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ACRONYMS AND ABBREVIATIONS

AfDB	*African Development Bank*
AFF	*Agriculture, Forestry and Fisheries (Sector)*
ALCB	*African Local Currency Bond (Fund)*
ASYCUDA	*Automated System for Customs Data*
BCE	*Bureau of Customs and Excise*
BCWG	*Business Climate Working Group*
BER	*Business Environment Reform*
BIVAC	*Bureau of Inspection, Valuation, Assessment and Control, a subsidiary of Bureau Veritas, France*
BSOs	*Business Support Organisations*
CBL	*Central Bank of Liberia*
EFSD	*European Fund for Sustainable Development*
EIP	*European Investment Plan*
EU	*European Union*
EUDEL	*EU Delegation (in Monrovia)*
FDA	*Forestry Development Authority*
FDI	*Foreign Direct Investment*
GDP	*Gross Domestic Product*
IFC	*International Finance Corporation*
IPD	*Import Permit Declaration*
LBBF	*Liberia Better Business Forum*
LBDI	*Liberia Bank for Development and Industry*
LCC	*Liberia Chamber of Commerce*
LDC	*Least Developed Country*
LEDFC	*Liberian Enterprise Development Finance Company*
LIBA	*Liberian Business Association*
LICSIP	*Liberia Cocoa Sector Improvement Programme*
LRA	*Liberia Revenue Authority*
LTA	*Liberia Timber Association*
MoA	*Ministry of Agriculture*
MCC	*Millenium Challenge Corporation*
MFDP	*Ministry of Finance and Development Planning*
MoCI	*Ministry of Commerce and Industry*
MFI	*Micro-Finance Institution*
MSME	*Micro, Small and Medium Enterprise*
NAO	*National Authorizing Officer*
OECD	*Organisation for Economic Cooperation and Development*
PATEL	*Patriotic Entrepreneurs of Liberia*
PAPD	*Pro-poor Agenda for Prosperity and Development*
PIP	*Proposed Investment Programme (of the EIP)*
PPD	*Public-Private Dialogue*

PPP	*Public Private Partnership*
PSI	*Pre-shipment Inspection*
RPAL	*Rubber Planters Association of Liberia*
SIDA	*Swedish International Development Agency*
SME	*Small and Medium Enterprise*
SSA	*Sub-Saharan Africa*
TA	*Technical Assistance*
TFA	*Trade Facilitation Agreement (WTO)*
TPSDE	*Trade and Private Sector Development and Engagement (Facility)*
TWG	*Technical Working Group*
UMIC	*Upper Middle-Income Country*
UN	*United Nations*
UNCTAD	*UN Conference on Trade and Development*
WBG	*World Bank Group*
WTO	*World Trade Organisation*

EXECUTIVE SUMMARY

A fragile state still struggling to overcome the impact of a protracted civil war, Liberia is richly endowed with natural resources. The Agriculture, Forestry and Fisheries sector accounts for over 70% of GDP, but there is little value addition. Conditions for investment are sub-optimal as reflected in a downwards trend in recent years. Trading is the main area of activity for the private sector outside the concessions, reflecting an aversion to the risk of making significant medium to long-term investment, and the fact that banks mainly provide short-term finance to businesses. The conflict drivers which contributed to the civil war are still present and include: economic exclusion, a fragmented society and limited trust in the state. Indeed, the war has not only destroyed the physical and institutional infrastructures; it has also shattered the trust between different segments of society.

It is within this context that the present assignment was set with three main objectives:

(i) to identify the main obstacles to trade and investment;

(ii) to describe the current relations and interactions between the private and public sectors in the country, including the role of private sector organisations; and

(iii) to explore potential platforms for dialogue between Government and the private sector, together with other Development Partners, as foreseen under the External Investment Plan (EIP) – pillar 3, and the Growth & Jobs compact.

On the basis of secondary research and a short questionnaire, the top five constraints limiting investment and trade were identified as: access to finance; electricity; taxes; access to land; and customs and trade regulations. The unpredictability of policy and regulations also came out high as a deterrent to doing business. Other major obstacles underlined by interviewees included scarcity of skilled labour and poor road infrastructure. While the country is underbanked, financial institutions have limited legal means to enforce contracts and debt repayments as property rights are weak. Under the WB Doing Business 2019, the country scores zero for reliability of electricity supply, explaining why most businesses have to rely at high cost on generators. The average company surrenders over 45% of its profits in the form of taxes and contributions. The 2018 Land Act unambiguously restricts rights of ownership to Liberian citizens. Trade facilitation is work in progress as Liberia is in compliance for only 25% of the provisions of the Trade Facilitation Agreement. Despite the introduction of ASYCUDA, physical inspections at ports involve 85% of imports, while pre-shipment inspection seems to be on its way out.

Virulent protests over border procedures, and tough reactions by the authorities, illustrate the tense relation that we found prevailing between the private and public sectors in Liberia. A typology of the private sector underlines its heterogeneity and may partly explain its weak bargaining power. Despite the existence of several private sector organisations, some set up by national legislation, private economic actors feel their voice is totally ignored by a cash-strapped government which continually mines them for additional revenue through new regulations and edicts. The situation calls for a reinstatement of public-private dialogue through a mechanism or platform that would be acceptable to all parties.

Our analysis under the first two objectives brought out three important points:

☐ First, if Liberia really wants to upgrade to an UMIC as per its Vision 2030, it will have to attract massive investment so as to capitalize on its rich natural resources endowment.

☐ Second, the prevailing climate is far from being conducive to investment, trade and doing business. Consequently, Liberia will have to embark on a rigorous plan for business environment reform (BER) to overcome identified impediments to trade and investment.

☐ Third, a major element of that plan must involve restoring trust between the public and private sectors, so that public-private dialogue can resume. This calls for a neutral platform where both sides will be able to relearn how to work together.

An assessment was then made of the merits of three potential platforms: the PAPD's Technical Working Groups (TWGs), the President's Business Climate Working Group (BCWG) and the IFC/SIDA initiated Liberia Better Business Forum (LBBF). According to private sector operators, they are not invited to the TWGs and do not believe their participation would bring about any change. The agenda of the BCWG meeting show that it addresses topical issues of concern to the private sector; the latter feel that it is too much state-driven for them to have real impact. The LBBF is in the making, but will draw on its first version that has a proven track record according to all stakeholders. It has the advantage of being seen as a neutral platform, with discussions informed by research papers. The conditions for the successful operation of such a platform, as expressed by private sector actors, are synthesized in the relevant chapter. Restoring PPD is an essential component of fostering the proper investment climate, as the resulting advocacy will drive necessary reform.

To meet Liberia's investment needs, the EIP could prove to be especially relevant given its three-pronged approach combining funds with technical assistance and support to dialogue. The relevance of some specific EIP programmes related to agriculture and energy were looked into. Nevertheless, for the EIP to be successfully deployed in Liberia, there are a number of pre-requisites, which constitute our recommendations:

1. A Business Environment Reform (BER) plan needs to be developed jointly by the authorities and the private sector, with inputs from development partners under the aegis of the EU;

2. As part of the BER Plan, clearer identification of the potential interventions of the EIP need to be spelt out, with technical assistance as necessary; and

3. The EUDEL should push for the setting up in the immediate future of a credible PPD platform acceptable to all parties; the revived LBBF seems to be such a platform, and the BER Plan could be one of its first assignments.

1 BACKGROUND AND OBJECTIVES OF ASSIGNMENT

1.1 *Background*

1.1.1 The Economic Context

A fragile state struggling to overcome the enduring impact of a long civil war, Liberia is richly endowed with natural resources. With a population of 4.7M (2017, WB) over half of which is concentrated in the capital Monrovia and other urban areas, the country has a total land area of 9.63 M hectares. Agriculture covers some 2.7 M ha or 28% of the total land area. Forests, including the last remnants of the Upper Guinean forest, occupy some 4.15 M hectares (FAO estimates, 2016).

The combined agriculture, forestry, and fisheries sector (AFF) accounts for 70.3% of real GDP (2017), followed by the services sector (around 22.8%), the manufacturing sector (around 5.2%) and the mining and quarrying sector (around 1.7%)[1]. Forestry and rubber concession exports are the drivers of the AFF sector, followed by cassava, rice, and subsistence production. Employment in the agricultural sector accounts for about half of total employment, and 75% of rural employment.

The services sector, comprising trade and hotels, government services, real estate, transport & communication, and construction, has been impacted by the departure of the UN forces. From being the largest component of GDP in 2011 (at an estimated 44%), it now represents 22.8% only. Employment in the sector stood at an estimated 45% of the labour force in 2011, and has now fallen significantly due to reduced donor presence.

The local manufacturing base is narrow, primarily consisting of cement, beverages, and various consumer goods, with a limited impact on output and employment. Expansion of the manufacturing sector is severely constrained by insufficient and prohibitively expensive electricity supply, a shortage of skilled labour, the high cost of mostly imported inputs, and a limited production capacity. It employs an estimated 7% of the labour force.

In essence, Liberia is a typical LDC, heavily dependent on primary commodities with little local value addition. The agricultural sector is still the main source of employment and reflects the dualism of plantation economies, with capital-intensive and relatively high-tech concessions co-existing alongside subsistence informal sector that focuses mainly on food production, with also some cash crop (cocoa, palm oil) production. The EIP can be a valuable instrument in assisting Liberia climb the ladder to become a middle-income county as ambitioned in the Vision 2030 document.

