



FACT SHEET **Liberia's Debt** October 2006

Africa's 'first republic' has returned to democratic rule after two decades of dictatorship and civil war. There is much hope that Liberia's newly elected president, Ellen Johnson-Sirleaf, will restore stability to Liberia. But the country's economy faces many challenges, first among them an illegitimate and unsustainable debt burden.

Years of civil war have had a devastating impact on Liberia's population over the last decade. A recent United Nations human development report on Liberia found that **more than three quarters of the population lives on less than \$1 day, while the unemployment rate is as high as 85 percent.** Life expectancy is less than 50 years and only slightly more than a third of the population is literate. At least eight percent of the population is infected with HIV/AIDS. According to the UN's human development index, Liberia ranks as among the most impoverished countries in the world.



Recent History

Liberia's recent history is one of brutal leaders and civil conflict. Civil war broke out in 1989 after Charles Taylor took power and lasted for 14 years in two distinct phases of fighting. It is estimated that the conflict killed 270,000 people and displaced almost one million Liberians. Human rights groups documented the forced recruitment of child soldiers who were made to carry out massacres at the behest of Taylor's army. The country currently faces the aftermath of war with badly damaged infrastructure, including limited or no access to clean water or electricity for the majority of the population.

Despite a conflict-ridden past and enormous challenges,, the people of Liberia are moving forward with hope and determination. Africa's first woman president, Johnson-Sirleaf, and her new administration recently established an emergency power grid to enable hospitals to have electricity and to provide a handful of streetlights for a small area in the capital city of Monrovia. The international community is rallying around Johnson-Sirleaf's administration, with promises of aid and other support to her administration.

Liberia's Ballooning Debt

Unfortunately, the new government inherits not only a war-ravaged country, but an economy hamstrung by an enormous, unjust, and unpayable debt burden. **Liberia's external debt stands at \$3.7 billion, a sum which represents almost eight times the country's annual GDP.** During the years of civil war, debt servicing was all but abandoned, resulting in ballooning arrears which now comprise most of the debt burden. **Creditors expect Liberia to begin servicing its debts at a cost of \$80-100 million per year. Since Liberia's annual government budget stands at \$80 million fully servicing these debts means that the country's entire budget would have to be given over to debt service.**

Much of Liberia's current external debt is comprised of arrears -- interest and penalties accumulated due to non-payment of past debt service obligations. Both new debts and arrears

accumulated over the last twenty-six years, beginning with the autocratic regime of Samuel Doe from 1980-1989. Doe was lent money by the United States and other G-8 (Group of 8) rich countries in exchange for the country's support of US efforts against Libya's Momar Qaddafi in the 1980s. When Charles Taylor took power in 1989, he continued to rack up debt to rich country creditors and international financial institutions. Meanwhile his government failed to make payments on existing debt, resulting in further arrears. **It is estimated that Liberia's arrears to the International Monetary Fund (IMF) and World Bank alone amount to around \$1.5 billion.**

The debts and subsequent arrears contracted by Doe and Taylor should be classified as odious and illegitimate, as the monies loaned to these unaccountable dictatorial regimes were clearly not used for the benefit of the Liberian people. The people of Liberia should not be held responsible for interest and penalties resulting from the mismanagement of debts contracted by past autocratic and brutal regimes.

Debt Today

In recognition of the severity of Liberia's debt crisis, the IMF and World Bank include the country in their debt relief program (the Heavily Indebted Poor Country or HIPC Initiative). **However, under the terms of the IMF and World Bank's HIPC program, Liberia is expected to pay the institutions its arrears in full, before obtaining any access to partial debt relief or full cancellation.**

Given the desperate needs of Liberia's people, especially in the areas of education and health services, international financial institutions should take immediate action to cancel Liberia's odious debt, without first demanding the payment of illegitimate arrears. The country's debt now stands at almost \$3.7 billion and counting. At this rate, over 40% of all export earnings would be required to service the debt, in a country where the average annual income is \$83.

Liberia, as it stands simply cannot pay this debt. We just have to look it right in the eye and say so. This is the reality. We urge the international community to take the right steps and to cancel this debt.

**- George W. Wallace, Jr.,
Liberian Minister for Int'l
Cooperation & Foreign
Affairs**

Debt Relief Works

The last decade of impoverished country experience with debt relief has shown that release of these in-country resources spurs social sector spending. The UN has identified that such social sector investments are urgently needed for Liberia to prevent a back-slide into conflict. Debt relief granted in 2006 has allowed Zambia to hire 4,500 new teachers and abolish fees for rural healthcare. In Ghana, the money saved is being used for basic infrastructure, including rural feeder roads, as well as increased expenditure on education and health care. Equivalent support for social services is desperately needed in Liberia.

Demanding that the new Liberian government pay off illegitimate and odious arrears to international financial institutions before it can be considered for debt cancellation is not acceptable. The UN has determined that what Liberia requires most is national capacity building -- a goal that would not be served by draining the government's budget for years to come at the behest of servicing illegitimate debts and arrears. The IMF and World Bank should immediately and completely cancel Liberia's debt, without imposing harmful economic conditions.

For more information, and to take action, see: www.jubileusa.org.

Sources: World Bank, International Monetary Fund, United Nations, Afrodad, Eurodad, Foreign Policy in Focus