AFRICAN DEVELOPMENT BANK GROUP

LIBERIA: COMPLETION POINT DOCUMENT UNDER THE ENHANCED HIPC INITIATIVE

October 2010

TABLE OF CONTENTS

Page

Tables

Figures

LIST OF ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank Group
ACC	Anti-Corruption Commission
ADF	African Development Fund
BWI	Bretton Woods Institutions
CSP	Country Strategy Paper
DSA	Debt Sustainability Analysis
EITI	Extractive Industry Transparency Initiative
EU	European Union
FSF	Fragile States Facility
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association of the World Bank
IMF	International Monetary Fund
JAS	Joint Country Assistance Strategy
JISN	Joint Interim Strategy Note
JSAN	Joint Staff Advisory Note
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
PV	Present Value
PFM	Public Financial Management
PRSP	Poverty Reduction Strategy Paper
RMC	Regional Member Country
UA	Unit of Account

LIBERIA - COMPLETION POINT DOCUMENT
UNDER THE ENHANCED HIPC INITIATIVE

EXECUTIVE SUMMARY

In June 2010, the Boards of Directors of the IMF and the World Bank approved irrevocable debt relief assistance to Liberia under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Liberia becomes the 23rd regional member country (RMC) of the African Development Bank Group (Bank Group) to reach the completion point under the HIPC Initiative and to qualify for debt relief of US$ 2,739.2 million in end-June 2007 present value (PV) terms, of which US$ 237.2 million is from the Bank Group. This document presents the justification for Liberia reaching the completion point and seeks Boards of Directors' approval for the Bank Group's portion of the debt relief to be provided to Liberia.

Assessment of Requirements for the Completion Point

Liberia has fully implemented eleven out of twelve completion point triggers and has made significant progress in implementing the remaining trigger, i.e. a new public financial management law, for which the authorities had requested and obtained a waiver. The triggers that have been fully implemented include the preparation of a full Poverty Reduction Strategy Paper and its satisfactory implementation for at least one year; the maintenance of macroeconomic stability as evidenced by satisfactory implementation of the IMF-supported program/s; the strengthening of economic governance through improved public financial management; the implementation of social sector reforms to improve delivery of health services and harmonize the education payroll; the development and implementation of a debt management strategy; and ensuring a high degree of transparency and accountability in the extractive industries in line with the Extractive Industries Transparency Initiative criteria and the establishing of an independent anti-corruption commission.

Liberia's Debt Stock at Completion Point and Debt Relief Under the HIPC/MDRI

Based on revised data at completion point (June 2010), Liberia's total nominal debt stock as at end-June 2007 is estimated at US$ 4,398.7 million. The debt stock after applying traditional debt relief is estimated at US$ 3,038.4 million in end-June 2007 PV terms, and the PV of debt-to-exports ratio is estimated at 1,523.1 percent. The HIPC debt relief required to bring down the PV of debt-to-exports ratio from 1,523.1 percent to the HIPC threshold of 150 percent is estimated at US$ 2,739.2, representing a common reduction factor of 90.2 percent.

The total HIPC debt relief to be provided to Liberia (US$ 2,739.2 million in end-June 2007 PV terms) is composed of 51.9 percent from multilateral creditors, 34.8 percent from bilateral creditors and 13.3 percent from commercial creditors. The Bank Group's share of the HIPC debt relief is US$ 237.2 million and accounts for 16.7 percent of the multilateral debt relief and 8.8 percent of the total debt relief.

Having reached the completion point, Liberia qualifies for additional debt relief from the ADF, World Bank's IDA and the IMF on debts eligible for cancellation under the Multilateral Debt Relief Initiative (MDRI). The ADF would provide UA 13.23 million (US$ 19.56 million) in nominal terms while IDA and IMF would provide US$ 66.9 million and SDR 117.4 million (US$ 173.62 million), respectively.

Debt Sustainability and its Sensitivity

Analysis of Liberia's debt sustainability and sensitivity in the context of the country's medium and long-term debt outlook shows that full delivery of HIPC and MDRI debt relief at the completion point would significantly reduce Liberia's external debt burden and improve its external debt indicators. However, the sensitivity analysis also shows that Liberia's long-term debt sustainability could deteriorate significantly in the event that the country is faced with a lower GDP growth rate, low export prices and lower concessionality in new debts than the assumption underlying the baseline scenario. This calls for policies and measures to increase exports and diversify the economy and continue to access highly concessional resources.

Recommendations

It is proposed that the Bank Group provide Liberia with an irrevocable debt relief of US$ 237.2 million, in end-June 2007 PV terms. Specifically, the Boards of Executive Directors are invited to: (i) approve Liberia's qualification for HIPC debt relief upon reaching the completion point under the enhanced HIPC Initiative; (ii) approve the proposed HIPC debt relief of US$ 237.2 million in end-June 2007 PV terms; (iii) take note that the Bank Group's share of HIPC debt relief has been fully delivered through Liberia's arrears clearance operation that was implemented in 2007 and amounted to US$ 240.2 million in end- June 2007 terms; (iv) take note that the Bank Group had also extended coverage of its debt relief to debt-service payments falling due in 2008 and 2009 (i.e. beyond the cut-off point of end-June 2007 that marked Liberia's decision point) amounting to additional debt relief of US$6.4 million in end-June 2007 terms; (v) approve Liberia's qualification for debt relief from the ADF under the MDRI and the provision of additional debt relief under the MDRI.