[1] African Economic Outlook 2018, Liberia Country Note, AfDB, 2019

1.1.2 The Socio-political Context

The civil war that destroyed much of Liberia's physical and social infrastructure came to an end with the August 2003 Accra Comprehensive Peace Agreement. After two years of rule by a transitional government, democratic elections in late 2005 brought President Ellen Johnson Sirleaf to power. Re-elected in 2011, she was challenged to rebuild the country and to reconcile a nation still recovering from 14 years of fighting, particularly following the 2014-15 Ebola epidemic. George WEAH won the end 2017 elections and launched his "*Pro-poor Agenda for Prosperity and Development*" (PAPD) upon assuming duty in early 2018.

The PAPD rests on four pillars:

- Power to the People—Empowering Liberians through more equitable provision of opportunities in education, health, youth development, and social protection
- The Economy and Jobs— Ensuring economic stability and job creation through effective resource mobilization and prudent management of economic inclusion
- Sustaining the Peace— Promoting a cohesive society for sustainable development
- Governance and Transparency— An inclusive and accountable public sector

The PAPD also claims to be about building a national identity, eliminating the tendency to split the Liberian identity into Americo-Liberian and Indigenous Africans, while taking into account new cleavages that emerged out of the civil war — between the Diaspora and Liberians who stayed in the country, and between the victims and the perpetrators of violence. Although founded by freed American and Caribbean slaves, Liberia is mostly inhabited by indigenous Africans, with the slaves' descendants making up some 5% of the population but the majority of the better-off, and being perceived as the elite.

According to the 2016 Household Income Survey, 50.9% of Liberians earn less than 1 USD a day, and almost 84% less than 1.25 USD a day. Poverty levels are particularly high in rural areas. Recent depreciations of the Liberian dollar and high inflation have worsened the situation. The Year-on-Year Inflation Rate as measured by the CPI was 23.3 percent in April 2019[2]. Liberia ranks 177 out of 188 countries on UNDPs 2016 Human Development Index. On the inequality adjusted and the gender HDI, Liberia is among the 10 most unequal countries in the world.

[2] CPI Newsletter April 2019, Liberia Institute of Statistics & Geo-Information Services

Those high levels of poverty and the fact and perception of economic and social exclusion are giving rise to severe social tensions. According to the AfDB's latest Country Strategy Paper, the conflict drivers which contributed to the civil war, and which were identified in the 2011 Retrospective Analysis and the Fragility Assessment, are still present. They include: (i) economic exclusion; (ii) a fragmented society; and (iii) limited trust in the state.[3] Access to and control of natural resources largely determine Liberians' feeling of inclusion, with many sharing the perception that the government is biased in favour of concessionaries. There are grievances over the political legitimacy of concession agreements to which local communities and local authorities are rarely party. More broadly, land tenure is a pervasive issue giving rise to national-level disputes (resulting from concessionary agreements), county-level disputes over boundaries, family- and community-level disputes, inter-ethnic disputes, and cross-border disputes (Liberia vs. Cote d'Ivoire, Liberia vs. Guinea)[4].

Indeed, poor capacity and co-ordination, if not outright mismanagement, continue to undermine public confidence in the administration. According to an *Afrobarometer* poll carried out in June 2018, 50% of respondents confessed being compelled to make informal payments to the police or to get public services[5]. Similarly, 56% of firms in the formal sector experienced at least one request for informal payment in 2017 compared to 24% for SSA as a whole (WB Enterprise Survey 2017). Recent international press reports of banknotes disappearance at the Central Bank of Liberia[6] and misuse of donor funds[7] are confirming the general public's perception of institutionalized corrupt practices. Transparency International's Corruption Perception Index for 2018 ranked Liberia 120 out of 180 countries. The country's score has declined from 41 in 2012 to 32 in 2018[8].

If not addressed, those governance issues and the widening economic divide threaten to undermine the brittle fabrics of the Liberian society, as well as peace and stability in the country. In a recent country update, the *Economist Intelligence Unit* warns: "*The risk of a sustained low-level insurgency is rising amid social discontent over poor living standards and corruption*". Given such a background, the need to strengthen governance and to prop the economic machine for growth and job creation becomes compelling. Jobs creation calls for an enabling business environment and investment climate that would allow

[3] Liberia's 2011 Retrospective Analysis and the Fragility Assessment, prepared as part of its pilot status for the New Deal
[4] USAID, Liberia Conflict Vulnerability Assessment, Final Report, May 2016
[5] Reported in "The Economist" of 30th May 2019
[6] "Missing banknotes worth 1bn Liberian dollars spark protests", The Economist, 1st October 2018
[7] "President George Weah faces a slumping economy and protests", The Economist of 30 May 2019
[8] https://www.transparency.org/country/LBR; a score of 0 implies highly corrupt

private sector development and investment. The EIP can certainly be instrumental in this endeavour.

1.2 *Objectives of the Assignment*

Given the context outlined above, the present assignment has three main objectives:

(i) to identify the main obstacles to trade and investment in Liberia, and in particular to the deployment of the EIP;

(ii) to describe the current relations and interactions between the private and public sectors in the country, including the role of private sector organisations; and

(iii) to explore potential platforms for dialogue between Government and the private sector, together with other Development Partners, as foreseen under the External Investment Plan (EIP) – pillar 3, and the Growth & Jobs compact.

The ultimate aim behind those specific objectives is to pinpoint the conditions for a possible deployment of the EIP in Liberia, a fragile state with severe impediments to trade and investment. The recommendations of the mission will also serve to advise the EU Delegation on the potential for a structured dialogue, between government, private sector and the EU among other development partners, such dialogue being premised as a necessary condition for improving the business climate.

The proposed analysis will yield two main outputs:

- an overview of the overall business and investment climate in Liberia, including a listing with prioritization of the principal impediments to trade and investment in Liberia in particular for European businesses; and
- a review of the potential of different consultative platforms for policy dialogue in the country

These outputs can actually serve as inputs to the policy dialogue process that stakeholders are striving to relaunch in a political and economic context that is extremely taxing.

1.3 *Methodology*

A combination of methods has been harnessed to support the analysis on which the findings of this study are derived. These range from primary research through administration of a questionnaire as well as group and individual interviews, to the use of secondary material and a one-day trip interacting with agricultural private sector actors in Nimba county.

Thus, the findings related to the business climate and obstacles to trade and investment are based on secondary research as well as on primary information obtained through interactions with economic operators. The interactions took the form of individual and group interviews, including through the use of a short questionnaire (Annex 1).

The snapshot on the relations between the private and public sectors draws heavily on interviews and focus group discussions with both public officials and private sector actors. The insights of some other development partners present in Liberia have also informed this picture, which takes into account conclusions reached by other reports e.g. the report on the July 2016 meeting of the Liberia Better Business Forum (LBBF).

Besides relying on literature review, the section on consultative platforms has benefited from discussions with the promoters of the revamped LBBF (IFC and SIDA), exchanges with the Ministry of Finance and Development Planning, as well as with private sector actors. A specific section of the questionnaire also focused on this aspect.

The literature review covered inter alia Liberia's WTO accession documents, relevant publications by development partners such as the WBG and AfDB.

1.4 *Structure of Report*

After this initial chapter setting the context of the assignment, chapter 2 of the report delves into the major impediments to trade and investment in Liberia. Chapter 3 provides a snapshot at this point in time of the difficult relations between the private and public sectors in Liberia, while underlying the mutual desire of actors on both sides to improve the relations. A review of potential platforms for improved public-private dialogue is also undertaken. In the light of the preceding analysis, Chapter 4 examines the conditions under which the EIP could be successfully unfolded in Liberia, contributing to private sector development, increased investment and job creation. Chapter 5 summarises the conclusions reached and puts forward recommendations to follow-up on the report.

2 IMPEDIMENTS TO TRADE & INVESTMENT

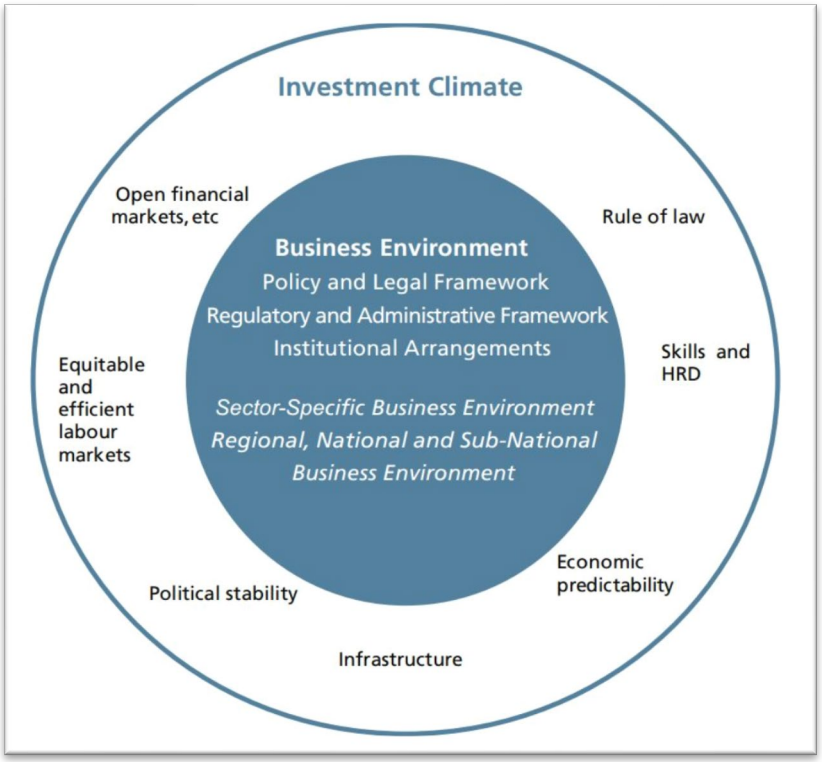
2.1 Introduction

A business-friendly environment facilitates trade and investment. It is essential to private sector development more broadly, and to promoting inclusive economic growth, job creation and poverty reduction. While there is no single accepted definition of the concept of business enabling environment, the one adopted by the *Donor Committee for Enterprise Development* is useful:

> "the enabling environment is a complex of policy, legal, institutional, and regulatory conditions that govern business activities. It is a sub-set of the investment climate and includes the administration and enforcement mechanisms established to implement government policy, as well as the institutional arrangements that influence the way key actors operate". (cf. Fig. 1)

The present chapter examines whether the conditions enabling smooth trade and investment prevail in Liberia, thereby identifying issues that may have to be addressed to ensure the effective deployment of the EIP in the country. After a review of recent investment trends, the main impediments to trade and investment are discussed.

