Prepare manuals for the new 2008 Public Financial Management Law		
	2. Provide input into joint DSA		April 2009
Bank request to Fund	1. Regular updates of performance under the Fund-supported program		Ongoing
	2. Regular updates of macroeconomic projections, including as input to the rice sector policy note		Ongoing

### **Appendix III. Liberia—Statistical Issues**

1. Data provision has serious shortcomings that significantly hamper surveillance. There are serious shortcomings in the national accounts and balance of payments, which stem mainly from lack of source data, limited scope, and appropriate timeliness; these shortcomings have required Fund staff to estimate historical data in these areas.
2. The government passed legislation in July 2004 to create the Liberia Institute of Statistics and Geo-Information Services (LISGIS) as a semi-autonomous agency. This agency will have the lead in coordinating and reestablishing national economic and social statistics.
3. As one of twenty-two countries participating in the GDDS Project for Anglophone Africa, Liberia has undertaken to use the GDDS as a framework to develop its national statistical system. Metadata and plans for improving the data over the short and medium term have been posted on the Fund's Dissemination Standards Bulletin Board since October 24, 2005.

#### **Real sector statistics**

4. National accounts data are estimates as opposed to statistics compiled on the basis of a standard statistical methodology. Estimates of GDP by production and by sector components are prepared by the LISGIS. The Fund staff has estimated total GDP by sectoral origin for the period 1997–2006 with the assistance of the Ministry of Planning and Economic Affairs (MPEA) and LISGIS. Estimates for GDP by expenditure are not available. Consequently, there is a high degree of uncertainty regarding estimates of the level and growth rate of GDP, sectoral components, and all ratios to the GDP. STA urges that remedial measures be included in the agenda for discussion with the authorities with close monitoring of implementation. Improvements in data quality would require: (i) the establishment of a national business register; (ii) the resumption of an annual Establishment Survey and National Accounts Questionnaire for manufacturing, mining, utilities and agriculture; and, (iii) a Household Income and Expenditure Survey is needed to develop reliable data on informal household sector production activities as well as on expenditures by households.

#### **Price statistics**

5. The CPI has been compiled since October 2005 jointly by the Central Bank of Liberia (CBL) and LISGIS. Prior to January 2007, price data were based on the Monrovia Consumer Price Index (MCPI) which contained a basket of only 79 items, which were weighted according to a household income and expenditure survey from 1964. In January 2007, the authorities formally adopted the Harmonized Consumer Price Index (HCPI). The HCPI is based on an expanded basket of goods and services consistent with the ECOWAS harmonized market basket, and updated weights (using consumption patterns in neighboring countries in the absence of an updated household survey). A further review of weights should

take place once the results of the Core Welfare Indicators Questionnaire are available. The June 2007 CPI technical assistance mission provided recommendations on the implementation of the review of weights. The reference base retained for the new series was set as December 2005=100.

### **Government finance statistics**

6. The Ministry of Finance (MoF) regularly provides AFR with monthly disaggregated data on government revenue and on government current and capital expenditure on a cash and commitment basis. There is scope, for improving the quality of the government finance statistics, including reporting on financing items and expenditures on domestic debt and arrears. A 2006 STA mission noted several issues regarding data quality, including problems in reporting customs revenue, problems in revenue classification, and lack of budget codes for fiscal reporting. The authorities plan to adopt the *GFSM 2001* methodology, and additional requests for technical assistance could be forthcoming. The authorities have not reported data for publication in the *Government Financial Statistics Yearbook* and in the *IFS*.

