

# REPUBLIC OF LIBERIA

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## MINISTRY OF FINANCE DEBT MANAGEMENT UNIT (DMU)

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**FIRST QUARTER 2011/2012**  
**PUBLIC DEBT MANAGEMENT REPORT**  
**July 1-September 30, 2011**

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## Acronyms and Abbreviations

AfDB	African Development Bank
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
CBL	Central Bank of Liberia
DeMPA	Debt Management Performance Assessment
DMS	Debt Management Strategy
DMU	Debt Management Unit
ECF	Extended Credit Facility
FDA	Forestry Development Authority
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IMF	International Monetary Fund
LBDI	Liberia Bank for Development & Investment
LIMINCO	Liberia Mining Company
LPMC	Liberia Produce Marketing Corporation
MFAU	Macro-Fiscal Analysis Unit
MoF	Ministry of Finance
MoJ	Ministry of Justice
MoPEA	Ministry of Planning & Economic Affairs
MoS	Ministry of State
MTDS	Medium Term Debt Strategy
SOE	State Owed Enterprises
TDS	Total Debt Service
TEDS	Total External Debt Service

## EXECUTIVE SUMMARY

The primary objective of the Government debt management policy is to meet the central Government's financing needs at the lowest possible cost subject to a prudent level of risk. The secondary objective of the policy aims to develop the domestic debt market through which short term instruments will be issued for liquidity management

The scope of this report, as all previous debt management reports, covers all central government domestic and external debt. Accordingly, within the existing external debt portfolio are some liabilities (contingent liabilities) related to state-owned enterprises (SOEs), which were absorbed by government and reconciled as part of overall government debt during the HIPC debt data reconciliation. New borrowings by SOEs are not included in this report, a possible source of risk to government in the case of default<sup>1</sup>.

The current debt management strategy of Liberia is primarily intended to reduce the existing domestic debt while relying on grants and concessional sources for external financing. The main consideration for this choice of strategy is due to the high cost of domestic debt and its relatively short term nature, usually leading to frequent roll-over of maturing debt service and therefore an accumulation of debt. In addition, all of the current domestic debt was inherited by the current government, a large amount of which were contracted during periods of the civil conflict under questionable circumstances<sup>2</sup>. In view of this, government has, in the recent past, focused on validating the debt and setting up a restructured payment plan.

Government aims to use external sources to finance net increases in public investment and, in the case of a shortfall in revenue flows, to use domestic borrowing to smooth intra-year revenue fluctuations (DMS, 2010). These strategic objectives are being complemented by the development of the domestic Treasury bill market and the use of CBL Bridge financing.

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<sup>1</sup> Going forward, the DMU plans to include contingent liabilities in subsequent reports, especially those guaranteed by government.

<sup>2</sup> The current government inherited a total of more than US\$914m of domestic debt. The volume and nature of the debt necessitated an independent verification and audit process before any payment was made. The result of the verification, conducted by KPMG-Ghana, determined that only a third (US\$ 304m) was valid for payment.

The Government of Liberia has recognized the potential constraints on the availability of concessional borrowing going forward, especially in the face of urgently needed national reconstruction. Hence, the 2010/2011 Debt Management Strategy will be updated with a view to reasonably diversifying domestic and external financing sources.

## **PART I**

### **1.1 Introduction**

This quarterly report of Liberia's public debt represents a summary of major developments in Liberia's public debt management activities during the period July 1-September 30, 2011. The report is in compliance with Section 32.3 of the PFM Law (2009) which requires that the Minister of Finance prepares and submits debt reports to the President and the National Legislature twice a year.

Liberia reached the HIPC completion point in June 2010, ushering in a new era of macroeconomic management in Liberia. Prior to completion point, the Government of Liberia implemented a cash-based balanced budget policy, which prohibited new borrowing. Post HIPC completion point implies that the 'no borrowing' policy is relaxed, allowing government to engage in debt financing activities.

This report assesses the costs and risks implications and their impacts on the existing debt portfolio. Assessing the implications of various costs and risks indicators of the debt portfolio is an additional feature contained in the current report<sup>3</sup>.

This report comprises five (5) parts. The first part provides an overview of the Liberian economy and a summary of the institutional and legal framework for debt management in Liberia. Part II examines the composition of Liberia's debt and debt service obligations. The third part briefly considers the framework for the issuance of government guarantees. Part IV provides an analysis of the various risks associated with the debt portfolio. The last part, Part V, summarizes reforms (past and on-going) and associated challenges in achieving these reforms.

### **1.2 Economic Overview**

The underlying macroeconomic assumptions used for the analysis in this report are based on the macro framework provided by the Macro-Fiscal Analysis Unit of the Ministry of Finance.

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<sup>3</sup> The September 2010 DeMPA Report on Liberia clearly indicates the shortcoming of the lack of risk analysis in the DMS.

