

## Talking Points for Panel Discussion at the Center for Global Development

Wednesday, June 30, 2010 at the Center for Global Development

I am delighted to be here today and thank you for your generous invitation to host this event celebrating Liberia's achievement. I am particularly pleased as the Center for Global Development has been an exemplar in demonstrating the enormous impact that policy-oriented research can have on development. The Center for Global Development has pioneered the study of debt distress in low-income countries and much of the international community's response to debt distress has been shaped by research emanating from this institution. I would also be remiss if I did not mention the profound gratitude to Mr. Steve Radelet's, a former Senior Fellow at the Center for Global Development, for his positive contributions to our debt reduction effort. Without his tireless work and sound advice the road towards debt relief might have been a lot less smooth for Liberia.

As you know, in the past week, the World Bank and International Monetary Fund's Boards convened to assess whether Liberia was eligible for completion point under the Highly Indebted Poor Countries (HIPC) Initiative. Both Boards unanimously said "yes". This is a tremendous milestone for Liberia. One of the main objectives of our Government, since the election of President Ellen Johnson-Sirleaf in 2006, has been to address the huge and unsustainable debt overhang Liberia inherited as one of the legacies of decades of plunder, civil war and feeble public financial management.

In 2006, our external debt overhang stood at \$4.9 billion. The debt-to-GDP ratio stood at approximately 700% and the debt-to-export ratio was 2300%. In 2006, total government revenues were a paltry \$70 million, and Liberia had one of the lowest public spending per capita ratios in the world. Servicing just 1% of our debt would eat up nearly 25% of public spending, diverting precious resources away from poverty reduction programs.

This was clearly a case of odious debt as most of the debt had been contracted in the early 1980s during one of Liberia's episodes of undemocratic governance with all its attendant governance difficulties. Debt service payments subsequently ceased in the mid-1980s. By 2006 the bulk of Liberia's total debt was in arrears. It would have been morally perverse, and literally impossible, to require Liberian citizens today, many of whom were not even born when most debts were contracted, to repay this debt.

Fortunately, the Highly Indebted Poor Country Initiative and the Multilateral Debt Relief Initiative (MDRI) offered a framework through which Liberia could begin to address this dilemma and take the necessary steps to rationalize an irrational debt overhang.

In order to initiate the HIPC program and reach "Decision Point" we had to establish a track record of strong policy performance under an IMF-supported program. Separately, having been in arrears to the major financial institutions we also had to take steps to clear these arrears in order to be in good standing with our major multilateral partners including the World Bank, the International Monetary Fund and the African Development Bank.

Once we reached HIPC Decision Point, the next step was to agree on an array of "triggers", policy actions that the Government would commit to implementing in order to reach completion point. Our HIPC triggers were ambitious and embedded in our reform agenda. This, I strongly believe, is one of the elements that has contributed to making HIPC such a successful initiative: all triggers were actions that we as a government were profoundly devoted to and knew that we had to take in order to rebuild our nation. They were never policy prescriptions that were alien to us. To the contrary, they were truly embedded in our own agenda. This country ownership of the HIPC reform agenda made reaching the triggers considerably easier than had they been externally imposed.

We agreed, in consultation with the Fund and the Bank, upon a dozen triggers. Like other HIPC countries we committed to maintaining macroeconomic stability and satisfactory performance under an IMF-supported program, in our case the Poverty Reduction and Growth Facility and, later, the Extended Credit

Facility. We also committed to designing and implementing, for at least one year, a Poverty Reduction Strategy, a set of social and political goals that would orient all government action over three years.

We also envisioned substantial reforms in the area of public financial management, previously one of the weakest areas in the public sector institutional apparatus. We drafted, and our Legislature passed, a comprehensive PFM Law, the first in our nation's history; we strengthened our Debt Management Unit in the Ministry of Finance; we adopted international accounting standards and are well on our way to automating most government financial transactions.

Another priority was to erect strong institutions that would increase accountability and transparency across government. We strengthened our Auditing Commission by bolstering its autonomy and scaling up support to enable it to conduct audits, we established an Anti-Corruption Commission that has begun to investigate allegations of corruption and a Public Procurement and Concessions Commission to ensure value for money in government purchases. Liberia also joined the Extractive Industries and Transparency Initiative and was the first country in Africa and the second country in the world to be internationally recognized as EITI compliant. These are no small undertakings for a nation that only a few years ago was characterized by pillaging of public finances and earned the title as one of the worst places on earth to do business.

The legislative agenda was also heavy. Three bills were enacted by Parliament including a revised Investment Code, banning granting of tax exemptions on a case-by-case basis, amendments to our Revenue Code and a comprehensive Public Financial Management Act.

Our success is also largely due to the unique engagement of our development partners. The international community was particularly responsive at the most crucial moments. When we faced financing gaps on triggers or logistical and technical capacity deficits, development partners provided flexible support and filled the holes where they existed. We have received invaluable technical assistance in the areas of PFM from the IMF and support for audits and payroll harmonization from USAID and the EU.

It took us over a little bit over two years to reach all twelve triggers, which makes Liberia one of the fastest HIPC reformers to date. At completion point, we have received full debt relief from a majority of our creditors and are still reaching out to creditors that have been unwilling to participate in the Initiative. We have strictly adhered to the comparability treatment clause ensuring that all creditors are given the same deal and no single creditor receives a favorable treatment. In fact refusing to do this could have jeopardized our debt forgiveness. This strict adherence to the comparable treatment clause also meant that a few non-Paris Club creditors were reluctant to participate because Liberia's debt relief requirement, amounting to a 97% Net Present Value reduction in order to reach sustainable debt levels, was an unusually steep discount.

Over the past four years, we have been committed to maintaining a cash-based balanced budget. We maintained strict adherence to a cash based-balanced budget while being hit full blast by a trinity of crises -- food, fuel and financial. This was a daunting task, especially given the fact that the downturn called for aggressive counter-cyclical measures. Since debt financing was not an option for us, when we were faced with a revenue shortfall, we had to carefully cut all non-essential expenditure, while making our most concerted efforts to protect poverty reduction programs. But still sometimes we had to prioritize amongst the priorities.

What has changed today is that we now have a low debt-vulnerability profile meaning that our "Zero Borrowing Policy" is relaxed and we may begin to contract loans. While Liberia continues to be heavily reliant on aid, in the form of grants --and some estimates bring total aid flows to Liberia to twice total government revenue-- it is still not enough to meet all our urgent development financing needs.

We recognize the need to balance today's immediate financing needs with the long-term imperative of maintaining a sustainable external debt. We will only borrow to finance high priority projects with high rates of economic and social returns. We intend to seek out and negotiate loans on the highest possible concessional terms. Debt-financed projects are likely to be in the area of infrastructure, particularly,

roads, power and ports – the Minister of Planning and Economic Affairs will address this shortly. We have also established a Debt Management Committee to scrutinize all future public sector borrowing to ensure that it meets our national targets and does not derail our external debt profile.

We look forward to moving into this new phase of our country's development but recognize the challenges ahead. With the help of our partners we are taking the necessary measures to ensure that the transition from HIPC to post-HIPC is smooth and, most of all, that it is permanent and benefit the ordinary Liberia.

In the post-HIPC universe we will continue to need their support and guidance of our development partners. Today I would like to extend on behalf of the government and people of Liberia our deepest thanks to all our partners particularly the IMF, the World Bank, the African Development Bank and the United States Government, who helped us traverse this difficult road. Without your support we would not be here today. We will continue to work closely with you and solicit your assistance and guidance in the months and years ahead as we do not consider HIPC completion point to be a partnership termination point.