Figure 1: Investment Climate and Business Environment



Source: Reference Document 10 on Trade and Private Sector Policy and Development Support Programmes financed by EU external assistance, EC.

2.2 Recent Investment Trends in Liberia

According to UNCTAD figures[9], investment inflows have been following a downwards trend in Liberia in recent years (see Table 1 below). This is against a background of increased flows to Africa which escaped the global decline in foreign direct investment (FDI) with flows to the continent increasing to US$46 billion in 2018, an increase of 11% on the previous year.

Table 1: FDI Flows (in USD Millions)

	2015	**2016**	**2017**	**2018**
Inward Flows	627	453	248	122
Outwards	30	168	54	84
Announced green field investment	304	23	386	91

This recent trend also stands in stark contrast to FDI performance earlier in the decade. Between 2009 and 2013, Liberia attracted nearly US$3.2 billion in net FDI inflows. Total reported commitments over the period 2006 to 2012 aggregate over US$12 billion, for implementation over the following 20-30 years[10]. Nevertheless, actual as opposed to intended investment would need to be verified as regards these commitments.

Foreign investment in Liberia tends to be very sector-specific and to reflect what the WB has termed as being the "concession approach" of Liberian authorities. Over the past decade, the mining sector has attracted about two-thirds of committed foreign investments, with iron ore receiving some 95 percent. Gold mining is also proving attractive; on January 10, 2019, the Government of Liberia and Hummingbird Resources Inc. signed a 25-year Mineral Development Agreement (MDA) for the development of the largest gold mine in the South-Eastern Region, with a planned investment of over US$250M.

Agriculture is the second-largest sector for new investments, with funds going primarily in palm oil production. The sector continues to attract new investment; early in 2019, the Government of Liberia and Golden-SIFCA signed US$ 34M for the development of an Oil Palm Processing Plant in Maryland County. Overall, commodity sectors (agriculture, mining, and petroleum) account for 95 percent of committed investment.

[9] World Investment Report 2019 – Liberia Country Fact Sheet
[10] UNCTAD figures quoted in WB's LIBERIA DTIS UPDATE, Leveraging Trade for Economic Diversification and Inclusive Growth, September 2015

2.3 Doing Business in Liberia

Investments in the mining and plantation/concessions sectors tend to generate few jobs and do not really spill-over to the rest of the economy through downwards or upwards linkages. Diversification of the destination of investment would contribute to more job and wealth creation. An examination of the ease of doing business in Liberia underlines the challenge ahead in trying to entice the private sector into investing in a broader range of economic activities and sectors in the country. Hereunder we go through the main impediments to trade and investment as disclosed by our interactions with economic operators as well as by the work of other development partners.

According to the WBG Enterprise Surveys (2017), the **top five constraints** faced by Liberian firms are:

- access to finance,
- electricity,
- tax rates,
- access to land, and
- customs & trade regulations[11].

While the sample covered by our questionnaire cannot claim to be representative, these constraints are broadly echoed by replies that we received during our field mission. Unreliable and expensive electricity certainly ranks high, as is poor road infrastructure limiting mobility outside the capital during the rainy season.

However, another additional constraint strongly underlined by our respondents is that of **policy unpredictability**. Economic operators quote cases of changes in law which are not enforced, or of regulations which drop on them unannounced. A recent example is the introduction of a compulsory cargo tracking system that seems to duplicate pre-shipment inspection arrangements[12]. Other examples include the non-advertised conditions behind recent changes to duration of residence permits and the prevailing confusion regarding Import Permit Declarations (IPD).

Dearth of skilled labour and the absence of reliable business support services (input suppliers, IT support firms) are also seen as deterrent to higher investments. The long years of war clearly impacted on access to education.

[11] Enterprise Surveys www.enterprisesurveys.org The World Bank Group.
[12] http://www.businessdayliberia.com/2019/03/25/global-tracking-and-maritime-solutions-is-a-heap-for-more-economic-hardship-on-liberians/

Access to Finance[13]

Liberia is an underbanked country, with nine licensed banks in operation. Commercial banks operate in only 10 of the 15 counties. Most loans are short-term or in the form of overdrafts as banks rely almost solely on clients' deposits. The capacity of banks to assess credit risk is limited, and legal means to enforce debt repayment rather scant since property rights are weak, meaning that land or other assets cannot be (easily) used as collateral. The low level of financial intermediation is reflected in the high cost of credit, which also factors in the risk of non-performing loans (13.6% in 2017) and low profitability. Return on equity was 10.8% in 2017 and return on assets was 1.7%. Non-interest income, mainly fees and commissions, constituted the largest portion of the banking sector's income.

The sector includes one development finance company, the Liberian Enterprise Development Finance Company. While claiming to target SMEs, LEDFC loans range from US$10,000 to US$1,000,000. On the other hand, for lack of long-term funds, the Liberian Bank for Development and Investment does not undertake development banking per se, and operates like any other commercial bank in Liberia, mainly providing short-term loans and underwriting letters of credit and the like.

Micro-finance institutions (MFIs) complement the traditional banks. There is one deposit-taking microfinance institution, Diaconia MDI which targets M/SMEs, and 16 registered non-deposit microfinance institutions (MFIs). The non-deposit MFIs provide credit services to hard-to-reach poor communities across the rural regions of the country. At the end of September 2017, the microfinance sector had 26,352 clients. Rural community finance institutions (RCFIs) have been encouraged by the Central Bank of Liberia (CBL). They are still nascent with less than 12,000 clients in 8 of the counties. Additional RCFIs are planned with IFAD support. Some 260 credit unions, and 2,300 village savings and loan associations, complete the picture. On the more innovative side, two mobile money providers - Orange Money and Lonestar Cell MTN Mobile Money Inc – have introduced mobile money services incorporating payment solutions for the lead e-commerce vendors. The number of mobile money agents stood at 3,162 at end-October 2017.

In addition to the limited coverage of the banking infrastructure, a major issue is its operations. Users talk about Automatic Teller Machines (ATMs) taking over five minutes to deliver requested notes, when they work. Inter-operability between banks remains limited. Foreign business travellers cannot always use

[13] Statistics in this section are drawn mainly from the Liberia Country Profile in AfDB's 2018 African Economic Outlook

foreign credit cards because local card payment gateways do not connect fully to international networks.

Electricity

The recently operational Mt. Coffee hydro plant, whose rehabilitation was co-financed by MCC, the Government of Norway, KfW, and the European Investment Bank, accounts for about 70% of installed capacity with 88 MW of available generation capacity. In addition to the rehabilitation, the Government of Liberia, the Japan International Cooperation Agency and the World Bank have funded a 38MW heavy fuel oil plant. Currently, access rate is estimated to average 12% (Rural: 3% Urban: 16%), with an average tariff of $0.39/kWh, which is very high even when compared with similar countries. Unreliable or absence of supply compels many businesses to rely on generators at a prohibitively high cost, thereby limiting manufacturing, private sector diversification, and industrial development. Electricity is indeed the single largest component of operational expenses in Liberia for many businesses, which explains why it ranks high among the constraints listed by entrepreneurs. Under the WBG Doing Business 2019, Liberia scores zero for reliability of electricity supply (compared to 1.6 for SSA and 7.5 for OECD countries).

Tax Rates

Corporate tax stands at 25% and 30% for general companies and mining/petroleum companies respectively. Mining/petroleum companies can also negotiate concessionary tax rates, while no duty applies to agriculture, agro-processing, and manufacturing inputs.

Incentives under the Investment Incentive Code include exemption from custom duties, income tax, stamp fees and other benefits to new and expanding businesses. However, these must belong to approved sectors such as manufacturing, agriculture, forestry, fishing, mining, building and construction, transport and communication. Reinvested profits are generally exempt from taxation..

In the light of the seemingly liberal regime, it may seem surprising that the private sector ranks corporate tax rates high among constraints to doing business in Liberia. Moreover, Liberia is among the few countries (alongside Cameroon, France or Mali) to have adopted a single revenue code in place of multiple tax type laws. Nevertheless, on the basis of a scenario built by the WBG for the 2019 Doing Business, the average private sector company is seen to be paying a total tax and contribution rate amounting to 45.5% of profits. Yet, corporate income tax revenues are very low in Liberia, yielding only 1.45% of

GDP compared to more than double that on average for the Sub-Saharan Africa countries[14].