LIBERIA - COMPLETION POINT DOCUMENT UNDER THE ENHANCED HIPC INITIATIVE

1. Introduction

1.1 On June 29, 2010, the Boards of Directors of the International Monetary fund (IMF) and the World Bank approved the Liberia HIPC Completion Point Document and Liberia became the 23rd regional member country (RMC) of the African Development Bank Group (Bank Group) to reach completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.[1] When Liberia reached its decision point in March 2008, a total of US$ 2,845.5 million of debt relief (in end-June 2007 PV terms) was committed for the country by all participating creditors, with a common reduction factor of 90.5 percent.[2] At completion point, the common reduction factor has been revised marginally downward to 90.2 percent following a debt reconciliation exercise. Consequently, the HIPC assistance required to bring Liberia's debt to a sustainable level was also revised marginally downward to US$ 2,739.2 million, in end-June 2007 PV terms. Having reached the completion point, Liberia will benefit from additional debt relief from the African Development Fund (ADF), the World Bank's International Development Association (IDA), and the IMF under the Multilateral Debt Relief Initiative (MDRI).

1.2 Liberia's qualification for HIPC Initiative completion point debt relief is based on the assessment of its implementation of the completion point triggers the authorities agreed to undertake when the country reached its decision point in 2008. The assessment by the staffs of the IMF and the World Bank concluded that Liberia has satisfactorily implemented eleven of the twelve triggers and has made substantial progress in achieving the remaining trigger. On the basis of this significant progress, the staffs' recommendation to grant a waiver from the requirement of the full implementation of the remaining trigger was approved by Boards of Directors of the respective institutions.

1.3 This document presents the justification for Liberia's reaching the completion point and qualifying for debt relief from various creditors, including the Bank Group, under the enhanced HIPC Initiative and the MDRI. It also seeks Boards' approval for the Bank Group's portion of the HIPC debt relief to Liberia amounting to US$ 237.2 million in end-June 2007 PV terms. Furthermore, the document seeks Boards' approval for additional debt relief of UA 13.23 million (US$ 19.56 million), in nominal terms, to Liberia under the MDRI.

1.4 Following this introduction, Section 2 assesses the requirements and implementation of completion point triggers. The breakdown of Liberia's total debt stock and discussion of debt relief under HIPC and MDRI are presented in Section 3. Section 4 examines Liberia's long-term debt sustainability after the provision of HIPC/MDRI debt relief. The Bank

[1] See Annex 2: IDA/IMF: *Liberia– Enhanced Heavily Indebted Poor Countries (HIPC) Initiative: Completion Point Document and Multilateral Debt Relief Initiative (MDRI)*, June 8, 2010.

[2] For more information, please refer to African Development Bank: *Liberia – Decision Point Document Under the Enhanced HIPC Initiative*, ADB/BD/WP/2008/93 - ADF/BD/WP/2008/52, 20 June 2008.

Group's contributions to Liberia's poverty reduction strategy and staff's recommendations for Boards' consideration are presented in Sections 5 and 6, respectively.

2. Assessment Of Requirements For Reaching the Completion Point

2.1 Liberia has fulfilled or made significant progress on the twelve triggers agreed under the HIPC Initiative when it reached its decision point in 2008. The status of implementation of the triggers is summarized below.

Preparation of a Full PRSP and its Satisfactory Implementation

2.2 The Liberia Poverty Reduction Strategy (LPRS), which was prepared through broad-based consultations with all levels of society, was completed in March 2008. The LPRS provides a comprehensive strategy to enhance growth and reduce poverty, and rests on four mutually reinforcing pillars: (i) consolidating peace and security; (ii) revitalizing the economy; (iii) strengthening governance and rule of law; and (iv) rehabilitating infrastructure and delivery of basic services. Six cross-cutting themes are included in the strategy to enhance its comprehensiveness. These are: gender equality, peace building, environmental issues, HIV and AIDS, children and youth, and monitoring and evaluation. The IDA/IMF Joint Staff Advisory Note (JSAN) notes that the LPRS presented a comprehensive and credible, medium term strategy to improve socio-economic indicators and reduce poverty that is consistent with achieving the Millennium Development Goals (MDGs). Furthermore, in a review of the progress on the implementation of the LPRS by the AfDB, IMF, and World Bank staff, it was concluded that even though the implementation of the LPRS was slower than expected, the requirement of a satisfactory implementation for at least one year had been fulfilled and that this trigger has been met.

Maintenance of Macroeconomic Stability

2.3 The global financial crisis had an adverse impact on Liberia's economy. Export revenues fell sharply from 29.9 percent of GDP in 2008 to 17.5 percent in 2009, and key investments were postponed. Consequently, real GDP growth declined from 7.1 percent in 2008 to 4.6 percent in 2009. Signs of recovery are, however, evident in 2010, even though the pace will depend on development in the large iron ore concessions. Real GDP growth is projected at 6 percent in 2010, and exports revenue at 26 percent. Inflation has reflected external price volatility, rising to 17.5 percent in 2008 on account of the food and fuel price increases, and decreasing to 7.4 percent in 2009 as the conditions reversed. The exchange rate has remained broadly stable at LBR$ 61.3 to US$ 1.00 in 2007 to LBR$ 68.3 to US$ 1.00 in 2009, even though it came under pressure in 2009 when exports weakened. The Liberian authorities' commitment to refrain from central bank financing of the budget, except for temporary shortfalls of external financing, has helped reduce inflationary pressures and contain exchange rate fluctuations.

2.4 Government revenues, including grants, have continued to rise from 22 percent of GDP in 2007 to 32 percent of GDP in 2010, while government expenditures have also continued to rise from 18 percent of GDP in 2007 to about 32 percent of GDP in 2010. This has contributed significantly to regaining fiscal discipline in public finances. Pro-poor spending has remained above the LPRS target of 60 percent of revenue, and is projected to rise to 65 percent in 2011. Furthermore, the current account deficit, including official transfers, has averaged 40 percent of GDP since 2008. This large current account deficit has been financed by foreign direct investment and debt relief. Gross reserves have also risen significantly since the decision point, increasing from an import coverage of 0.5 months in 2008 to 2.2 months in 2010.