Economic growth and development is heavily dependent on the maintenance of a sustainable level of debt. That is why all efforts must be made to ensure that the debt is kept within a reasonably sustainable threshold.

The Liberian economy experienced a moderate increase in growth, amounting to about 5.6 percent in 2010, compared with a 4.6 percent growth in 2009. Economic recovery is gaining a strong footing with a generally positive outlook in the medium term. Real output growth is expected to accelerate to a little over 6 percent in 2011 with the start of iron ore production during the latter part of 2011. Also in 2011, inflation is expected to increase due primarily to rising import prices of food and fuel, while the exchange rate is expected to remain broadly stable. Against this background a modest increase in reserves is anticipated as the counterpart to an increase in demand for local currency holdings (MFAU, IMF ECF 6<sup>th</sup> Review, 2011).

The HIPC Debt Relief has freed up substantial revenue that would have been used for debt service, but was invested in various other sectors as a result of the relief, thus contributing to the level of growth in the economy over the period under review.

Export of goods and services is expected to improve significantly in view of favorable medium-term prospects of a larger scale foreign investment commitments, new investments in the mining and non-mining sectors (iron ore and commercial agriculture), and a rebound in rubber prices, all of which are expected to drive an overall growth surge.

On the fiscal side, the FY2011/12 budget is based on realistic revenue estimates, prudent borrowing consistent with the post-HIPC debt management strategy, and a careful prioritization of expenditures. Revenue estimates are consistent with tax policy changes in the new Revenue Code, intended to closely align the tax code with those of regional partners and international best practice.

On the monetary side, monetary policy in 2011 targets the maintenance of broad exchange rate stability while protecting the foreign currency reserve position (CBL , IMF ECF 6<sup>th</sup> Review, 2011). Table 1 below summarizes selected economic indicators.

**Table 1: Selected Economic Indicators (Calendar Year)**

Indicators	2010	2011	2012	2013
Real GDP Growth (%)	5.6	6.2	9.6	7.8
Nominal GDP (US\$ mn)	988.0	1,181.7	1,353.8	1,451.1
Total Revenue (incl. grants)	372.0	348.0	431.0	477.0
<i>% of GDP</i>	<i>37.7</i>	<i>29.4</i>	<i>31.8</i>	<i>32.9</i>
Total Revenue (excl. grants)	312.0	304.0	389.0	433.0
Grants	60.0	44.0	42.0	44.0
Total Expenditure & Net Lending	364.0	429.0	499.0	570.0
<i>% of GDP</i>	<i>36.8</i>	<i>36.3</i>	<i>36.9</i>	<i>39.3</i>
Current Expenditure	279.0	315.0	332.0	357.0
Capital Expenditure	85.0	114.0	167.0	213.0
Exports (US\$ mn)	215.0	304.0	566.0	796.0
<i>% of GDP</i>	<i>21.8</i>	<i>25.7</i>	<i>41.8</i>	<i>54.9</i>
Gross Official Reserves (US\$ mn)	391.4	425.1	452.0	462.0
<i>Months of import coverage</i>	<i>2.4</i>	<i>2.7</i>	<i>2.1</i>	<i>2.1</i>

*Source, Macro-fiscal Analysis Unit (MFAU)- MoF, & IMF 6<sup>th</sup> ECF Review, July 2011.*

### **1.3 Institutional Structure of Debt Management in Liberia**

Debt Management in Liberia is a responsibility of the Ministry of Finance. The policy mandate of the Ministry of Finance (MOF) is to formulate and implement a coherent and effective fiscal policy and to provide for the adequate management of public financial resources. In fulfilling its mandate, the MOF has among its main responsibilities debt management and resource mobilization.

The 2009 PFM Law bestows on the Minister of Finance the overall responsibility for managing Liberia's domestic and external debt and overseeing new borrowing. However, several other stakeholders play very important roles in debt management operations. The Ministry of Planning & Economics Affairs, Ministry of Justice, and the Central Bank of Liberia are among the debt management stakeholders. The role of each stakeholder in the management of the debt portfolio is described in the Appendix II of this report.

## **1.4 Legal Framework for the Central Government Borrowing**

Five pieces of legislation constitute the legal framework for debt management in Liberia:

- The Constitution of 1986, Article 34;
- The Executive Law creating the Ministry of Finance, Chapter 21.3;
- The Revenue Code of Liberia Act of 2000, Section 2300;
- The 1999 Act to Authorize the Establishment of the Central Bank of Liberia; and
- The Public Financial Management Act of 2009.

Details of the five pieces of legislation outlined above are described in the appendix.