Access to Land

This is a complex issue that goes beyond business and is said to have poisoned relations among Liberians since the 19th Century. Liberia's land rights and land tenure status have been under revision since 2014, and the Land Rights Act was finally passed in July 2018. It recognizes four categories of land ownership, which in the legal text are termed "Government Land", "Public Land", "Customary Land", and "Private Land". "Protected areas" are defined as a unique land use category.

The new legislation unambiguously restricts rights of ownership to Liberian citizens solely. It also seeks to strengthen rights over customary land. Under the law, a community's claim of ownership of customary land will be established by evidence including oral testimonies of community members, maps, signed agreements between neighbouring communities and other relevant documents.

The new law will require a nationwide survey to confirm the boundaries of all customary lands. The survey will be conducted by the Liberia Land Authority within 24 months of the effective date of the Act. Under the law, a minimum of ten percent and maximum of 20 percent of customary lands in each community will be set aside and allocated as public land.

Lands without deeds are classified as public land.

The new legislation confirms the ineligibility of non-Liberians to own land. For many private sector actors, lack of land ownership limits the incentive to invest and the new act has not removed that constraint, even though article 8 para 5 gives some degree of guarantee for "rights in land other than ownership". Indeed, under Article 8, the new Land Rights Act stipulates that ownership is limited to:

(i) Liberian citizens;

(ii) Sole proprietorships and partnerships set up under Liberian law and consisting "*entirely of Liberian citizens*"; and

(iii) Business corporations "*owned one hundred per cent (100%) by Liberian citizens at all times*".

Nevertheless, Article 8 on the Eligibility to Own Land or Rights in Land, clarifies that, "*non-citizen missionary, educational, and other benevolent institutions shall have the right to own property as long as such property is used for the purpose*

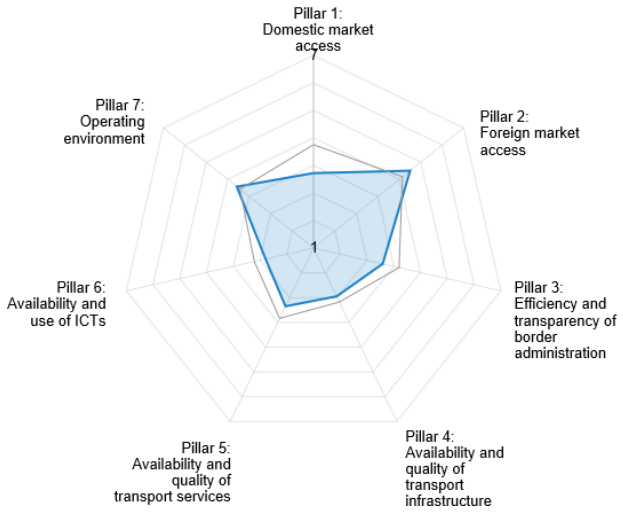
[14] Benchmarking the Tax System in Liberia, USAID/DAI, Feb 2017

acquired; title to the property shall revert to the original owners of the land after a determination is made of the non-use of the property by the Liberia Land Authority (LLA).

Barriers to Trade

Liberia faces significant challenges to improve trade across borders. The country ranked 120th out of 136 countries in the World Economic Forum's 2016 Global Enabling Trade Index, with a score of 3.5 over 7.

Figure 1: Enabling Trade Index



Source:reports.weforum.org/global-enabling-trade-report-2016/economy-profiles/#economy=LBR

The three most problematic factors when importing were (in priority order) tariffs and non-tariff barriers (NTBs), protracted import procedures and corruption at the border. When exporting, the main challenges are to identify markets and buyers; to access trade finance and to meet the quality and quantity requirements of clients.

The cost of border compliance when exporting from Liberia is estimated at USD 1,113 compared to USD 605.8 on average for SSA, and USD 139 for high-income OECD countries. Border compliance involves procedures such as customs clearance; inspections by other agencies as relevant; handling and inspections that take place at the economy's port or border. Documentary compliance takes a total of some 144 hours, twice the African average. Customs modernisation initiated in 2008 and the introduction of ASYCUDA have brought some improvements, but unreliable electricity prevents the computerisation of many processes, hence delays.

Some areas like risk management still pose specific problems. Thus, traders complain of duplication of inspections by the Bureau of Customs and Excise (BCE) and the private contractor for pre-shipment inspection (PSI), BIVAC[15], thereby causing extra delays. Some claim being charged for inspections even when these are not carried out. A time-release study conducted by USAID in 2012 found that, despite the installation of ASYCUDA, physical inspection involved the high figure of some 85 percent of imports in the Freeport of Monrovia. This may explain the call of some customs brokers to do away with PSI, a call backed by government eager to collect the full revenue from inspection, and which may come into effect soon, at the cost of doing business.

A recent gap analysis undertaken by the WBG to determine Liberia's level of alignment to each of the 36 technical measures of the Trade Facilitation Agreement found that the country is "fully or substantially aligned" to only 25% of those measures. Based on the gap analysis, a number of remedial measures were identified; the majority of these recommend changing laws/policies and procedures, or introducing new ones. However, training, institution building, and IT improvements are also recommended[16].

Table 2 below summarizes the score and ranking of Liberia with regards to the constraints discussed above.

Table 2: Doing Business Ranking 2019

	Score[17]	**Ranking /190**
Ease of Doing Business	*43.51*	*174*
Starting a Business	*88.14*	*80*
Dealing with Construction Permits	*28.94*	*185*
Getting Electricity	*35.06*	*172*
Registering Property	*31.09*	*182*
Getting Credit	*45.00*	*112*

[15] the Bureau of Inspection, Valuation, Assessment and Control (BIVAC), a wholly-owned subsidiary of Bureau Veritas Group, headquartered in France
[16] WBG (Feb 2017), Liberia Gap Assessment and Reform Action Plan (draft) Feb 2017
[17] The score ranges from 0 to 100, the latter reflecting best performance

Protecting Investors	*26.67*	*180*
Paying Taxes	*76.70*	*67*
Trading Across Borders	*27.77*	*179*
Enforcing Contracts	*35.23*	*175*
Resolving Insolvency	*40.50*	*111*

2.4 The Way Forward

The foregoing constitutes in essence the pre-diagnostic phase of a more rigorous Business Environment Reform (BER) diagnosis. It nevertheless points out the main areas that need to be addressed if Liberia is to improve its investment climate overall, and move higher in the Doing Business ranking. This is looked into some more detail in chapter 4 below. An additional component of the business environment is also the state of public private dialogue, which is the subject of the next chapter, chapter 3.

3 PUBLIC-PRIVATE DIALOGUE IN LIBERIA

PPD is an essential element of the investment climate. Dialogue allows constraints to be identified early and remedial measures to be taken to the benefit of growth and development. The present chapter first provides a picture of the Liberian private sector today, its constituent parts and its main organisations. The gist of the chapter, however, is an evaluation of the state of private-public dialogue in Liberia. Mechanisms to reinstate and strengthen the dialogue are then reviewed.

3.1 The Private Sector in Liberia

A typology of the private sector in Liberia yields four main groups:

i) large foreign companies operating iron ore mining, timber, rubber, and palm oil concessions;

ii) a formal sector engaged in import-export and in providing services to the Government and donors operating in the country;

iii) an informal sector of micro and small enterprises; and

iv) the rural subsistence agriculture sector.

The first group accounts for most of the large-scale private sector investment, and the last for the larger share of jobs. However, there is little linkage between the two, and indeed between the "concession enclaves" and the rest of the economy, besides contributions to government revenue. Moreover, the development of the private sector outside of the concession sector has been limited, restricting the possibilities for diversification and value-addition.

Despite legislation denying access to no less than 26 business lines to non-Liberians, the formal private sector is dominated by foreign owned businesses. The latter operate mainly in Monrovia and Greater Monrovia, and are engaged in wholesale and retail trade and some light manufacturing, such as beverages, and other consumer goods. The uncertainty related to prevailing legislation governing residency[18] goes some way to explaining why domestic trade makes up the bulk of private sector business activity.

Petty trading is the dominant activity in the informal sector. The sector is made up of individual operators and small and medium enterprises providing employment for persons with basic to no skills. According to the 2010 Labour Force Survey, almost three-quarters of a million individuals were then engaged

[18] While residency permits can be obtained for five instead of one year, since 2019, the conditions attached to these longer permits render them inaccessible to most small and medium entrepreneurs.

in the sector which accounted then for 68% of total employment. The sector is said to have bulged in recent years with increase in urban labour supply.

The majority of the 588,000 farming households[19] operate as subsistence farmers outside the cash economy with little surplus to market. Some 60% of them grow cassava, mainly for self-consumption. Rice production is popular too. Those small farmers who also grow cash crops are engaged mainly in cocoa, palm-oil and rubber production. It is estimated that up to 60,000 smallholder households are involved in growing rubber trees, and 30,000 in cocoa production.

3.2 The Main Private Sector Organisations

Private Sector Organisations are mainly set up as not-for-profit associations under the association laws of the Republic of Liberia. The underlying rules are governed by the country's constitution which grants basic rights for the free association of people (cf. Article 17). Nevertheless, at least two organisations have been set up through special legislation; these are LIBA and the Rubber Planters Association of Liberia (RPAL). The registration fee structure and the steps for incorporation and registration have been reduced recently by the government as a means of improving the investment climate.