Strengthening Public Financial Management

2.5 The completion point triggers under the public financial management reform required the government to:

(i) Publish every quarter in the Procurement Bulletin, and every month on the website: (a) all signed procurement contracts over US$ 25,000 for goods, US$ 10,000 for consulting services, and US$ 50,000 for works; (b) signed-sole source procurement and concessions contracts identified by the Public Procurement and Concessions Committee for at least 6 months leading to the completion point;

(ii) Under the authority of the General Auditing Commission, complete successive annual external audits of five key government ministries (Health, education, Public Works, Finance, and Lands, Mines and Energy) and submit to the legislature and disclose publicly.

(iii) Implement the new public financial management (PFM) law and support financial regulations for at least 12 months leading up to the completion point.

2.6 The requirement for publishing the above mentioned procurement and audit documents have been fully met. The Government currently publishes, on quarterly basis, all signed procurement and concession contracts as specified. Successive annual external audits for the five key government ministries have also been prepared by the General Auditing Commission, submitted to the legislature, and disclosed publicly (for fiscal years 2006/2007 and 2007/2008).

2.7 Public financial management reforms aimed at improving the efficiency of budget planning, preparation, and execution have been at the center of the Government's efforts since 2008. Analytical works that have helped to guide these reforms include the 2008 Public Expenditure Management and Financial Accountability Review and the Public Expenditure and Financial Accountability Report. In August 2009, the legislature approved a new public financial management law. The law covers the full public financial management cycle, including budget preparation, approval and execution, borrowing, public debt and guarantees, cash management, accounting and reporting, internal control and audit, autonomous agencies and special funds. Following this, in November 2009, the President approved the enabling regulations for the law, and since then the authorities have made significant progress in implementing the law. The 2010/2011 budget was prepared according to the new law; a unified accounting function has been put in place in the Ministry of Finance; a high level Debt Management Committee has been established; and international accounting standards have been adopted.

2.8 Liberia has fulfilled the completion point requirements related to procurement and external audits, and has made significant progress in fulfilling the PFM law requirement. With the granting of a waiver by the IMF and the World Bank on the requirement for full implementation of the PFM law, it is concluded that Liberia has met all the public financial management triggers for reaching completion point.

Implementation of Social Sector Reforms

2.9 The completion point triggers that the government had to meet under social sector reforms included: (i) the harmonization and regularization of the Ministry of Education Payroll; and (ii) the delivery of basic package of health services in at least 40 percent of all health facilities in the country. Accordingly, in April 2010, the Government completed the harmonization and regularization of the Ministry of Education (MoE) payroll in the context of the overall strategy to reform pay and grade structure in the civil service. The Government has also made substantial progress in delivering health services since 2008. The basic package of health services is now being delivered in 47 percent of all health facilities, with the aim of delivering basic health services in 70 percent of all functioning clinics by December 2010. While the restoration of some key maternal and child health services such as immunization has led to substantial reduction in infant and under-five mortality rates, other indicators such as child malnutrition and maternal mortality rates still remain high. Similarly, while the suspension of user fees has increased access and utilization of service, provision of many health services is still inadequate with a concentration of resources in the capital city.

Developing a Debt Management Strategy

2.10 The completion point triggers that the Government had to fulfill to improve its debt management capacity and debt sustainability included (i) developing a credible debt management strategy and establishing a debt management unit; and (ii) recording and publishing data on external and domestic public and publicly-guaranteed debt.

2.11 In June 2008, the Government developed a Debt Management Strategy (DMS) which was updated and revised in July 2009 and in June 2010. The three main objectives of the strategy are: (i) to complete external debt restructuring and make progress on domestic debt resolution; (ii) to strengthen institutional and professional capacity for debt management; and (iii) to establish detailed guidelines for future borrowing on concessional terms. A debt management unit has also been fully staffed and operational in the Ministry of Finance since 2008. Reports on outstanding central government external and domestic debt stock, disaggregated by major creditor groups, are posted on the Ministry of Finance and Central Bank of Liberia websites. Quarterly fiscal reports which provide updates on the main debt management activities during the previous quarter are prepared to provide strategic guidelines on borrowing decisions that are fully consistent with a sustainable debt position. These efforts will be supported by the recently installed debt management recording and reporting system (Commonwealth Secretariat Debt Recording and Management System) with a centralized database for domestic and external borrowing data and issuance of public sector guarantees.

Implementation of Reforms to Improve Transparency and Fight Corruption

2.12 This completion trigger required the government to: (i) revise the Investment Incentives Act to eliminate Discretionary Tax Incentives; (ii) ensure a high degree of transparency in the extractive industries through regular reporting of government's payments to the extractive industries and revenues received from the extractive industries, in compliance with the criteria established by the Extractive Industries Transparency Initiative (EITI); and (iii) establish an Anti-Corruption Commission and ensure that the Commission was operational for at least 12 months leading to the completion point.

2.13 The Liberia Extractive Industries Transparency Initiative (LEITI) was established in May 2008 with membership from the Government, civil society, the private sector and donors. The Government has made remarkable progress with the LEITI since then, with the first full audited report of receipts and payments from extractive industries having been published in February 2009. Liberia was designated an EITI compliant country in October 2009, becoming the first country in Africa, and the second in the World to be validated. The second EITI Report was published in February 2010. The Government now intends to build on the EITI efforts to implement an EITI++ or "value chain" approach to concessions management in the mining, agriculture, and forestry sectors.

2.14 In December 2009, the Government established an independent Anti-Corruption Commission (ACC), consistent with the Anti-corruption Act. Since then, the Commission has forged a number of partnerships with other organizations including the Center for Transparency and Accountability in Liberia, Press Union of Liberia, the General Auditing Commission, and several donors. The efforts of the ACC are in part reflected in the notable improvement in Liberia's ranking on Transparency International's Corruption Perception Index from 150th out of 179 countries in 2007 to 97th out of 180 countries in 2009. Compared to countries in sub-Sahara Africa, Liberia's ranking has improved from 30th out of 47 countries in 2008, to 13th out of 47 countries in 2009.