## **PART II**

### **2.1 Public Debt Profile**

The composition of Liberia's public debt portfolio during the reporting period reflected a higher proportion of domestic debt with a share of 54.4 percent while external debt constituted a share of 45.6 percent. Total public debt increased from US\$ 510.3 million or 51.6 percent of GDP during the fourth quarter of FY 2010/2011 to US\$ 518.8 million or 52.5 percent of GDP during the first quarter of FY 2011/2012. Domestic debt increased from US\$ 277.4 million or 28 percent of GDP to US\$ 280.4 million or 28.4 percent of GDP, while external debt increased from US\$ 232.9 million or 23.6 percent of GDP to US\$ 238.5 million or 24.1 percent of GDP over the same period. See Table 2 below.

The new level of total public debt was, on the external front, largely on account of disbursements on IDA credits of US\$13.4 million and, on the domestic front, the inclusion of obligations through court judgments to Gibson Construction Company, the Liberian Mining Company (LIMINCO), the Liberia Produce Marketing Company (LPMC) and the Forestry Development Authority (FDA) totaling US\$3.1 million in the domestic debt portfolio.

### **2.2 Public Debt Service**

Total debt service over the reporting period reduced from US\$4.87 million during Q4 of FY 2010/2011 to US\$2.34 million. External debt service reduced by US\$0.37 million, from US\$1.3

million in Q4 of FY 2010/2011 to US\$0.97 million as at end Q1 of FY 2011/2012. Domestic debt service on the other hand also decreased by US\$2.16 million from US\$3.57 million in Q4 of FY 2010/2011 to US\$1.41 million during the period under review (Q1 of FY 2011/2012).

The increased debt service during Q4 of FY 2010/2011 was on account of payment of Class Six (6) of domestic vendor arrears representing US\$1.8 million of debt service during that period. There was no payment of domestic vendor arrears during the quarter under review.

Total debt service as a percentage of revenue saw a major decrease of 0.7 percentage points, from 1.3 percent in Q4 of FY 2010/2011 to 0.6 percent in Q1 of FY 2011/2012. See Table 2 below for breakdown of public debt service.

**Table 2: Public Debt Service (US\$ millions)**

	<b>Jun-11</b>	<b>Sept-11</b>	<b>Increase (+)/decrease (-)</b>
External Principal	1.3	0.77	-0.53
External Interest	0.0	0.16	0.16
<b>Total Ext. Debt Service (TEDS)</b>	<b>1.3</b>	<b>0.93</b>	<b>-0.37</b>
TEDS as a % of TDS	26.7%	39.7%	
Domestic Principal	2.68	0.56	-2.12
Domestic Interest	0.89	0.85	-0.04
<b>Total Domestic Debt Service (TDDS)</b>	<b>3.57</b>	<b>1.41</b>	<b>-2.16</b>
TDDS as a % of TDS	73.3%	60.3%	
<b>Total Debt Service</b>	<b>4.87</b>	<b>2.34</b>	<b>-2.53</b>
Total Revenue (incl. grants)	348	348	
Export Earnings	215	215	
TDS as a % of revenue	1.4	0.8	
TEDS as a % of exports	0.6	0.4	

Source: DMU/MoF

## 2.3 Currency Composition of Public Debt

At the end of September 2011, public debt was primarily composed of US dollar-denominated debt, accounting for 73.9 percent, while the SDR, Saudi Arabian Riyadh (SAR) and the Kuwaiti Dinars (KWD) accounted for 12.6 percent, 5.5 percent respectively. Local currency denominated debt, the Liberian Dollar, accounted for 4.8 percent of total public debt as shown in Table 3 below.

**Table 3: Currency Composition of Total Public Debt**

Currency	Sum of Outstanding Debt (US\$ millions)	Share of Total Debt (%)
CNY	5.33	1.0%
EUR	2.07	0.4%
KWD	9.81	1.9%
LRD	24.91	4.8%
SAR	28.47	5.5%
SDR	65.40	12.6%
USD	383.41	73.9%
	<b>518.80</b>	<b>100.0%</b>

Source: DMU/MoF

**Table 4 - Major Debt Indicators**

	Q4 FY 10/11	Q1 FY 11/12
<b>Total Public Debt</b>	510.3	518.8
Total Debt to GDP (%)	51.6	52.5
<b>External Debt (US\$ Mn)</b>	232.9	238.5
External Debt to GDP (%)	23.6	24.1
External Debt to Exports (%)	108.3	111.0
External Debt to Official Reserves	54.8	56.1
<b>Domestic Debt (US\$ Mn)</b>	277.4	280.4
Debt to GDP %	28.0	28.4
Implicit Interest Rate (External Debt)	2.4	2.1

Source: DMU/MoF

## **2.4 External Debt**

Liberia's external debt portfolio increased from US\$232.9 million which was 23.6% of GDP at the end of June 2011 to US\$238.5 million or 24.1% of GDP by the end of September 2011. Also worth noting is the external debt service to exports ratio which decreased from 0.6% to 0.4% while the implied interest rate on external debt decreased by 0.3 percentage points from 2.4 percent to 2.1 percent indicating more favorable terms of new multilateral debt relief agreements during the period under review. The increase in external debt was primarily on account of disbursements on IDA credits of US\$13.4 million.