### **Monetary and financial statistics**

7. The CBL has made progress in adopting the statistical methodology recommended in the IMF's *Monetary and Financial Statistics Manual*. In November 2007, an STA monetary and financial statistics (MFS) mission assisted the CBL to develop a framework for compiling standardized report forms (SRFs) for reporting monetary data to the IMF and resolve problems in the data reported by some commercial banks. Despite these achievements, further steps are needed to strengthen the CBL's accounting system, including proper accounting of foreign reserves, segregating required reserves by currency denomination, and adequate classification of other assets and liabilities. In addition, while the reporting of preliminary statistics by commercial banks has improved, the response by banks to requests for explanations and follow-up to inconsistencies continues to be weak. The report of the Special Audit of the CBL in August 2008 proposed a number of steps to improve the accounting data, including the reporting of arrears. An MFS follow-up mission planned for 2009 will work with the new source data for the central bank to update the SRFs for publication in the *International Financial Statistics Supplement on Monetary and Financial Statistics*.

### **Balance of payments statistics and external debt**

8. Official balance of payments statistics are not reported comprehensively. However, the Fund staff has prepared provisional balance of payments statistics in cooperation with the CBL, the Ministry of Commerce, MPEA, and the MoF. The CBL is responsible for compiling balance of payments statistics in coordination with other agencies. Some progress has been made in compiling certain current and financial account components—mainly on trade and related services, government expenditures, remittances, and on nonresident deposits in the financial account. In November 2006 an STA mission set out

recommendations to strengthen compilation of balance of payments statistics in the CBL including training of staff. In February 2008, an STA long-term advisor in balance of payments statistics was assigned to the CBL to assist in improving balance of payments data. With the support of STA, the authorities are developing a comprehensive balance of payments data collection program to address the paucity of primary source data. In an effort to reconcile the significant discrepancies in international trade statistics (ITS) reported by various agencies, the CBL has also initiated work on a new ITS database aimed at incorporating new data sources. The CBL has completed a census of foreign direct investment enterprises in preparation for an FDI survey. The authorities have reported annual balance of payments data for the period from 2004 to 2007 for publication in *IFS* and the *Balance of Payments Statistics Yearbook*.

9. Significant gaps exist in the records of external public debt, particularly those related to bilateral and commercial creditors. The 2006 STA mission identified inadequate staffing and poor coordination with data providers as key impediments to improving balance of payments and external debt statistics. A task force comprising staff seconded from the CBL, MoF, MPEA, General Auditing Office and the Bureau of the Budget (BoB) is making progress in obtaining loan agreements and financial statements from external creditors to update the external debt database maintained by the MoF. On training, STA trained three officials in 2005—one in balance of payments and two in debt statistics. Another official from the CBL attended the 2007 INS BOP course in Washington D.C. The authorities have also engaged the services of an international financial advisor to assist with rebuilding the database on external commercial debt.

**Liberia—Table of Common Indicators Required for Surveillance**  
As of October 31, 2008

	Date of latest observation	Date received	Frequency of Data <sup>5</sup>	Frequency of Reporting <sup>5</sup>	Frequency of publication <sup>5</sup>
Exchange Rates	Oct. 2008	Nov. 2008	D	M	B
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Sep. 2008	Oct. 2008	M	M	B
Reserve/Base Money	Sep. 2008	Oct. 2008	M	M	B
Broad Money	Sep. 2008	Oct. 2008	M	M	B
Central Bank Balance Sheet	Sep. 2008	Oct. 2008	M	M	B
Consolidated Balance Sheet of the Banking System	Sep. 2008	Oct. 2008	M	M	B
Interest Rates	Sep. 2008	Oct. 2008	M	M	B
Consumer Price Index	Sep. 2008	Oct. 2008	M	M	B
Revenue, Expenditure, Balance and Composition of Financing <sup>2</sup> – General Government <sup>3</sup>	Aug 2008	Sep 2008	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>2</sup> – Central Government	Aug 2008	Sep 2008	M	M	B
Stocks of Central Government and Central Government-Guaranteed Debt	Jun. 2007	Nov 2007	A	I	I
External Current Account Balance	2007	Sep. 2008	A	I	I
Exports and Imports of Goods and Services	2007	Sep. 2008	M	Q	B
GDP/GNP	N/A	N/A	N/A	N/A	N/A
Gross External Debt	Jun. 2007	Nov. 2007	Q	B	B
International Investment Position <sup>4</sup>					

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered.

<sup>2</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>3</sup> The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.