2.15 In April 2010, the New Investment Act and the Investment Commission Act were approved by the Government and signed by the President. The New Investment Act simplifies and streamlines non-fiscal incentives for new investments mainly by eliminating any discriminatory and discretionary measures. The new Investment Commission which comprises a number of ministries (Finance, Planning, Justice, Commerce and State for Economic Affairs) will provide advice to the Government on investment policy, identify projects, evaluate concessions awards, and assist investors in complying with laws and regulations.

Overall Assessment

2.16 Liberia has satisfactorily implemented eleven out of its twelve completion point triggers and has made substantial progress in implementing the remaining trigger for which it has been granted a waiver by the IMF and World Bank Boards of Directors. Liberia should therefore be granted a HIPC completion point status, and provided with irrevocable debt relief under the enhanced HIPC Initiative. A copy of the joint IMF/World Bank document, "Liberia: Enhanced Heavily Indebted Countries – Completion Point Document and Multilateral Debt Relief Initiative", is attached to this report (Annex 3).

3. Liberia's Debt Stock And Debt Relief Under The HIPC/MDRI

Analysis of Liberia's Debt Stock and HIPC Debt Relief by Creditor

3.1 After a reconciliation of the stock of debt against creditor statements at completion point, Liberia's nominal stock of debt as at end-June 2007, was revised downward to US$ 4,398.7 million from the US$ 4,732.2 million estimated at decision point; and the Present Value (PV) of debt after traditional debt relief[3] revised to US$ 3,038.4 million from US$ 3,144.7 million. The downward revision was due to changes in commercial debt. The breakdown of the debt stock by creditor is presented in Annex 1 and summarized as follows:

- ***Multilateral creditors:*** The nominal debt stock owed to the multilateral creditors at completion point has been revised slightly to US$ 1,615.5 million from US$ 1,614.8 million at decision point. The corresponding PV (after traditional debt relief) has also been revised to US$ 1,576.5 million from US$ 1,575.8 million. The Bank Group's share of the multilateral debt stock remained at US$ 271.3 million in nominal terms, US$ 263.1 million in PV terms.
- ***Paris Club Bilateral Creditors:*** The nominal debt stock owed to Paris Club bilateral creditors at completion point has been revised to US$ 1,420.3 million from US$ 1,413.9 million at decision point, and the PV of the debt stock revised to US$ 952.3 million from US$ 947.5 million.
- ***Non-Paris Club Bilateral Creditors:*** The nominal debt stock owed to other official bilateral creditors remained at US$ 129.0 million but the PV was marginally revised to US$ 105.7 million from US 106.3 million.
- ***Commercial Creditors:*** The nominal debt stock owed to commercial creditors was revised to US$ 1,233.9 million from US$ 1,574.6 million, and the PV revised to US$ 403.9 million from US$ 515.1 million.

3.2 Based on Liberia's revised debt stock at completion point, the PV of debt-to-exports ratio, after traditional debt relief, is estimated at 1,523.1 percent compared to 1,576.4 percent at the decision point. The amount of HIPC debt relief required to bring the PV of debt-to-exports ratio down from 1,523.1 percent to the HIPC threshold of 150 percent has been revised downward from US$ 2,845.5 million to US$ 2,739.2 million. Consequently, the Common Reduction Factor is reduced slightly from 90.5 percent to 90.2 percent.

3.3 Table 1 and Chart 1 below present the breakdown of the HIPC debt relief to Liberia by creditor. The total revised completion point HIPC debt relief from multilateral creditors is estimated at US$ 1,421.2 million in end-June 2007 NPV terms (51.9 percent), followed by US$ 953.8 million (34.8 percent) from bilateral creditors and US$ 364.2 million (13.3 percent) from commercial creditors. The Bank Group's share of the debt relief at

[3] Traditional debt relief mechanism involves debt reduction through the restructuring of debt stock on Paris Club Naples terms which involves a 67 percent reduction in NPV terms of eligible debt and at least comparable action by bilateral creditors.

completion point has been adjusted slightly downward from US$238.1 million at decision point to US$ 237.2 million, equivalent to 16.7 percent of the multilateral debt relief and 8.7 percent of the total debt relief.

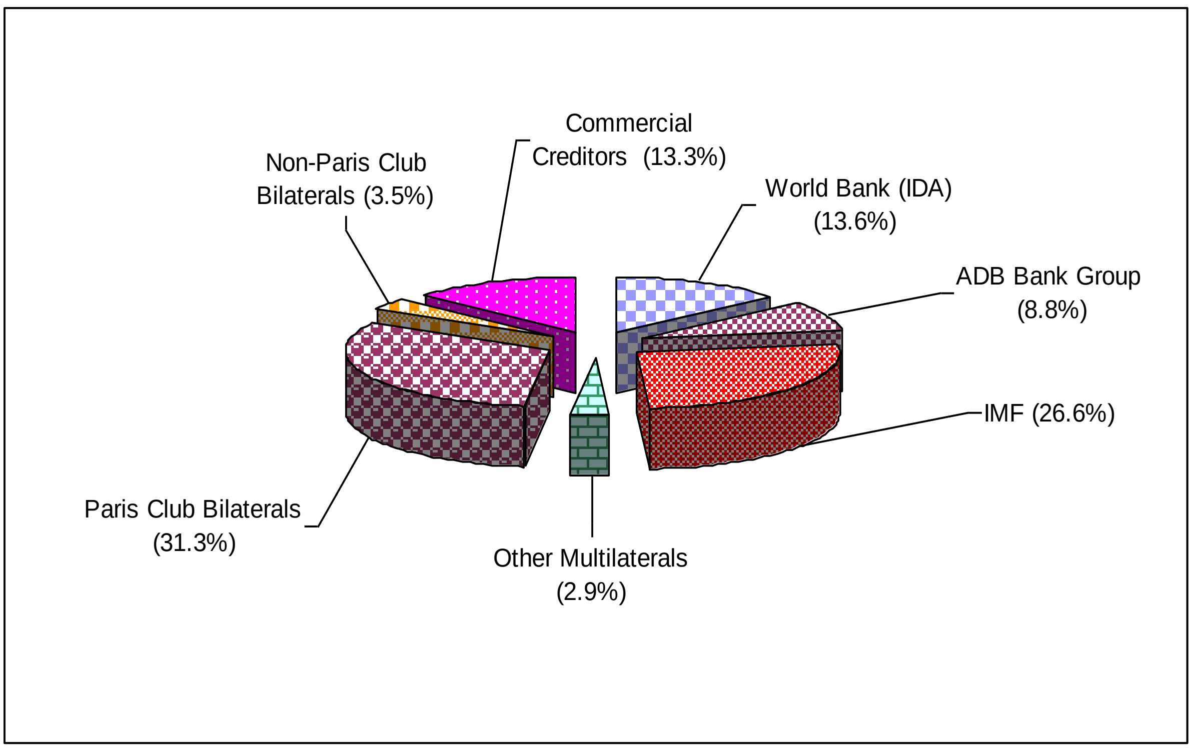
Table 1: Creditor Participation in Liberia's HIPC Debt Relief

