Remarks by H.E. President Ellen Johnson Sirleaf
At ILO-IMF Conference on "Challenges of Growth, Employment And Social Cohesion"
Oslo, Norway, September 13, 2010

Prime Minister Stoltenberg;
Prime Minister Zapatero;
Prime Minister Papandreou;
ILO Director-General Somavia;
IMF Managing Director Strauss-Kahn;
Participants;
Ladies and Gentlemen:

Thank you, Dominique and Juan, for inviting me to address this gathering, and for the opportunity to meet old friends.

It was important for me to travel the long distance to participate in this Conference because of the issues it addresses: growth, employment and social cohesion – all critical for a country that experienced 133 years of marginalization, exclusion and growth without development; 10 years of instability and 14 years of conflict; a country where, even today, with an economy averaging a rate of 6.7 percent in four years of post-war growth, we still are coping with massive unemployment and a people still struggling for a sense of its national identity, a legacy of its history.

I would like to share with you today the story of how a small, open, post-conflict country like Liberia, whose basic institutions are still a work in progress, weathered the global financial crisis.

Whatever you may have read in the *Financial Times* about appropriate government responses to the crisis, whatever you may have thought governments ought to have done, had you come to join my team in Liberia, you would have had to throw most of those ideas out of the window.

You might have urged our Central Bank to lower interest rates and buy up securities, in order to provide a monetary stimulus and a relief to the banking system. In Liberia, we couldn't do that. Most of the currency in circulation is U.S. dollars, over which our Central Bank has little control.

You might have urged our National Legislature to pass a fiscal stimulus package, so as to pick up the spending where private consumption and investment faltered. In Liberia, we couldn't do that either. While we were in the process of qualifying for HIPC debt relief, our Finance Ministry was tied to a cash budget and so could not enter into deficit.

There is some good news, however. Our banks were relatively insulated from the crisis because of their conservative balance sheets and their weak links to major financial centers like London or New York.

There is also some bad news. Our real economy felt the shocks. The price of rubber, our main export, dropped by 61 percent. Jobs were lost and new job creation stalled. Remittances – the primary source of purchasing power, investments, and insurance for many Liberians

– declined by 59 percent from 2008 to 2009. Planned investments were shelved; projects already in motion stagnated; and we found it hard to bring in new investors at terms fair to our people.

In response, we changed the composition of our public spending and taxes to alleviate the burden of the crisis on our citizens. We reduced personal and corporate income tax rates by nearly 30 percent. We set aside the tariff on imported rice because it represents a critical element for peace.

We removed tariffs on agricultural inputs and targeted agricultural subsidies with an eye on developing the high-potential cocoa and fisheries sectors. We sought legislative approval for a guarantee fund to support risk management for Liberian businesses. We raised the minimum wage of civil servants. We also conducted robust dialogue with our donors, who contributed immensely with timely disbursement of aid funds and invaluable policy advice.

We improved the business environment through lower corporate tax rates and incentives for SMEs (such as the quick profit turn-around). We introduced more competition into the market for cement, which helped to stimulate a construction boom. We eliminated a monopoly on rice imports to make food more affordable to our people. And we lubricated the gears of trade by agreeing to a public-private partnership that will promote investment and efficiency at the Freeport of Monrovia, our main port.

With our innovative policy reforms, we created a stimulus that we were not able to afford using typical monetary or fiscal policy.

In addition, while we did not have many of the fiscal and monetary policy tools of richer countries, we did our best to turn the crisis into an opportunity – an opportunity to implement much-needed reforms. Thus, we worked overtime to achieve completion point under the HIPC initiative, and are pleased that we met all requirements by June of this year. We head to Paris a few days from now, on the 17th, when we hope for the support to complete the process. Liberia's balance sheet can then inspire confidence for new investment projects.

And so, while the fall in investment, remittances, and exports was applying the brakes on our economy, our reforms helped to make Liberia more attractive and more stable for new investment, which has totaled US$7.7 billion so far for this year. While our growth in GDP contracted from 9 percent in 2007 and 2008 to 4.5 percent last year, we escaped recession and kept inflation at an average 10 percent. Our recovery could and did continue.

So, in Liberia we breathe a collective sigh of relief that the global financial crisis did not hit us as hard as it might have. We are already busy implementing further reforms that will allow for more rapid growth of our financial sector, faster investment in public infrastructure, and new opportunities for exports.

We thus tread carefully into the future, optimistic that our reforms will continue to propel us forward. But we are cognizant that those very reforms, by liberalizing our economy further, leave us more vulnerable to the capricious global economic winds that blow from New York or New Delhi or Moscow to our remotest village.

This is the Liberia story that I want to share with this audience, and I thank you.

Talking Points for Discussion

Major challenges faced by Liberia

- Short-term challenges to steer through the turbulence: Provision of food, fuel, agricultural inputs and jobs
- Long-term challenges: Consolidation of reforms, building state and private sector capacities, promoting good governance and rule of law

What was the focus of government policy before the crisis?

- Rebuilding state infrastructure;
- Rehabilitation of basic services
- Introduction of institutional reforms;
- Reintegration of ex-combatants;
- International negotiations (concessions, HIPC, etc.)

On why monetary policy with the Liberian dollar would not have been effective:

Our latitude in using Liberian dollar sales to stimulate the economy was limited by a strict set of targets on reserve accumulation that we had agreed to with the IMF in order to meet the conditions required for HIPC debt relief.