3.2.1 Liberia Chamber of Commerce (LCC)

Set up in 1951 as a non-profit business support organisation (BSO), the *Liberia Chamber of Commerce* (LCC) experienced a period of relative inactivity, but has been in the process of rebuilding itself over the past years. The business of the LCC is managed by a Council elected each year. The Council is assisted by a small secretariat with 4 staff headed by a Secretary-General. The LCC is considered as the main instrument for private sector advocacy in Liberia. While not very large in terms of paid membership (just over 250), it derives its influence from bringing together other important BSOs such as the Fula Business Association (FBA), the Lebanese Business Association, the Indian Business Association and LACA. These associations regroup major actors within the private sector in Liberia with significant access to capital, know-how and networks. However, they are also perceived as somewhat alien, and primarily representing the larger Liberian and foreign-owned corporate bodies. This perception also impacts on the LCC image.

Our questionnaire revealed that many of the large corporations are not actually members of the LCC. It also appears that many firms, and probably mostly the large ones with economic clout, prefer to engage bilaterally with the government in pursuing their interests. Overall, the LCC is not perceived as being very effective in its advocacy and lobbying work. Still, it has been very vocal and ran

[19] Jobs And Growth Compact For Liberia, EUDEL, 2018

a sustained campaign recently on the Cargo Tracking issue, with apparently adverse consequences for some of its members.

The LCC does not provide capacity building services or other meaningful business support to its members who provide around 60% of its funding.

3.2.2 Liberia Business Association (LIBA)

While most BSOs are set up under the laws governing associations in the country, the *Liberia Business Association* (LIBA) was established by an Act of the National Legislature in 1973. Its mandate is to advocate for Liberian-owned businesses and to contribute to the development of the SME sector in Liberia. LIBA has been campaigning for financial support from the government on the grounds that it is an association enacted by the National Legislature. But its energies have focused specially, and with success, on retaining exclusive access to Liberian businesses for a number of activities.

LIBA is often pictured as a counterpoise to the dominance of foreign owned businesses in the Liberia Chamber of Commerce; on the ground, the two organisations tend to work closely together – for instance in organising fairs to promote Liberian products. In the past, LIBA's governance structure has been a subject of concern; LIBA leaders held office for extended periods and were often seen as too close to politicians.

LIBA claims to have some 8000 members paying fees according to a two-tier structure. Membership is heavily skewed towards trading businesses, the majority being small retail sole proprietorships. LIBA organises training in business management for its members and would welcome funding to do more business support.

3.2.3 Other Organisations

Several other private sector organisations co-exist in Liberia, some representing sectoral interests, others being more cross-cutting.

For instance, the large scale agricultural concessions (palm oil and rubber) have organised themselves in the *Liberia Agriculture Concessions Association* (LACA). LACA is active in advocacy towards the international community in Liberia and lobbies the government to further the interests of its members. Sector-focused organisations include the Liberian Timber Association (LTA) whose objective is "*to engage the government and all stakeholders in constructively seeking new avenues in improving the industry for the betterment of society as a whole*". A member explains that his individual company lobbies principally through the Liberian Timber Association on general policy matters, but directly with the

appropriate Ministry or regulator (the Forestry Development Authority) in case of grievances.

The *Rubber Planters Association of Liberia (RPAL),* set up by an act of legislature in 1967, is another example of sectoral associations. Under its new leadership, RPAL is putting emphasis on value-addition and aims to transform the sector from one simply exporting raw materials to an integrated manufacturing industry.

The *Patriotic Entrepreneurs of Liberia (PATEL)* is somewhat a special case, with a membership comprised of both Liberian businesses and trade associations. Its aim is to "organize, nurture, and defend the Liberian entrepreneurs in and out of Liberia thereby creating a better socio-economic environment where Liberians will dominate, own and run their economy". Membership gives access to loans, business training and assistance from a Help-desk for easy import-export processing involving BIVAC, APM Terminals, and the Liberian Revenue Authority.

The organisation landscape is dynamic, with several of those covered in recent studies declared defunct during our exchanges with stakeholders. Thus, COLINBO, set up in 2003 as a challenger to LIBA and to lobby against excessive tax regulations, does not seem to be active anymore. The same applies to the Women Chamber of Commerce set up by high profile business women but which seems to have foundered for lack of funding.

3.3 State of Public Private Dialogue

"*We are at war, it feels like Government and Businesses are at war*". This quote comes from a participant to the IFC-sponsored Business to Business Round Table organised under the aegis of the *Liberia Better Business Forum* (LBBF) in November 2016[20]. Talking to businesses in Liberia in May/June 2019, the situation does not seem to have improved from the perspective of the private sector. Our interactions with private sector operators revealed an atmosphere of high tension in dealings with the public authorities. The tough tactics used to quash protests against the Cargo Tracking System are brought up by private sector actors to illustrate the extent to which those relations have degenerated.

Asked to describe the relationship between the public and private sectors in Liberia, most representatives of the latter refused to qualify it as being a partnership. Instead, government is pictured as a figure of authority which only expects to be "obeyed" and has no time for listening. For yet other private entrepreneurs, the relationship is highly ambivalent, swinging back and forth between "partnership" (in case of emergencies) and "adversarial" the rest of the time. As regards long term strategic policy making, the private sector voices are

[20] Bright et al, "Business To Business Round Table Report (undated)

mostly ignored. Government is said to also largely ignore private sector requests for dialogue, and to only pay lip-service to such dialogue to please donors. Thus, the government often announces meetings with the private sector, but they rarely materialize, or are finally held in the absence of private sector organisations.

Reflecting the quasi-absence of dialogue, consultative bodies set up at sectoral level by the previous government to promote public-private dialogues (PPD) no longer exist, except for those that are part of donor-funded projects (e.g. LICSIP). The LBBF itself is no longer operational. At the end of the day, while some limited consultations do take place in specific sectors (especially for the mining and timber industries), there is no public/private platform at horizontal level. The private sector would welcome such a platform to discuss cross-cutting impediments highlighted earlier viz. access to finance, cost of utilities or the daily administrative burdens, notably at the borders, and taxation. Indeed, the consensus among different private sector actors is that they are seen as the milking cow by the current government; lately, the government seems to have been very short of funds, and has introduced all sorts of levies to bring money to the Treasury. The net effect, combined to the other impediments discussed above, has been an exodus of investors over the past year, and increased suffocation of remaining businesses, many of which claim to be on the brink of bankruptcy.

Interactions with the public sector on the state of PPD gave rise to the same conclusion (absence of dialogue) but different reasons are put forward. While agreeing that the environment in which businesses operate is a difficult one, including as regards the regulatory framework, government describes the private sector in Liberia as "not fully functional"; in other words, the private sector in Liberia is criticized for not playing its role as the engine of growth and the source of employment. The private sector is described as lacking in capacity, less engaging and pro-active than elsewhere, and too much dependent on government from which it is always expecting facilities on all fronts.

On the positive side, government representatives met claim welcoming a strengthening of PPD and point to the President's decision to set up the Business Climate Working Group as evidence of the political willingness to have the private sector on board. Similarly, it is argued that the various commissions under the PAPD are instances where the private sector can voice their concerns "without indulging in politics".

3.4 Mechanisms for strengthened PP dialogue

After the foregoing inventory of private sector organisations and the state of private-public dialogue in Liberia, the present section looks into possibilities for strengthening the said mechanisms through appropriate measures. Three main

mechanisms are reviewed and their readiness as instruments to favour effective exchanges between the public and private sectors is assessed.

3.4.1 PAPD's Technical Working Groups

Liberia's ongoing five-year National Development Plan, the Pro Poor Agenda For Prosperity and Development (PAPD), is to be implemented primarily through four interconnected structures: i) The National Steering Committee (NSC), ii) an Implementation, Coordination and Delivery Unit (ICDU), iii) Pillar Working Groups (PWG), and iv) Technical Working Groups (TWG).

The PAPD National Steering Committee is the apex level coordination and decision-making body chaired by the President of the Republic. Acknowledging the contributions of private for profit and non-profit actors as "integral to the realization of PAPD development outcomes", the PAPD has foreseen that private actors would play an advisory role in the Technical Working Groups (TWGs). There are 12 TWGs comprised of experts from Ministries and Government Agencies, to support implementation under the four pillars. The objective of these structures is to ensure participation of multiple stakeholders who are expected to advise on public planning. They aim to ensure wide-ranging buy-in and as a tool for dissemination of information throughout the implementation of the PAPD. Moreover, the objective behind including private sector actors was also "to encourage coordinated efforts and synergies in investments particularly in priority regions and communities of the development corridors".

The outputs of the TWGs feed into the Pillar Working Groups , each pillar being led by a "Champion" – for instance, the Ministry of Agriculture is the Champion for Pillar 2. The main role of the Champion is to convene quarterly meetings to deliberate on progress towards the development outcomes and agree on resource requirements. According to the PAPD, the Cabinet has also a major role in facilitating inter-institutional coordination and collaboration and in improving participation of the private sector actors directly involved in the implementation of the PAPD.

Questioned about the actual participation of the private sector in these TWGs, the reply of the MoA has been quite evasive. On their side, private sector representatives, and notably the LCC, talked about being invited to meetings that are never confirmed, and which then take place in their absence. In the prevailing climate of distrust, a mechanism led and managed by government is unlikely to be the appropriate instrument to promote public-private dialogue in present-day Liberia. Moreover, the agenda of the TWGs tend to be quite sector-specific and the priority issues presently for the private sector in Liberia are more horizontal and cross-cutting in nature.