(US$ million)

Creditors	Completion Point Debt Relief (end-June 2007 PV)	Percentage of Total Debt Relief from Multilateral Creditors (%)	Percentage of Total Debt Relief from all Creditors (%)
Multilateral Creditors	**1,421.2**	**100.0**	**51.9**
AfDB	***237.2***	***16.7***	***8.8***
World Bank (IDA)	*373.6*	*26.3*	*13.6*
IMF	*729.5*	*51.3*	*26.6*
Other Multilaterals	*80.4*	*5.7*	*2.9*
Bilateral Creditors	**953.8**		**34.8**
Paris Club	*858.5*		*31.3*
Non-Paris Club	*95.3*		*3.5*
Commercial Creditors	**364.2**		**13.3**
Total HIPC Debt Relief	**2739.2**		**100.0**

Figure 1: Distribution of Liberia's HIPC Debt Relief by Creditor Group

(percent)



Sources: *IDA/IMF: Liberia – Enhanced Heavily Indebted Poor Countries (HIPC) Initiative: Completion Point Document and Multilateral Debt Relief Initiative (MDRI), June 9, 2010.*

Interim HIPC Debt Relief and Creditor Participation at Completion Point

3.4 Out of the respective amounts of debt relief shown in Table 1, the Bank Group and IDA have fully provided their share of HIPC debt relief through the grant element component embedded in the clearance of Liberia's arrears to these institutions (amounting to US$ 240.2 million and US$ 373.6 million in end-June 2007 PV terms, from the Bank Group and IDA respectively). In addition, the Bank Group extended the coverage of its debt relief to debt service payments falling due in 2008 and 2009 amounting to an additional debt relief of US$ 6.4 million in end-June 2007 terms. The Boards of Directors recall that the total resources mobilized by the Bank Group to support Liberia's arrears clearance in 2007 exceeded the amount needed for the operation, enabling the Bank Group to provide the additional debt relief.[4]

3.5 The IMF has delivered US$ 8.4 million of its HIPC debt relief through the concessional element associated with the disbursement of Extended Credit Facility loan following Liberia's arrears clearance to the IMF. Other multilateral creditors have also provided interim debt relief through various modalities (such as concessional debt rescheduling/restructuring and cancellation of arrears and debt service payments).[5]

3.6 The Paris Club bilateral creditors have delivered HIPC debt relief assistance estimated at US$ 18.78 million, in end-June 2007 PV terms, through a flow rescheduling on Cologne terms agreed to in April 2008. Some creditors have provided additional debt relief beyond the HIPC Initiative estimated at US$ 474 million in end-June 2007 PV terms. A number of Paris Club creditors have also indicated that they would provide additional debt relief at completion point under voluntary bilateral initiatives beyond the HIPC Initiative through 100 percent stock-of–debt cancellation of all, or part of, their outstanding claims. The additional relief is estimated at about US$ 40 million in end-June 2009 PV terms.

3.7 Liberia has also benefited from notable debt relief engagement by non-Paris Club bilateral creditors. In early 2007, China cancelled 100 percent of its outstanding claims due before December 31, 2005, amounting to US$ 12.2 million in nominal terms, equivalent to 95 percent of China's expected debt relief estimated at decision point. Non-Paris Club bilateral creditors are expected to provide completion point relief on HIPC-eligible debt on terms comparable to those of the Paris Club.

3.8 In April 2009, Liberia successfully concluded a buy-back operation supported by IDA's Debt Reduction Facility. About 97 percent of the total commercial claims estimated at US$ 1,234 million in nominal values as of end-June 2007 were liquidated through the buy-back operation.

[4] African Development Bank: *Liberia: Proposal for Arrears Clearance under the Arrears Clearance Programme and Post Conflict Country Facility;* ADB/ BD/WP/20007/153 - ADF/BD/WP/20007/123, 17 December 2007 and ADB/ BD/WP/20007/153/Add.2/Rev.1 - ADF/BD/WP/20007/123,/Add.2/Rev.1, 19 December 2008. See also *Liberia; Decision Point Document Under the Enhanced HIPC Initiative;* ADB/BD/WP/2008/93 - ADF/BD/WP/2008/52, 20 June 2008

[5] These include the Arab Bank of Economic Development in Africa, US$ 7 million; European Union, US$ 5 million; the European Investment Bank, US$ 3 million; and the OPEC Fund for International Development, US$ 6.9 million, all in end-June 2007 PV terms.

Consideration for Additional HIPC Debt Relief (Topping-Up)

3.9 As of end-June 2009, after full delivery of the assistance committed at decision point, the PV of debt-to-exports ratio was reduced to 69.1 percent from 89.9 percent projected at decision point. The reduction in the PV of debt-to-exports ratio was mainly due to stronger than anticipated exports and lower than expected new borrowings. After additional bilateral debt relief beyond the HIPC Initiative, the PV of debt-to-exports ratio would be further reduced to 62.6 percent. As the PV of debt-to-exports ratio of 69.1 percent at end-June 2009 is below the 150 percent threshold for consideration of topping-up under the HIPC Initiative, Liberia does not qualify for additional debt relief (topping-up).