### **2.4.1 External Debt by Creditor Category**

At the end of June 2011, Liberia's external debt stock was dominated by debt owed to the Non-Paris Club Bilateral creditors, accounting for 24 percent of the total debt stock and 52.4 percent of total external debt stock. This trend continued throughout the review period, where at the end of September 2011 Non-Paris Club debt accounted for 25 percent of total debt stock and 54.7 percent of the total external debt stock respectively.

Moreover, during the period under review, Taiwan maintained its position as the highest creditor to Liberia, with a total outstanding debt of US\$81.2 million, followed by the IMF with total outstanding of US\$45.4 million and Saudi Arabia with US\$28.5 million. Taiwan is yet to sign a debt relief agreement with Liberia with the continuous increase in outstanding debt due to accumulation of interest and charges. Engagement with the Saudis have begun, with the Saudis submitting to Liberian authorities a debt relief proposal for review and discussion after which a final agreement will be consummated. See Table 2 and charts 1 & 2 below for details of external debt by creditors.

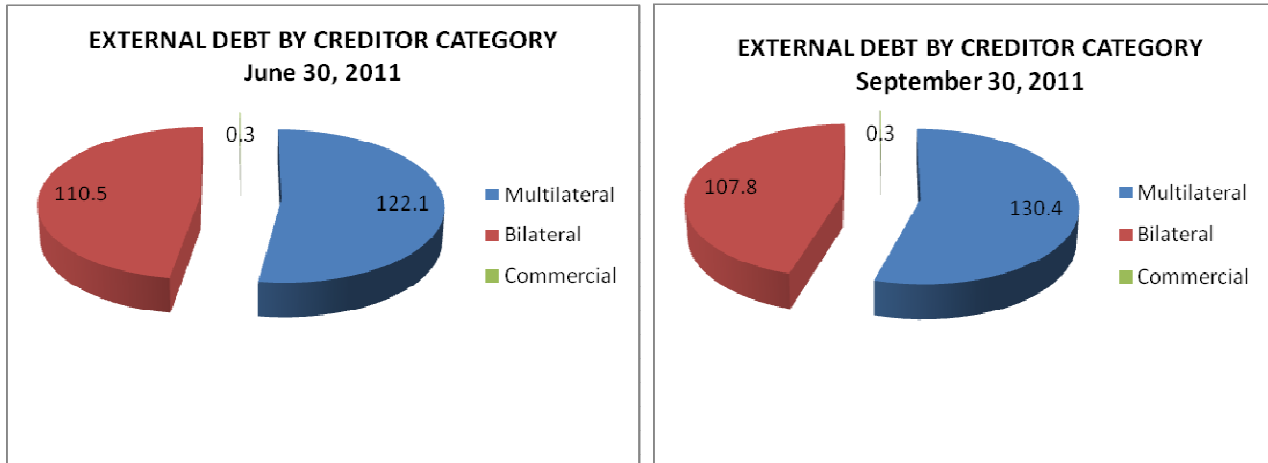
**Table 5: Debt stock by creditor category & changes in debt position (Q4 10/11 & Q1 11/12)**

CREDITOR CATEGORY	Q4 FY 10/11 (Jun-11)	Q1 FY 11/12 Sept-11	Increase (+)/decrease (-)
<b>EXTERNAL</b>			
<b>Multilateral</b>	<b>110.5</b>	<b>107.8</b>	<b>-2.7</b>
IMF	45.9	45.4	-0.5
World Bank (IDA)	0.0	13.4	13.4
AfDB Group (NTF)	7.7	6.9	-0.8
Other Multilaterals	56.9	42.0	-14.9
<b>Bilateral</b>	<b>122.1</b>	<b>130.4</b>	<b>8.3</b>
Paris Club	0.0	5.6	5.6
Non Paris Club	122.1	124.8	2.7
<b>Commercial</b>	<b>0.3</b>	<b>0.3</b>	<b>0.0</b>
<b>Sub-total</b>	<b>232.9</b>	<b>238.5</b>	<b>5.6</b>
As a % of GDP	<b>23.6%</b>	<b>24.1%</b>	
As a % of Total Debt	<b>45.6%</b>	<b>46.0%</b>	
<b>DOMESTIC</b>			
<b>Suppliers' Credits</b>	<b>3.3</b>	<b>3.3</b>	<b>0.0</b>
<b>Salary Arrears</b>	<b>5.0</b>	<b>5.0</b>	<b>0.0</b>
EDP Payroll Arrears	1.3	1.3	0.0
Non-EDP Payroll Arrears	3.7	3.7	0.0
<b>Financial Institutions</b>	<b>269.1</b>	<b>269.0</b>	<b>-0.1</b>
CBL	261.5	261.5	0.0
Ecobank	0.4	0.4	0.0
LBDI	7.2	7.1	-0.1
<b>Miscellaneous Domestic Debt<sup>4</sup></b>	<b>0.0</b>	<b>3.1</b>	<b>0.3</b>
<b>Sub-total</b>	<b>277.4</b>	<b>280.4</b>	<b>3.0</b>
As a % of GDP	28.0%	28.4%	
As a % of Total Debt	54.4%	54.0%	
<b>Grand Total</b>	<b>510.3</b>	<b>518.8</b>	<b>8.5</b>
As a % of GDP	<b>51.6%</b>	<b>52.5%</b>	