3.4.2 The Business Climate Working Group

Set up by President George Weah in October 2018, the Business Climate Working Group is essentially a reaction to Liberia's poor performance in the World Bank's Doing Business ranking in that year. The Business Climate Working Group (BCWG) has the mandate to explore evolving challenges and prospects of the Liberian business environment, and to develop plans and strategies towards its improvement so as to improve Liberia's rankings for the various indicators used by the WBG to measure business-related performance. The members of the BCWG include the Ministry of Finance and Development Planning (MFDP) as chair; State and Presidential Affairs; Commerce, and Labour. Others are the Liberia Revenue Authority, Liberia Business Registry, Liberia Chamber of Commerce, Liberia Business Association, Representatives from the International Development Community and the National Investment Commission.

The WG brings together public and private sector operatives and decision-makers to discuss a range of topical issues. For instance, a meeting held in Gompa City, Nimba County in March 2019 focused on import and export as well as transhipment of goods and services across borders. Some of the thematic topics discussed included the relevance of import and export permits, border patrol and anti-smuggling, the role of digital economy in cross borders trade, government revenue, payments, processes and constraints, expansion of port operations among others. Another recent BCWG meeting focused on access to credit, resolving insolvency and contract enforcement. Participants representing both the public and private sectors included judges, lawmakers, donor partners and members of the business community.

In the light of the agenda and track record of its meetings, the BCWG appears to be a functioning and relevant platform for public-private dialogue. Operating under the close supervision of the President, and through the MFDP which provides the resources for its activities, the mechanism seems sustainable and effective. Interestingly, its meetings are not restricted to Monrovia, and include field visits in which the relevant ministries are represented, often at ministerial level. Nevertheless, private sector actors are rather sceptical of its real usefulness and lukewarm about transforming it into the main platform for PPD in Liberia.

3.4.3 Liberia Better Business Forum (LBBF)

The LBBF was first launched in July 2007 and registered as an independent institution in June 2013. It was endorsed by Liberia's government and private sector as a new mechanism to facilitate dialogue on investment climate issues; according to an April 2011 Mandate signed by the Minister of Commerce and the

President of LIBA (representing business associations), the LBBF is described as a structured public-private partnership that brings together the government of Liberia and the private sector to engage in constructive dialogue on identifying, prioritizing, and resolving key constraints to private sector development and to an investment climate conducive to doing business.

The LBBF was led by a Governing Board chaired by the Minister of Commerce, supported by a Secretariat. Regular discussions on business reform issues took place in Working Groups. The issues selected by the LBBF were based on inputs from the private sector and discussions were informed by research carried out by the Secretariat. The Secretariat was housed at and financed by the IFC with support from other donors, notably SIDA.

During our interactions with private sector actors, a vast majority expressed satisfaction with the way that the LBBF operated. Many saw it as a credible mechanism for public-private dialogue and attributed significant improvements to the business climate to its work. Thus, the effective advocacy by LBBF is said to have contributed to several investment climate reforms including: (i) Reduction in the number of documents required for Export; (ii) Enhancement of Tax Clearance Certificate procedures; (iii) Elimination of 4% Turnover Tax for Large and Medium taxpayers; and (iv) Reduction in the number of products requiring Import/Export Permit Declaration.

This satisfaction with the LBBF is echoed in a programme evaluation commissioned by SIDA and IFC[21] which noted: "All relevant stakeholders interviewed during this evaluation acknowledged the need for a space akin to that offered by the LBBF and recognized the LBBF's novel contribution to elevating the quality of government and business sector interaction and dialogue(….) *Perhaps the most notable outcome of IFC's support to LBBF is the improvement in the relationship between the Government and the private sector*." However, by 2014, in the wake of Ebola, LBBF activities had significantly decreased due to funding and other issues.

The IFC is currently spearheading an attempt at revamping the LBBF, with potential financial support from the Swedish Government/SIDA. A similar governance structure as in the past is being investigated, More thought will have to go into addressing the potential overlap with the President's BCWG which focuses on improving Liberia's Doing Business indicators, while the LBBF seeks to have a larger PPD agenda.

Sustainability is a major challenge for any mechanism promoting structured dialogue. The LBBF ambitions to operate like a think tank, and to generate the

[21] Program Evaluation of Investment Climate and Private Sector Development in Liberia, ATRAXIS Group, July 2017

funds needed for its operation through evidence-based studies, organisation of conferences and the like. It is purported that such an approach would enable the PPD component to develop as a sustainable stand-alone entity by the project's end as it would generate its own income through a programme of activities..

Our questionnaire attempted to identify the conditions which, from the private sector perspective, would ensure the successful operation of a PPD platform. A synthesis of replies suggests that, in order to be successful, such a mechanism would need to meet the following requirements:

- It should focus on advocacy and not be involved in general "capacity building" or "empowerment of stakeholders" etc.
- Agenda items should ensure that the public sector becomes aware of impediments faced by the private sector, and inform the latter on government projects and how Government would like it to participate therein, and in the country's development more broadly.
- Both parties (Government and the Private Sector) should have the right to ask for a meeting of the platform.
- The processes run by the platform need to be fully endorsed by both government and the private sector, as well as by the financial sponsors/donors.
- Similarly, the objectives of the PPD platform should be shared, clear, with measurable results
- The platform should be able to influence if not formulate policy decisions, sector specific and general business relevant policies
- It should have the support of professional staff who can build the bridge between Government and the private sector, and be trusted by both.

Our understanding is that IFC has submitted a concrete proposal to SIDA and plans to work with the government of Liberia and leading private sector stakeholders (Business and Industry Associations, Leading Liberia-Owned Businesses, etc) to revive the public private dialogue through a revamped LBBF. There would be joint Public and Private Sector Working Groups partnering to advocate, based on technical evidence-based analysis of issues under consideration. Initially, technical assistance will be required to realign the working groups, ensure their consistent operation, and establish the criteria and system through which the LBBF identifies the issues it will address. The focus will be on analysing identified issues/challenges/obstacles and barriers to doing business in Liberia with the objective to propose and champion viable recommendations for reform.

3.5 Conclusion

The foregoing analysis of the three potential PPD mechanisms suggests that the LBBF is the one most likely to garner consensus, mainly on the basis of its proven track record in the past, its perceived neutrality and the fact that other instances of dialogue are seen as government-led. Discussions with the MoCI and other public sector actors give the impression that the government would also be ready to support the Forum. The fact that it is led by two major development partners of Liberia (SID and IFC) may partly explain this position. It is difficult, however, to say if the acceptance is genuine or the result of "political correctness".

Despite this uncertainty, it is proposed that the EUDEL supports the SIDA/IFC initiative of reviving the LBBF. Consultations clearly indicated it is the more credible option, being spearheaded by a neutral party. The other two initiatives, despite their merits, suffer from being public-sector led in a context where there is little trust between the private and public sectors.

4 EIP DEPLOYMENT

4.1 Relevance of the EIP

Our analysis in the previous chapters has brought out three important points:

- First, if Liberia really wants to upgrade to an UMIC as per its Vision 2030, it will have to attract massive investment so as to capitalise on its rich natural resources endowment.
- Second, the prevailing climate is far from being conducive to investment, trade and doing business. Consequently, Liberia will have to embark on a rigorous plan for business environment reform (BER) to overcome identified impediments to trade and investment.
- Third, a major element of that plan must involve restoring trust between the public and private sectors, so that public-private dialogue can resume. This calls for a neutral platform where both sides will be able to relearn how to work together. A revamped *Liberia Better Business Forum*, being initiated by IFC and SIDA, could be such a platform.

Given the foregoing, the EIP would be a privileged instrument to accompany Liberia in its efforts to reform its business environment, develop a conducive investment climate, and reinstate public-private dialogue, so as to attract much needed investment. To recall, the EIP consists of three complementary pillars:

- Pillar 1: This component involves financing by the European Fund for Sustainable Development (EFSD). The EFSD is used to leverage investment, especially from the private sector. It works through (i) a financial guarantee and (ii) blending instruments.
- Pillar 2: Under this second pillar, technical assistance is provided to (i) enable 'bankable' projects to be developed and (ii) assist in improving the investment climate and business environment.
- Pillar 3: This EIP component focuses on structured dialogue with the private sector and enhanced policy dialogue with a view to improving the business environment and investment climate.

4.2 Specific EIP programmes

Liberia would clearly benefit from support under all three pillars. Among the approved Proposed Investment Programmes (PIPs) for the West-Africa region, the EUDEL in Liberia has already identified several with potential for the country. Two areas stand out. They relate to (i) access to finance for MSMEs and agriculture and (ii) sustainable energy.

4.2.1 Access to finance for MSMEs and Agriculture:

In this regard, the EUDEL is currently exploring the potential of four EFSD guarantees:

- The NASIRA Risk-Sharing Facility (implemented by FMO)
- InclusiFI (AECID/CDP/COFIDES)
- The African Local Currency Bond Guarantee Programme (KfW).
- FISEA+ SMEs and Agribusiness Investment Guarantee (AFD)

NASIRA addresses the high risks involved in lending to under-served entrepreneurs. It will enable the latter access to investment loans by offering guarantees to local financial institutions for portfolio containing loans to under-served entrepreneurs in almost any economic sector. The challenge in the case of Liberia is that the country is seriously underbanked, compounded by the fact that existing financial institutions have limited experience in development banking, and in servicing small entrepreneurs, especially in remote rural areas[22]. Consequently, the TA component (pillar 2) will have to be tapped as well. To that end, FMO is providing technical assistance to financial intermediaries as well as to end-borrowers. Preliminary analysis will have to be undertaken in view of selecting the local partner, account being taken of the government's plan to re-establish the Agricultural Cooperative Bank.