Debt Relief under the Multilateral Debt Relief Initiative (MDRI)

3.10 With the approval of Liberia's completion point under the enhanced HIPC Initiative and the associated debt relief, Liberia would qualify for additional debt relief from the Bank Group, IDA and IMF under the MDRI. In addition, the EU Special Debt Relief Initiative will provide debt relief to Liberia on EU loans that are still outstanding after HIPC assistance. MDRI debt relief would save Liberia US$ 258.09 million in debt service over a period of 33 years on debt owed to these institutions. The MDRI debt relief would be provided in accordance with the specific implementation modalities adopted by each institution:

- The ADF would provide Liberia with a UA 13.23 million, nominal terms, (US$ 19.56 million)[6] of debt relief under the MDRI, based on debt disbursed as of December 31, 2004 and still outstanding on June 30 2010. This would result in the full cancellation of Liberia's post-completion-point repayment to the Bank Group, with the exception of remaining Nigerian Trust Fund claims of US$ 7.7 million (nominal terms) as at end-June 2010.
- IDA would provide US$ 66.9 million (nominal terms) of debt relief, under the MDRI, by canceling Liberia's debt service obligations for credits disbursed before end-2003 and still outstanding at end-June 2010. This would result in the full cancellation of remaining IDA credits after HIPC relief.
- The IMF would provide about SDR 117.4 million, nominal terms, (US$ 173.62 million)[7] of MDRI-type debt relief to Liberia.
- The EU will provide additional US$ 0.9 million (nominal terms) of debt relief to Liberia through the Special Debt Relief Initiative.

[6] The exchange rate as at 30 June 2010 is UA 1.0 = US$ 1.4789
[7] The exchange rate as at 30 June 2010 is SDR 1.0 = US$ 1.4789.

4. Debt Sustainability After HIPC/MDRI Assistance

4.1 The medium-to-long term sustainability of Liberia's debt (2009/2010–2029/2030) is analyzed under a macroeconomic framework under the Extended Credit Facility arrangement. The key assumptions include:

(i) An accelerated GDP growth to over 8 percent in 2011-1012 when large mining investments step-up their production. After this, the GDP growth is projected to decline and stabilize at 5 percent for the remaining projection period;

(ii) Inflation as measured by the GDP deflator in local currency expected to decelerate from 9 percent in 2009 to 5 percent in 2011 and stabilize afterwards at 4 percent;

(iii) Exports projected to grow by 12 percent annually during 2010/2011-2012/2013 as iron ore exports re-start. Thereafter, the export growth rate is expected to stabilize at 7 percent annually;

(iv) Imports growth projected to average 10 percent for the period 2010/2011-2012/2013 due to the construction phase of the iron ore mining projects, and then slow down to about 3 percent;

(v) Current account deficit to widen during the construction phase of the mining projects. However, at the conclusion of the investment phase of the projects, the current account would improve from a deficit of 50 percent of GDP in 2010/2011-2012/2013 and stabilize at 20 percent afterwards;

(vi) Tax revenues projected to decline to 21 percent of GDP in 2010/2011 due to the introduction of reduced tax rates and remain stable afterwards;

(vii) Nominal external concessional borrowing assumed at 2 percent of GDP in 2010/2011, rising to 5 percent of GDP in 2013/2014 largely on account of a backlog of infrastructure projects, gradually declining to 2 percent of GDP by 2022/2023, and remaining at this level until the end of the projection period. All financing assumed to be on IDA equivalent terms. Primary fiscal balance to move into a deficit position after the completion point basically reflecting the borrowing pattern; and

(viii) External grants projected to decline from 50 percent of GDP in 2010/2011 to about 30 percent of GDP in 2015/2016, and then stabilize at 20 percent of GDP in 2023/2024.

4.2 Within the macroeconomic framework discussed above, after full delivery of HIPC/MDRI debt relief at completion point and additional bilateral debt relief beyond HIPC, Liberia's external public debt would be reduced considerably and all external debt indicators would improve significantly. The PV of debt-to-exports ratio would fall from 286.7 percent at end-June 2010 to an average of 23.7 percent over a five-year period until end-June 2015, then rise slightly to 25.4 percent through end-June 2020 and 27.5 percent thereafter through end-June 2030, mainly due to new borrowings. Similarly, the PV of debt-to-GDP ratio would decline from 175.2 percent at end-June 2010 to an average of about 13.7 percent over a five-year period through end-June 2015, followed by a slight increase to 14.2 until 2020 and further increase to 16.8 percent over a ten-year period thereafter (through end-June 2030). The PV of debt-to-revenue ratio would decline from 569.2

percent at end-June 2010 to an average of 48.6 percent over the following five years and rise to 56.6 percent over the period end-June 2015-2020, and 67.3 percent through end-June 2030.

4.3 Liberia's debt service ratios would increase through 2015 as a result of bilateral agreements with Paris Club creditors, and decline thereafter. Debt service-to-exports ratio would increase from 0.9 percent at end-June 2010 to an average of 2.9 percent over the following five years through end-June 2015 and thereafter decline to 1.1 percent and 0.71 over a period of five years (through end-June 2020) and ten years (through end-June 2030), respectively. Similarly, debt service-to-revenue ratio would increase from 2.0 percent at end-June 2010 to an average of 6.3 percent through end-June 2015 and decline thereafter to 2.6 percent until end-June 2020 and average at 1.8 percent through end-June 2030.

Sensitivity Analysis and Long-Term Debt Sustainability

4.4 The sensitivity of Liberia's debt sustainability is analyzed under three alternative scenarios: (1) *Lower GDP Growth*: This assumes an average GDP growth which is 25 percent lower than that in the baseline. Real GDP growth averages 5 percent from 2010-2017, and 3.5 percent from 2015 onwards; (2) *Terms of Trade Shock – Lower Export Prices:* This assumes a 20 percent reduction in prices of the main export goods; and (3) *Lower Concessionality:* This assumes that the concessionality of new debt is 35 percent, which is 15 percentage points lower than in the baseline scenario of 50 percent concessionality.