Source: DMU/MoF

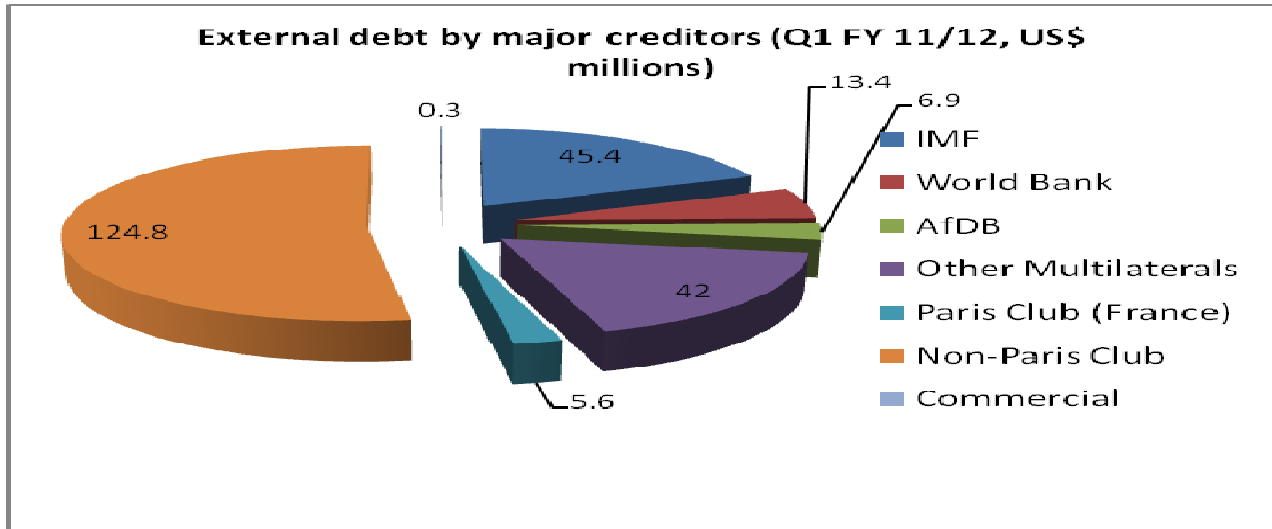
<sup>4</sup> Refers to domestic obligations to Gibson Construction Company, LIMINCO, LPMC, & FDA.

Chart 1: Composition of Ext. Debt by Creditor category (US\$ mn)



Source: DMU/MoF

Chart 2: External debt by major creditor (US\$ mn)



Source: DMU/MoF

### 2.4.2 External Debt by Currency Composition

At the end of September 2011, Liberia’s external debt was primarily composed of US dollar-denominated debt. Debt in US dollars stood at 73.9 percent of total public debt and 54.3 percent of external debt respectively, while the SDR, Saudi Arabian Riyadh (SAR) and the Kuwaiti Dinars (KWD) accounted for 27.4 percent, 11.9 percent and 4.1 percent of external debt respectively as shown in Table 6 below.

The currency composition of the debt portfolio shows that Liberia’s debt is highly exposed to foreign exchange risk as reflected in the 95.2 percent dominance of foreign currency debt in the total portfolio, mainly the US dollars and the SDR, accounting for 73.9 percent and 12.6 percent respectively. Liberian dollars denominated domestic debt accounted for a meager 4.8 percent of the portfolio.

Even though the debt portfolio is exposed to foreign exchange risk, the cost of the existing portfolio is relatively low, as reflected in an average interest rate of total portfolio of approximately 2.4 percent, implying that the vast majority of the existing external debt was contracted on highly concessional terms. The foreign exchange risk (mainly the US Dollars) is mitigated by the fact that the Liberian economy is highly dollarized and that approximately 80-85<sup>5</sup> percent of fiscal revenue is collected in US Dollars. See Table 6 below.