InclusiFI targets MSMEs and seeks primarily to encourage diaspora organisations to invest in their countries/regions of origin. By fostering partnerships between financial institutions and financial technology and telecoms companies, it aims to increase the supply of fintech solutions and lower the cost of access to funds, including remittances. Given the large population of Liberians living abroad[23], notably as a result of the civil wars, this Facility can catch on with a proper information campaign. The challenge will be to insure that recourse to the diaspora does not accentuate the financial divide between indigenous and American-Liberians, and that initiatives under InclusiFI do not end up excluding the former group.

The **African Local Currency Bond Guarantee Programme** (ALCBGP) or ALCB Fund uses the EFSD Guarantee to invest in local currency bonds issued by local financial institutions, utility companies, or state-owned enterprises (SoEs). While local currency financing is often costly or unavailable in developing countries, the

[22] Exchange with LBDI and MoCI
[23] Estimated at around 500 000 in 2013. http://blog.liberiapastandpresent.org/?p=568

case of Liberia is somewhat special given the heavy "dollarization" of the economy. Given the continual depreciation of the Liberian dollar, entrepreneurs are actually better protected when borrowing in hard currency, and particularly in US dollars if much of their business is carried out in that denomination. The suitability of the ALCBGP will have to be assessed further before it is harnessed to fund interventions in Liberia.

FISEA+ SMEs and Agribusiness Investment Guarantee, which aims at catalysing investment and support for MSMEs in riskier environments, may be more relevant in the Liberian context. It is implemented by AFD and targets vulnerable communities and regions, including fragile and post-conflict countries, using a range of instruments such as loans, equity, mezzanine finance[24] and guarantees. The EU guarantee serves to diversify risks and offer private investors in agribusiness ventures, digital start-ups and SMEs more generally, a first-loss protection and technical assistance to take on bigger risks. It could be relevant to the objective of value-addition in the small-scale agricultural sector e.g. timber, cocoa, rubber.

4.2.2 Access to Electricity[25]

As seen earlier, lack of electricity and its cost are major impediments to investment and doing business in Liberia. The EIP would unlock a major constraint if it were able to boost up investment in production of cheaper and cleaner energy. This would have a significant impact on the investment climate and would undoubtedly boost production and employment. Several EFSD guarantee programmes share this very objective, in particular:

- Room2Run (implemented by the AfDB)
- DESCO (implemented by the AfDB)
- The Renewable Energy Support Programme (AECID & COFIDES)

Under **Room2Run**, the EFSD Guarantee supports a securitisation structure that enables private investors to invest in AfDB projects by taking credit risk on a defined tranche of the private sector portfolio. This frees up AfDB capital and enables the bank to finance new renewable energy projects. It is planned that at least some of these projects will be located in fragile states, where the AfDB operates. Funding would be available for both large-scale renewables-based solar power producers who provide electricity to the national grid, and smaller suppliers servicing particular communities or areas. Unfortunately, the Monrovia

[24] Mezzanine financing is a hybrid of debt and equity financing that gives the lender the right to convert to an equity interest in the company in case of default, generally after venture capital companies and other senior lenders are paid.

[25] During our mission, LBDI has expressed keen interest to invest in renewable energy

AfDB office did not seem to be aware of this programme, and in fact of the EIP more broadly!

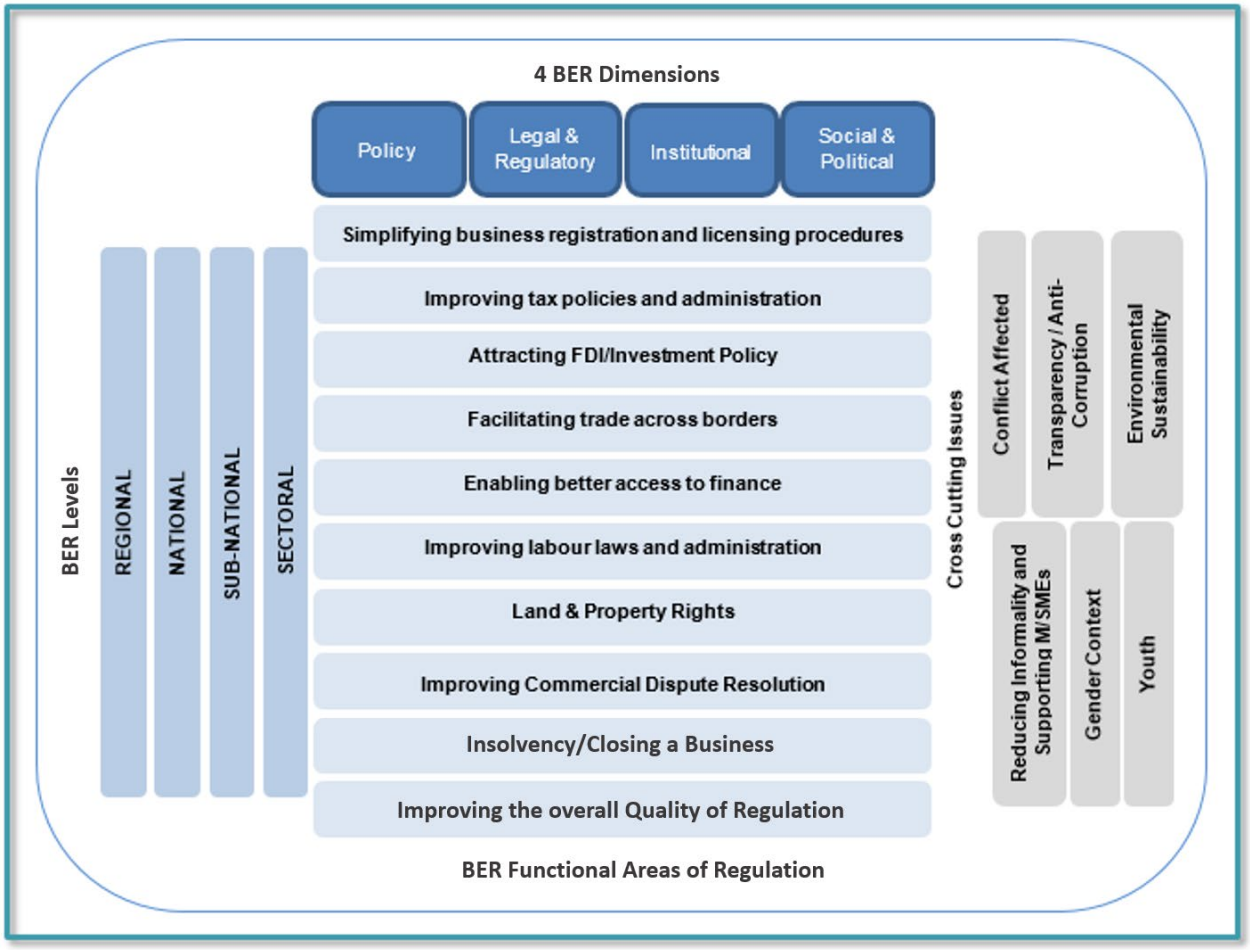
DESCO targets populations that do not have access to the power-grid, which is the case for over 80% of Liberians. It builds on a new business model of pay-as-you-go (PayGo) solar power systems; customers buy a solar power system through small monthly fixed payments over a period of 2-3 years. It aims at being affordable to poor households, petty traders and micro enterprises, and as such can prove of interest for Liberia.

The same applies to the **Renewable Energy Support Programme**. This guarantee lowers the risk of non-payment of a financial obligation and encourages investors to engage in renewable energy projects that can either be connected to the grid or mini or off-grid projects. As the EUDEL is already earmarked EDF11 resources to fund standalone mini grids targeting dispersed rural population mainly in the South East, the possibilities of also using the RESP for PPPs could be looked into.

4.3 Conditions for Successful EIP Deployment

For the interventions under the EIP to be successful, some conditions need to prevail. These conditions call for a significant improvement of the Liberian investment climate and business environment. In concrete terms, it implies that the major hindrances to trade and investment (identified in chapter 2) must be addressed. Measures must also be taken to restore trust between the public and private sectors. In effect, a comprehensive BER plan (cf. Fig 2), and commitments towards its implementation, are pre-conditions to a successful deployment of the EIP in Liberia.

Figure 2: The Dimensions of BER



(Source: DCED 2016).

Much of the information needed to develop the proposed BER plan is already available as summarized in table 3 below. For buy-in, it is important that the plan be developed jointly by the public and private sectors. The process will in itself be instrumental in restoring the trust and working relationships between the two parties.

Table 3: Sources for BER diagnosis

	Areas Requiring Reform	**Source for Diagnosis**	**Comment/Recommendation**
1	Simplifying Business registration etc	WBG Doing Business Reports	Ongoing with good results

2	Tax policies and administration	WBG Doing Business USAID 2017 Study	Major private sector contention. Emphasis is on revenue collection rather than on attracting new businesses. Must be on agenda of PPD
3	Attracting FDI/ Investment Policy	Forthcoming IFC Work as part of new intra-ACP programme	The IFC component must be integrated into the overall BER process
4	Trade across borders	WTO accession documents WEF Global Enabling Trade Report WBG: Liberia Gap Assessment and Reform Action Plan on TFA	Some measures implemented, with risks of backsliding e.g. pre-shipment inspection. Area requires unrelenting PPD IFC's proposed 2019-22 Advisory Service Program which includes a Trade Facilitation component
5	Access to Finance	No rigorous study to our knowledge; information spread over many publications	Synthetic study warranted. Could include identification of EIP areas of support and local EIP partners and feasibility of re-establishing an Agricultural Coop Bank. Take into account IFC's proposed 2019-22 Advisory Service Program which includes an "Access to Fin" component
6	Improving labour laws		The issue seems to be the quality and skills of labour rather. The TVET programme can hopefully bridge major gaps, but it will take time.
7	Land & Property Rights	Land Rights Act passed in July 2018	New Act still a deterrent to investment and may have to be subject of PPD at some later stage, when trust will have been restored
8	Regulations regarding disputes, insolvency etc	WBG Doing Business	New legislation may be needed in the light of public-private consultations

In a nutshell, while providing a cushion against risks, the EIP cannot afford to invest EU taxpayers' money where the likelihood of returns and refunds is close to zero, as in most fragile states. A BER plan, and concerted efforts towards its realization, will mitigate such risks, and is therefore a pre-requisite.