Effects on exports:

As rubber occupies a large share in our total export basket, the total value of our exports dropped from US$242 million in 2008 to US$152 million in 2009.

Specific fiscal policies:

Lower tax rate on personal and corporate income from 35% to 25% (a 28.6% decline in the tax rate). Tariff on imported rice of $2.10 was dropped, foregoing major revenue. Rice Stabilization Fund purchased $750,000 of paddy rice; Doubling budget of the MOA to accelerate implementation of PRS deliverables and respond to the crisis.

Other measures:

- Encouraging labor-intensive construction activities;
- Review of policies such as Procurement Law, to fast-track fund utilization;
- Appointed Special Commission to investigate the causes and possible response;

• Sensitization of the impact and urging citizens to go back to the soil (by the President);
• Dialogue with the private sector to provide support to the crisis;
• Eliminated monopoly on rice import (opening up the market);
• Developed special presidential package with three goals (reinforcing selected reforms, providing specific budgetary supports, and instituting new policy reforms/adjustment of targeted few goals);
• Firm commitment to reform and coordination of economic policy through Economic Management Team;

Why reforms were necessary:

The state apparatus that my Government inherited in 2006 was deeply flawed. It had been put together by successive governments that were not inclusive enough, during a period in which most governments in Africa wrote laws and regulations that favored incumbents and entrenchment of the status quo. During the civil war in Liberia, which lasted almost two decades, the policies didn't get any better, since the primary goal of those governments was either to broker a fragile peace or consolidate political power.

So, as the global financial crisis was threatening to find its way into our little corner of Africa, we set out to double our speed of reform, in particular in those areas that would help economic recovery as well as to increase the robustness of our people to withstand economic shocks. The urgency of the situation gave us a sense of urgency in our own jobs, and some policy reforms that might have normally taken upwards of a year were able to be approved by the Legislature in a matter of months.

Lessons for other reformers:

Through our actions we learned important lessons for the future:

1. to sequence emergency responses, prioritizing quick-win interventions that at the same time drive recovery in the long term (such as in agriculture and small businesses);
2. that fiscal discipline and sticking to the goals agreed with our donor partners does not always mean that hardship will follow;
3. to maintain strong communication and dialogue with key constituents, including political partners, international partners, domestic businesses and the citizens of Liberia; and
4. to adapt to rather than adopt global responses to the crisis, thus ensuring that our interventions are specific to the context and the particular needs of Liberia.

How crisis relief (reduction in tariffs, subsidies, wage increases, etc) were funded:

Those funds providing relief to Liberian households had to come from somewhere, of course, and, unfortunately, what took the hit was investment. As government spending and foreign aid scrambled to cover relief programs, spending on much-needed infrastructure slowed. And with rubber and iron ore prices falling, existing foreign investors postponed major capital investments, and we found it more difficult to attract new investors on terms that would be favorable to our people in the future.

Reforms for growth make the economy more vulnerable to future global economic shocks:

While reforms lead to growth in our economy, which is still encumbered by red tape and stilted from the ravages of conflict, ironically, they also increase the linkages between it and the global economy. Under normal periods of economic expansion, those linkages are fuel for growth. But in a global financial crisis those linkages can become the gears of recession – turning assets like financial development, export industries, and cross-border contracts into liabilities.

We can seek to layer innovations into our reforms that will increase the resilience of our economy to external shocks, as we did with the specific interventions to ease access to rice in Liberia. But at a fundamental level, the reforms this government has undertaken, although they provide for more rapid and inclusive growth in the present time, can make us more vulnerable to future global economic calamity.

What can be done about the vulnerability that comes with international integration?

We would like to have a stabilization mechanism that puts money away when the prices of our main commodity exports are high, and spends it when the prices are low, so as to enable the government to pursue a self-funded countercyclical fiscal policy. Unfortunately, with major roads still impassable to all but the hardiest of 4x4's, and only half of the year, and with children without access to schools or clinics, we are not at the political moment yet when we can initiate such a fund.

Someday, in the future, Liberia will be prosperous enough that we can use savings collected during periods of plenty (and high iron ore prices) in order to buffer against years of hunger. But that day is not yet here, and neither will it be here until our roads are paved and our schools rebuilt.

What was the nature of the policy advice you received from the international community related to the crisis?

We held a close dialogue with development partners to tap resources to mitigate the crisis. We made specific requests to partners for government budget support. Partners responded with increased focus on prioritization, alignment, coordination, support to critical capacity needs, and reform initiatives. Partners also provided policy advice, including the development of cash flow budget contingency plan to meet potential revenue fall.

What should the international community do to help countries like Liberia who are pursuing international integration?

We are not without fear that the next systemic crisis will hit us harder, precisely because of the measures we took to avert disaster this time around.

Fortunately for countries like Liberia, international institution-builders have created a variety of safety nets. From the IMF's ability to intervene to save financial system to the World Food Programme's role in mitigating hunger emergencies, we have a handful of institutions that serve to reduce the pain of our fluctuating economies. But just as the G20 and others have been pouring thoughts and time into making the global financial system more robust, so must our developmental institutions put the same brainpower to task so that today’s LDCs will not become the hardest-hit victims of the next global recession.