**Table 6: Currency Composition of External Debt**

<b>Sum of Outstanding Debt</b>		
<b>Currency</b>	<b>(US\$ millions)</b>	<b>Share of Total External Debt (%)</b>
CNY	5.33	2.2%
EUR	2.07	0.9%
KWD	9.81	4.1%
SAR	28.47	11.9%
SDR	65.40	27.4%
USD	127.40	53.4%
	<b>238.50</b>	<b>100.0%</b>

*Source: DMU/MoF*

## 2.5 Domestic Debt

Government’s domestic debt portfolio grew by US\$3.0 million over the review period, from US\$277.4 million as at June 2011 to US\$280.4 million as at September 30, 2011. This growth was as a consequence of the inclusion of obligations to Gibson Construction Company, the Liberian Mining Company (LIMINCO), the Liberia Produce Marketing Company (LPMC) and the Forestry Development Authority (FDA) in the domestic debt portfolio.

<sup>5</sup> IMF Working Paper 09/37, De-dollarization in Liberia—Lessons from Cross-country Experience, *Lodewyk Erasmus; Jules Leichter; Jeta Menkulasi*.

## 2.5.1 Domestic Debt by Creditor Category

The CBL remained the largest domestic creditor to government, accounting for more than 90 percent of total domestic debt portfolio, followed by LBDI with 2.5 percent, while payroll arrears (EDP and non-EDP) constitute 1.8 percent. See Table 7 below.

**Table 7: Domestic debt by instrument (September 30, 2011)**

<b>Instrument</b>	<b>Sum of Outstg. Debt (USD mns)</b>	<b>Share of Outstg. Debt (% of Total Debt)</b>
CBL LTL_1	241.8	86.2%
CBL LTL_2	12.7	4.5%
CBL C/Notes	7.0	2.5%
LBDI LTL	6.2	2.2%
LBDI STL (BMC)	0.9	0.3%
ECOBANK_2	0.3	0.1%
ECOBANK_1	0.1	0.0%
Pre-NTGL Payroll Arrears <sup>6</sup>	5.0	1.8%
Other Domestic Debt <sup>7</sup>	3.1	1.1%
Vendors & Rental Arrears	3.3	1.2%
	<b>280.4</b>	<b>100.0%</b>

*Source: DMU, MoF*

## 2.5.2 Domestic Debt by Currency Composition

The currency composition of domestic debt shows that Liberia's domestic debt is highly exposed to foreign exchange risk as reflected in the 91.2 percent dominance of US dollar denominated debt in the domestic debt portfolio. Liberian dollars denominated domestic debt accounted for a meager 8.8 percent of the domestic debt portfolio. See Table 8 below.

**Table 8: Currency Composition of Domestic Debt**

<b>Currency</b>	<b>Sum of Outstg. Debt (US\$ mn)</b>	<b>Share of Total Dom. Debt (%)</b>
LRD	24.7	8.8%
USD	255.7	91.2%
	<b>280.4</b>	<b>100.0%</b>

<sup>6</sup> Includes EDP and Non-EDP Payroll Arrears.

<sup>7</sup> Includes obligations to Gibson Construction Company, LIMINCO, LPMC, and FDA.

## PART III

### 3.1 Publicly Guaranteed Debt

In providing guarantees, the government commits to pay (if the necessity arises) out of public funds, such outstanding balances to satisfy the extent of its guarantee.

The legal framework for loan guarantees is provided for under Section 29 of the Public Financial Management Act of 2009 (Part V) and the Guidelines for Issuance of Government Guarantees.

Additionally, subject to the provisions of the PFM Act and the Guidelines for Issuance of Guarantees, no loans shall be raised by the Government and no guarantees involving a financial liability shall be binding upon the Government, unless entered into with the prior approval of the Debt Management Committee (DMC), and signed by the Minister of Finance.

## PART IV

### 4.1 Risk Analysis

The relative dominance of debt in foreign currency (95.2 percent) indicates a significant exposure of the debt portfolio to exchange rate fluctuations. Within the foreign currency portfolio, the USD, SDR, SAR, and KWD accounted for 73.9 percent, 12.6 percent, 5.5 percent and 1.9 percent respectively. In the event of an external shock, Liberia will be vulnerable to adverse convergence risk.

However, the foreign exchange risk (mainly the US Dollars) is mitigated by the fact that the Liberian economy is highly dollarized and that approximately 80-85<sup>8</sup> percent of fiscal revenue is collected in US Dollars.

In terms of interest rate exposure, the portfolio is insulated by its relatively long average time to interest rate re-fixing (ATR) being 13 years. The small share of variable rate debt (8.7

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<sup>8</sup> IMF Working Paper 09/37, De-dollarization in Liberia—Lessons from Cross-country Experience, *Lodewyk Erasmus; Jules Leichter; Jeta Menkulasi*.

percent) in the total debt portfolio means that the level of interest rate risk will be moderate. On the domestic front, it should be noted that there is no interest rate risk of the existing portfolio since all of the domestic debt is issued under a fixed interest rate.