5 CONCLUSIONS AND RECOMMENDATIONS

After the protracted civil war, Liberia underwent a period of recovery reflected inter alia in progress with regards to its "Doing Business" and trade indicators until 2015 or so. Currently, Liberia seems to be going through a difficult and unstable period that underlines its status as a fragile state. A cash-strapped government is being compelled to squeeze the private sector for funds. The result is not only lack of financial resources to re-invest, but also a climate of growing animosity and distrust between the two parties. There has been some back-sliding in the ease of doing business, and major impediments still constrain trade and investment.

The EIP could be an important tool in reversing this trend. Its three-pronged methodology (combining investment, TA and support for dialogue) presents a much needed integrated approach that could mobilize the necessary financial resources and expertise to enable the country to address the most significant bottlenecks (e.g. lack of electricity and roads) and capitalise on its rich natural resource endowment by upgrading its main agricultural value-chains. By promoting PPD, it would also contribute to creating the required enabling environment; public-private dialogue is instrumental in generating advocacy support for reforms. It is clear, however, that some basic conditions need to be fulfilled so that EIP resources do not go to waste, and are effectively deployed to attain set objectives. These conditions can be formulated as recommendations to be acted upon in the lead to EIP deployment in Liberia.

Recommendation 1: A Comprehensive Participatory Business Reform Plan:

Prior to the deployment of the EIP in Liberia, a thorough diagnosis of the business environment is recommended. It will seek not only to identify binding constraints to private sector growth, but also to design relevant interventions that would be instrumental in bridging gaps in policies, laws, regulations and institutional frameworks in the country. The BER diagnostic would take into account recent and ongoing work by other development partners, notably the WBG. It should be part of a PPD process facilitated by a team of local and international consultants working under the guidance of EU Delegation staff. The success of the subsequent implementation of the BER Plan hinges critically on the involvement of major actors in its design. Moreover, as indicated earlier, the process will be key to reinstating PPD and soothing the climate of distrust that presently prevails.

Recommendation 2: Identification of EIP Support

The diagnostic exercise, including when it covers specific sectors or value chains, will contribute to the identification of investment opportunities under the EIP.

Our preliminary diagnosis clearly points to the agricultural sector and to electricity as potential investment areas; the first because of the expected impact in terms of job and wealth creation, and the second because it will unlock a major bottle-neck that hinders a large range of economic activities at micro, small as well as large scale levels. Such economic diversification will undoubtedly contribute to youth aspirations for non-agricultural jobs, although they are not shunning away from the latter as evidenced under the ongoing EU-funded Liberia Agriculture Programme. An in-depth diagnosis and programme identification will be necessary to provide greater details as to the value-chains and interventions to support, in the light of ongoing and forthcoming EIP windows, without losing track of Liberia's policies and priorities, and the opportunities that deeper regional and continental integration may offer.

The identification will also bear in mind possibilities for regional initiatives, more so because the resulting deepening of the regional integration process will indirectly contribute to the stability of the whole sub-region where several fragile and post-conflict states share borders. Regional EIP programmes will also benefit from economies of scale - a major consideration for instance as regards cost of electricity, which is a significant input in most economic activities.

Recommendation 3: Support to the PPD Process

While strengthening its own policy dialogue with Liberian authorities, the EUDEL would contribute meaningfully to an improved business environment by supporting the resumption of private-public dialogue. Such dialogue is key to an investment climate that is conducive to private sector development, investment and therefore growth and job creation. Given the circumstances prevailing in Liberia, EU support would need to be twin-tracked: support to a credible PPD platform would be complemented by assistance to actors of the dialogue, in particular the private sector. This support will be conducted in the framework of SB4A, providing guidance and best practice.

Our interactions with stakeholders in Monrovia suggest that the new *Liberia Better Business Forum* that SIDA and IFC are planning to launch would win the approval of all parties, and could therefore be supported by the EU. EU backing would imply mainly an endorsement of the mechanism and need not involve financial outlays. EU support to this initiative would underline the coherence between its positions and those of its Member States, while also emphasizing donor coordination. The LBBF could then become the platform to develop the BER plan and to oversee its implementation. It could also serve as an advisory committee to the identification of potential EIP interventions.

6 ANNEXES

6.1 Annex 1 Monrovia PSD Questionnaire (May 2019)

Name of Company (optional):……..

1. Give in priority order what you consider to be the major impediments to doing business in Liberia: (1= highest priority; 4= lowest priority)
    a. Unreliable and expensive electricity……
    b. Unpredictable policies and regulations……
    c. Access to finance……..
    d. Administrative red-tape……
    e. Informal payments required……..
    f. Other (please specify)……

2. In addressing those impediments does your company mainly resort to :
    a. Bilateral lobbying……..
    b. Collective lobbying……

3. Is your company a member of the Liberia Chamber of Commerce?
    a. YES……..
    b. NO……

4. Overall how would you qualify the effectiveness of the advocacy work of the LCC vis-à-vis the Liberian Government? (Tick one answer only)
    a. Very Effective……..
    b. Effective……..
    c. Somewhat effective……
    d. Not really effective……..

5. How would you describe the relationship between the public authorities and the private sector in Liberia?
    a. A relation of partnership……
    b. A one-sided relationship where the private sector has barely any say……
    c. In my sector there is no relationship between the private & public sectors……..

6. It is proposed to revamp the *Liberia Better Business Forum* (LBBF). Under what conditions would such a forum for public-private dialogue win your approval and be successful?
    .....
    .....
    .....

6.2 Annex 2: Schedule of Meetings & List of Resource Persons Interviewed

Date	Resource Persons Met	Organisation
Monday 20 May	Arrival in Monrovia	
Tuesday 21 May	Debriefing at EUDEL with **Mr Theo Kaspers** and Ivan Borisavljevic. Brief meeting with H.E Amb Cavé	EU DEL in Monrovia
Wednesday 22 May	Meetings with EUDEL Staff: • David Palacios • Pia Buller • Vera Kellen • Lorpu Scott	EU DEL in Monrovia
Thursday 23 May	**Mr Jesse Z. Mathies** Assistant Director Division of Foreign Trade and WTO Enquiry Point; **Mr Jefferson Fahn**, National Coordinator, Enhanced Integrated Framework Programme	Ministry of Commerce and Industry
Friday 24 May	**Mr Michael Titoe** (and team), Director, Sector Coordination, MoA **Mr Sherman OTHELLO**, Senior VP, LBDI (and management team)	Ministry of Agriculture Liberia Bank for Development and Investment
WEEK END		
Monday 27 May	**Mr Samson Dee**, Registrar General, MoCI **Mr. James M. Strother**, President, LIBA **Mr L Tolbert**, CEO (cocoa sector)	Liberian Business Registry, MoCI Liberian Business Association Liberia Cocoa Corporation (private company)
Tuesday 28 May	**Mr Melvin TOPAH**, Quality Manager **Mr Frank Alijore, Mr Vaanii BAKER, Ms Rahila Danjuma**, IFC	National Standards Laboratory IFC
Wednesday 29 May	**Mr Abraham GUILLEN** Team Leader, VPA Project **Mr Amin Modad**, CEO **Mr R Antoune**, Secretary, and members	VPA Project, DAI Atlantic Food Company (AFC), Liberia Liberia French Business Club
Thursday 30 May	**Mr Boima BAFAIE**, Prog Manager **Mr Natty Davis** and **Ms Stephanie Duncan** and other members of the LCC **Mr Prutus Sackie**, National Prog Officer and **Mr K Nilsen** **Mr D Boakye** **Mr Jonathan W Roberts** Chief Technical Advisor, and colleagues	SOLIDARIDAD Liberia chamber of commerce Swedish Embassy/SIDA World Bank Food and Agriculture Organization

Friday 31 May	**Deputy Minister J Flomo**, MFDP **Mrs M Bangalu**, Deputy NAO **Ms S Duncan**, SG, LCC **Mr Cesare Colombo**, CEO	Ministry of Finance and Development Planning Liberia Ch of Commerce ICC Inc. Monrovia (Timber sector)
WE		
Monday 03 June	Field Trip to Liberia Cocoa Sector Improvement Programme (LICSIP), Bomi county	
Tuesday 04 June	**Mr Munyeneh**, Adviser to Minister of Finance (never turned up) *Mr K Banda*, Principal Country Economist **Prof W Tarpeh**, Minister of Commerce and Industry **Hon J. Wolokolie**, Deputy Minister, Small Business Administration **Hon Debra Nebo**, Assistant Minister SBA	MFDP AfDB MoCI
Wednesday 05 June	Debriefing at EUDEL **Mr Sam WAZNI**, CEO	 Arrow Alliance (Timber and Rubber wood factory)