(i) Under the alternative scenario of lower GDP growth, the PV of debt-to-exports ratio would increase slightly, reaching 29.4 by 2029/30, 1.9 percentage points higher than the baseline scenario. The PV of debt-to-GDP and PV of debt-to-revenue ratios would exceed the levels in the baseline scenario by an average of 1.8 and 3.6 percentage points, respectively, in the medium term, and 3.8 and 9.6 percentage points, respectively, during the period 2020-2030. Over the projected period, the debt-service-to-exports ratio would increase marginally compared to the baseline scenario, while the ratio of debt service-to-revenue would on the average increase by 0.3 percentage points.

(ii) Under the alternative scenario of lower export prices, all ratios of the PV of debt would increase over the medium and long term projections compared to the baseline scenario, but would not cross the HIPC thresholds. The PV of debt-to-exports ratio would increase by 5 percentage points during the period 2010-2019, and by 5.6 percentage points during the period 2020-2030. The debt service-to-exports ratio would increase by an average of 0.4 percentage points over the projected period. The PV of debt-to-revenue ratio would reach 62.8 percent in 2030, but still below the HIPC threshold.

(iii) Under the alternative scenario of lower concessionality of new debts, the high interest costs for the new borrowings would lead to a deterioration of all debt ratios. The PV of debt-to-exports ratio would reach 31.4 percent in 2030, 4.4 percentage points higher than the baseline scenario. Similarly, debt service-to-revenue ratio would average 0.3 percentage points higher over the long-term.

4.5 The results of the sensitivity analysis clearly show that Liberia would remain vulnerable to a number of adverse shocks, in particular lower exports and higher borrowing costs. To ensure that new debt ratios remain below the HIPC thresholds, it will be crucial to sustain high export levels, diversify its economy and continue to access highly concessional resources.

5. Bank Group's Contribution To Liberia's Poverty Reduction Strategy

5.1 After accumulating arrears on its debt repayments to the Bank Group, Liberia was placed under sanctions in 1984. The prolonged suspension of operations led to the cancellation of the entire Bank Group portfolio. In 2005, the Bank Group started working towards the resumption of normal operational activities in Liberia and maintained a close dialogue with the country on arrears clearance. Prior to that, the government of Liberia was making monthly token payments of US$ 15,000 towards its arrears with the Bank Group. In October 2006, the Liberia Country Dialogue paper, focusing on arrears clearance, institutional capacity building and infrastructure rehabilitation, was approved by the Board. Liberia's arrears to the Bank Group were cleared in December 2007, through a tripartite financing arrangement between Liberia, donors, and the Bank Group. The Bank Group's share of the arrears was 69.3 percent, financed through the Post-Conflict Country Facility; donors' share was 29.7 percent; and Liberia's share was limited to one percent due to its financial circumstances. The Bank Group normalized its relations with Liberia after the arrears clearance operation.

5.2 In September 2007, a World Bank and AfDB Joint Interim Strategy Note (JISN) was approved for the country. The Bank Group's support under the JISN focused on infrastructure rehabilitation, notably roads and water and sanitation facilities; improving governance and economic management; and support to the private sector. The JISN ended in June 2008 and was replaced by the AfDB/World Bank Joint Country Assistance Strategy (JAS) 2008-2011. The JAS focuses on two strategic themes: (i) Rebuilding core state functions and institutions; (ii) Jump-starting and facilitating pro-poor economic growth through improved access to key social and economic services. These themes are fully aligned to Pillars II, III, and IV of the Government's Poverty Reduction Strategy (April 2008 – June 2011). Capacity development, gender mainstreaming and environment are important cross-cutting elements of the strategy.

5.3 *Rebuilding core state functions and institutions:* The joint Bank Group/World Bank work focuses specifically on strengthening the core public financial management system as well as reforming and modernizing the civil service. Since 2009, the Bank Group has approved operations worth UA 18.4 million to support governance reforms and poverty reduction programs through budget support operation (Public Financial Management Reform Support Programme I) and technical assistance in various areas including support to the Liberia Extractive Industries Transparency Initiative (LEITI) Secretariat for 2009-2011 to improve government accounting and reporting standards; financing a study on revenue modernization; and providing support for debt management capacity building efforts, including legal support against vulture funds.

5.4 ***Jump-starting and facilitating pro-poor economic growth:*** The Bank Group supports this strategic objective by prioritizing investments that promote improved access to key infrastructure services (including transport, water and sanitation, energy and community infrastructure); enhance agricultural productivity and food security; promote effective management of natural resources (forestry and extractive industries); improve business and investment climate; and increase employment opportunities. Specific Bank Group interventions include:

- Infrastructure rehabilitation projects focusing on water and sanitation (UA 31.9 million). After completion of the water and sanitation projects, 50 percent of the 1.16 million population of Monrovia and 75 percent of the population in Buchanan, Kakata and Zwedru would be provided with safe, adequate and reliable water supply services at affordable prices.
- Agriculture sector rehabilitation project (UA 12.5 million) designed to facilitate pro-poor growth by increasing agricultural productivity and income of small and medium scale farmers through the rehabilitation and reconstruction of: (a) rural feeder roads; (b) storage, processing and marketing facilities; (c) water management/irrigation infrastructure for swamp rice cultivation; and (d) increased extension and input support for agricultural production, particularly, rice and vegetables. About 9,610 household are to benefit directly from the direct project. The main project benefits include: an increase in household incomes from US$ 350 to US$ 1,730; creation of jobs equivalent to 498,800 person days; 10 percent increase in rice production; 15 percent reduction in post-harvest losses. A significant percentage of the beneficiaries are women. The project would also improve the functionality of community based groups.
- Supporting Liberia's growth and competitiveness through an improved business and investment climate. This is done through lines of credit and/or equity, and technical assistance from trust funds. The Bank Group's equity investment in Access Bank Liberia, the technical assistance grant from the Fund for African Private Sector Assistance (UA 0.64 million) and the loan of UA 3.4 million to the Liberia Bank for Development and Industry to increase access to commercial and investment banking, are examples of the Bank Group's efforts to support the private sector in Liberia.