The average time to maturity (ATM) of the total debt portfolio is 13.6 years; ATM for domestic debt portfolio being 15.5 years while external debt is 11.3 years. This implies a low refinancing risk of both domestic and external debt.

However, it must be pointed out that in order to avoid the risk of default, debt service payments approaching maturity must be planned and adequately budgeted for.

**Table 9: Cost & Risk Indicators for Existing Debt as at September 30, 2011**

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of USD)		238.5	280.4	518.8
Nominal debt as % GDP		24.1	28.4	52.5
NPV as % of GDP		19.5	23.1	42.6
Cost of debt	Weighted Av. IR (%)			2.1
Refinancing risk	ATM (years)	11.3	15.5	13.6
	Debt maturing in 1yr (% of total)	0.3	0.2	0.3
Interest rate risk	ATR (years)	10.1	15.5	13.0
	Debt re-fixing in 1yr (% of total)	19.4	0.2	9.0
	Fixed rate debt (% of total)	80.9	100.0	91.3
FX risk	FX debt (% of total debt)			45.9
	ST FX debt (% of reserves)			0.2

Source, DMU/MoF

## PART V

### 5.1 Reform in Public Debt Management

The Government of Liberia has implemented reforms to address structural weaknesses in public debt management. The reforms are being supported by government with additional support from external partners (AfDB Group, World Bank Group, and other international donors).

The reform is intended to strengthen capacity in contemporary debt management operation and strengthen institutional and legal framework for public debt management in order to address present and future challenges, and ensure that Liberia does not revert to an unsustainable debt problem that led to seeking relief through the HIPC process.

Reform of the institutional environment for debt management, coupled with ongoing capacity-building, would help embed prudent debt management operations in a sustainable way. Debt management operations require high-caliber staff. They must have the mandate and competence to undertake detailed financial analysis, articulate the implications of the analysis, and formulate recommendations for policymakers. The DMU currently consists of the director and 7 other staff, many of whom are non-technical staff, reinforcing the need for further restructuring and strengthening.

Debt management operations require a robust legal framework. Existing legislation provides clear authorization for the contracting of new debt, and specifies limits for new domestic debt and total debt as a percentage of GDP. The legislation, however, lacks formal debt management objectives, the requirement for the government to prepare an MTDS based on those objectives, and requirements to report performance in implementing the strategy. These gaps should be addressed as an immediate priority.

Establishing an improved legal framework would provide the platform for debt managers and other debt management stakeholders to more efficiently carry out their mandate.

## **5.2 Constraints in Implementation of Reforms**

While implementing reforms to assist the Government of Liberia in achieving its public debt management objectives, the Unit faces a number of constraints.

- Limited funding to support capacity building in debt management;
- Limited logistical support;
- Limited technical capacity amongst available staff;
- Low motivation of technical staff due to low remuneration.

### **5.3 Recommendations and the Way Forward**

The Government of Liberia, through the Ministry of Finance, needs to implement the following reforms to assist in further strengthening of Liberia's public debt management:

- Strengthen staff retention policies;
- Strengthen staff capacity and provide logistical support;
- Update current debt management strategy to strengthen public debt management capacity, and develop a borrowing plan;
- Need for a debt management systems (CS-DRMS) administrator.

In order to make the DMU a fully professional and more productive unit, highly motivated and competent staff need to be required. To achieve this, policies to attract high caliber staff must be considered. Such policies should include salaries and benefits for staff, code of conduct, retention issues, performance requirement, etc.

To ensure that the existing debt management strategy is operationalized, a detailed borrowing plan must be developed. This should cover all financing, but mainly important for domestic borrowing. The borrowing plan needs to take account of the likely timing of government cash flows throughout the fiscal year. The borrowing plan should take account of known market demand, (or, for external borrowing, creditor availability) terms and conditions, and should be adjusted when necessary.

Significant deviations from the strategy must require a clear and documented justification. Overall, the government will need to find an appropriate balance between meeting its own debt management objectives and catering to market preferences.

The cost-effectiveness of the strategy will be influenced by the effectiveness of cash management. To that end, reforms already in place to improve cash management should continue. Automation of the entire budgetary accounting process in view of the installation of IFMIS is laudable, and other improvements must continue. Also, improving cash flow forecasting through better information-exchange between all relevant agencies and units of government must be a priority.

Furthermore, it is also important that authorities of the MoF consider the relevance of a debt management system administrator for the CS-DRMS software, with a mix of trainings in both debt management and ICT. This way, technical problems arising from the debt management software, as well as difficulties faced by staff in recording and reporting of debt information would be resolved adequately and promptly.