5.5 A regional project (ECOWAS Wide Area Network) aimed at improving connectivity amongst the ECOWAS countries is being prepared, and work is underway to include Liberia in the WAMZ Payment System Project. Also, the Bank has launched the preparation of a strategy to support regional integration in West Africa. Furthermore, funding from the Canadian Trust Fund has just been approved to prepare a prioritized infrastructure action plan for Liberia and other neighboring countries, with a view to maximizing the benefits of regional integration.

5.6 Analytical work includes studies in the water sector, the development of a Water Sector Reform Strategy and Action Plan, and a Public Expenditure Management and Financial Accountability Review. Studies on the transition to a revenue administration, infrastructure development, and regional integration are also being carried out.

5.7 With the bulk of its operations approved in 2009, the Bank Group portfolio in Liberia (Annex 2) is quite young and is primarily focused on the rehabilitation and reconstruction of basic and rural infrastructure (58 percent), governance and capacity building (22 percent) and agriculture rehabilitation (15 percent). The overall disbursement rate as at mid-August 2010 stood at 30.2 percent.

6. Recommendations

6.1 With Liberia having reached its completion point, it is proposed that the Bank Group provide the country an irrevocable debt relief of US$ 237.2 million in end-June 2007 PV terms under the enhanced HIPC Initiative. Specifically, the Boards of Directors are invited to:

(i) take note of the justification for Liberia reaching its completion point under the enhanced HIPC Initiative and thus qualifying for irrevocable debt relief under the initiative;

(ii) approve the completion point debt relief of US$ 237.2 million, in end-June 2007 PV terms, for Liberia;

(iii) take note that the proposed HIPC debt relief has already been fully delivered in the form of arrears clearance operation amounting to US$ 240.2 million;

(iv) take note that the Bank Group has also extended its debt relief coverage to debt service payments falling due in 2008 and 2009 (i.e. beyond the cut-off point of end-June 2007 that marked Liberia's decision point) amounting to an additional debt relief of US$ 6.4 million in end-June 2007 terms;

(v) approve Liberia's qualification for debt relief under MDRI as outlined in section III; and

(vi) approve debt relief for Liberia under the MDRI.

Annex 1: Liberia: Nominal Debt Stock and Present Value of External Debt by Creditor as of end-June 2007

(In millions of US dollars)

Creditor Group	Nominal Debt Stock		PV of Debt after Traditional Debt Relief	
	At Decision Point	**Revised at Completion Point**	**At Decision Point**	**Revised at Completion Point**
Multilateral	**1614.8**	**1615.5**	**1575.8**	**1576.5**
World Bank/IDA	*442.6*	*442.3*	*414.6*	*414.4*
IMF	*809.2*	*809.2*	*809.2*	*809.2*
African Development Bank Group	*271.3*	*271.3*	*263.1*	*263.1*
Other Multilaterals	*91.7*	*92.7*	*88.9*	*89.8*
Paris Club Bilateral	**1413.9**	**1420.3**	**947.5**	**952.3**
Non-Paris Club Bilateral	**129.0**	**129.0**	**106.3**	**105.7**
Commercial	**1574.6**	**1233.9**	**515.1**	**403.9**
TOTAL	**4732.2**	**4398.7**	**3144.7**	**3038.4**

Source: *IDA/IMF: Liberia – Enhanced Heavily Indebted Poor Countries (HIPC) Initiative: Completion Point Document and Multilateral Debt Relief Initiative (MDRI), June 9, 2010. p. 30*

Annex 2: Bank Group Portfolio in Liberia as at mid-August 2010

Sector and Project Name	**Approval Date**	**Amount Approved (UAm)**	**Amount Disbursed (UAm)**	**Disb. Ratio (%)**
Infrastructure				
Liberia Water Supply & Sanitation	19.05.2010	25.20	0.00	0.0
Liberia Water Sector Reform	13.01.2009	1.43	0.89	61.9
Monrovia & 3 Towns Water Supply and Sanitation	17.01.2008	1.28	0.84	65.1
Monrovia Water Supply and Sanitation Rehabilitation*	11.11.2007	4.00	1.10	28.0
		31.91	**2.83**	**8.9**
Multisector/Governance				
ISP for Economic Management. & Good Governance	27.10.2006	3.00	1.52	50.5
Poverty Reduction Support Loan (PFM)	22.12.2008	12.00	12.00	100
Public Financial Management Reform Support Program	27.05.2009	3.38	3.38	100
		18.38	**16.90**	**91.9**
Social sector				
Labor-based Public Works Project	18.12.2007	15.24	3.84	25.1
Emergency Assistance to Control Caterpillar	22.05.2009	0.66	[0.66]	100
		15.90	**4.45**	**28.3**
Agriculture				
Agriculture Sector Rehabilitation Project*	29.04.2009	6.50	0.24	3.7
Agriculture Sector Rehabilitation Project	24.03.2010	6.00	0.00	0.0
		12.50	**0.24**	**1.9**
Private Sector				
Liberia Bank for dev. & Investment	10.06.2009	3.29	0.00	0.0
Technical Assistance for Access Bank	05.11.2008	0.66	0.46	70.0
		3.95	**0.46**	**11.6**
TOTAL		**82.64**	**24.93**	**30.2**

Notes: ** This project is financed by the DIFD and managed by the Bank Group.*

Annex 3: IMF/ World Bank HIPC Completion Point Document for Liberia

http://siteresources.worldbank.org/INTDEBTDEPT/CompletionPointDocuments/22668580/LiberiaCompletionPoint.pdf