## **ANNEXES**

### **Annex I: Legal framework for debt management**

The five pieces of legislation on which the Government's debt management strategy is based are as follows:

1. The Constitution of 1986 states in Article 34 that *"no loan shall be raised by the government on behalf of the Republic or guarantees given for any public institution or authority otherwise than by or under the authority of legislative enactment."*
2. The executive law creating the Ministry of Finance, Chapter 21.3, states that one of the duties of the Deputy Minister of Finance for Fiscal Affairs is debt management. This duty is now the responsibility of the Deputy Minister of Finance for Expenditure and Debt Management.
3. The Revenue Code of Liberia Act of 2000 states in Section 2300 that *"the President is authorized and empowered to negotiate, conclude, and contract with any individual group, foreign government, or any financial institution at home or abroad, long or short term loans for the overall development of the country."* Section 2301 gives the President the power to guarantee loans to state-owned enterprises (SOEs).
4. The 1999 Act to Authorize the Establishment of the Central Bank of Liberia regulates the functions of the central bank. Part VI of the Act states that the central bank may *"contract, purchase, and market financial instruments, debt obligations rated in one of the two highest rating categories recognized by reputed international credit rating agencies, and other securities issued or guaranteed by foreign central banks, governments, or international financial institutions."* Part VII states that the central bank may purchase from, sell to, discount and re-discount for, or contract with financial institution, Treasury bills. Part VIII regulates central bank credits to the Government.
5. The Public Financial Management Act of 2009 aims to significantly improve the legal framework for debt management by allowing the President to delegate responsibility for borrowing to the Minister of Finance, restricting government guarantees,

mandating debt recording and reporting, and giving debt service payments priority over most other expenditure. More specifically, the Act:

- makes the Minister of Finance responsible for government borrowing and debt;
- Establishes a Debt Management Committee consisting of the Minister of Finance as Chair, the Governor of the Central Bank, and two other members appointed by the President, and requires the approval of the Committee for all government borrowing and guarantees;
- Requires the approval of the Minister of Finance and the Debt Management Committee for any borrowing by an SOE or public financial institution, or any guarantees issued by an SOE or public financial institution;
- Mandates the Ministry of Finance to report twice each year on debt to the President and the Legislature, and to issue biannual published reports; and
- Makes debt service payments among the first call on budget resources.

## **Annex II: Responsibilities Of The Debt Management Committee**

The PFM Law and Regulations set out in detail the responsibilities of the Debt Management Committee. The following list brings together all of those responsibilities. The Debt Management Committee will:

- Approve all central government loan agreements;
- Approve all loan guarantees;
- Approve all contracts that contain commitments involving contingent financial liabilities of the Government or State Owned-Enterprises (SOEs);
- Approve any debt incurred by SOEs and public financial institutions through short- and medium-term borrowing and securities issued to finance capital and other non-recurrent expenditures;
- Approve any guarantees issued by SOEs and public financial institutions for any debt contracted with a supplier, contractor or other entity;

- Approve any repayment agreements by SOEs and public financial institutions extending beyond 90 days (which are considered a loan);
- Consent to the proposed annual borrowing plans of SOEs and public financial institutions before the start of their financial year, including any debt restructuring they intend to undertake;
- Determine the conditions that investment projects and specific programs approved by the National Legislature should meet, and the procedure for their consideration;
- Set forth, for a respective year: the maximum amount of the new government borrowing and the government guarantees which may be undertaken throughout the year; and the maximum amount of government debt as at the end of the budget year;
- Propose restrictions on the issuance of debt and Social Security Corporations debt in the national Budget Law for the respective year in the event of any risk of noncompliance with PFM regulations;
- Consider the quarterly report on the state of the government debt prepared by the Minister of Finance;
- Approve the three-year debt management strategy prepared by the Minister of Finance;
- Approve the annual updates to the debt management strategy;
- Participate in the negotiations of government-guaranteed loans, together with the Minister of Finance;
- Approve any proposals for amendments to the loan or guarantee agreement, in the cases of government guarantees already issued, in consultation with the Minister of Finance;
- Determine the terms and conditions that projects applying for government-guaranteed financing should meet, and the government guarantee issuance procedures;

- Determine the procedure, manner and time limits for provision of information on the state of, and funds movement related to, debts of the National Social Security Corporation or other social security and provident funds to be set up in future;
- Determine the terms of the guarantee for the capital projects or non-recurrent expenditures of SOEs for which a guarantee is requested, to cover among other things the following aspects: value of the loan principal to be guaranteed; desired characteristics of the potential lender; minimum term of the loan; margin interest, loan interest; other fees and expenses;
- Approve guidelines, responsibilities and obligations of guarantee issuing agencies and related agencies; and, sequence and procedure of issuing a government guarantee, developed by the Debt Management Unit; and
- Approve repayment agreements for SOEs for accumulated arrears to suppliers for a period exceeding 90 days, which constitute debt of the enterprise.