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LIBERIA: SMALL AND MEDIUM ENTERPRISE ASSESSMENT

Final Report

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *Special Project / Project Development Division*
USAID / Liberia

Sponsored by: *Private Enterprise Development Support Project II*
Project Number 940-2028.03
Prime Contractor: Ernst & Young

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This Assessment of the Small and Medium Enterprise Sector in Liberia benefited greatly from the shared experiences of the Liberian business persons and officials in Liberia and international agencies contacted and interviewed over the course of the SME Team effort. The SME Team also acknowledges the valuable contributions of Alfreda Brewer, SME Sector Assessment Project Officer and Susan Merrill, Chief, Special Project/Project Development (SPPD) Division of the USAID in the conduct of the study. Their participation and assistance facilitated the Team's effort and provided insights into SME policy and program development issues. The SME Team does accept full responsibility for the content and conclusions of this report and recognizes that findings and recommendations may not reflect policy or program positions of USAID/Liberia.

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EXECUTIVE SUMMARY

The USAID Mission in Liberia has developed and funded several projects that focus on the private sector. The major projects are Partnership for Productivity (PfP); Small Enterprise Financing Organization (SEFO) and the Commodity Import Program (CIP). In order to review overall program strategy for private sector development and define the Mission's role in addressing the issues affecting small and medium enterprises, a Sector Assessment was conducted. Tasks included definition of the SME Sector, description of the current situation, identification of constraints to SME growth, assessment of credit availability from existing financial institutions and identification of possible courses of action for USAID/Liberia.

The team compiled and reviewed an extensive number of relevant studies and printed materials on SMEs and related program development issues. Interviews were conducted with nearly two hundred individuals representing over a hundred organizations and agencies. Unpublished data was obtained from government agencies. This information base constituted the foundation for analyses and the derivation of SME Sector development recommendations.

TARGET POPULATIONS AND PROGRAM DEFINITIONS

The Liberian economy has been growing over the past two years. Factors such as increased prices of export commodities, particularly rubber and iron ore, and adjustment to the parallel market for foreign exchange, among others, are cited as reasons for this growth. The challenge facing the USAID Mission is to develop and implement a program that encourages the SME sector under most conditions, including downward cyclical periods. Such a program must have sufficient flexibility to make appropriate adjustments as necessary. In essence, an outlook not unlike that of the successful entrepreneur will greatly serve the SME Sector program.

The identification of the target populations is essential for USAID SME programming. The assigning of priorities to segments of the SME population as well as to areas of potential business opportunities can be supported by agreement on the basic terminology. The literature on SME development has increased the awareness of international development agencies on the potential inherent in investing in "traditional" and small enterprises. In some instances, these activities have been referred to as the "informal" sector in contrast to large and more formalized enterprises. The term "informal " is widely used when referring to small and medium enterprises. ILO and UNIDO studies have defined informal in terms of size such as less than ten employees, classes of business activities, and in terms of sophistication of technology. For the purposes of the Sector Assessment, the working definition of an "informal" organization was an unregistered business operating without the approval of the Ministries of Commerce and Finance.

SME definitions and target groups should be treated as indicative and not be binding on lending institutions and other SME projects. SMEs operate in the dynamic market place and under diverse economic conditions. SME programs must be sensitive to these factors and must exercise maximum flexibility in considering action plans, project proposals, and applications for loans.

- SME Size: Currently, the Government of Liberia and the National Investment Commission define small enterprises as those with an investment of less than $25,000[1] and medium enterprises as those with an investment of less than $50,000. In view of the *de facto* devaluation of the Liberian dollar in the market, it is recommended that the current limits be scaled up and doubled to allow for the potential to plan for growth. Such an investment definition also allows financial institutions to broaden and diversify loan portfolios to cover some overhead, offer clients differential interest and service charges, and possibly cross subsidize its operations. This is necessary for USAID funded financial institutions such as SEFO and PfP/L dedicated to specific small borrowers and not to large firms. Use of the figure $100,000 for a medium sized enterprise is an approximate indication of size. Some "medium" size enterprises may need loans that exceed $100,000 when considering the type of business and requirements such as working capital. Loans to associations benefiting several firms could easily exceed $100,000.

- Informal Sector: The Sector Assessment indicated that businesses with defined locations, including market women, are all recognized by a formal organization or are registered with the Ministry of Commerce. Itinerant merchants, some cottage industries operating away from the public, and mobile street vendors constitute the unregistered sector in Liberia. Even in the remote rural areas of Liberia, businesses with fixed locations are registered. In view of the almost universal registration of enterprises to be supported through SME programs, it is recommended that the term "informal" not be included for defining target groups.

- Target Populations: Lebanese and Indian business persons are competing successfully in Liberia. Liberian residents from other African nations are doing well and do share some of the constraints faced by Liberian small and medium enterprises. It is recommended that priority consideration be given to Liberians and residents from other African nations. Other foreign nationals, however, should not be totally excluded from consideration. Depending upon the nature of the organizational structure and project or loan proposal, SME programs may find some merit in exercising flexibility in the support of SMEs.

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[1] Figures are in Liberian dollars unless noted otherwise

- Priority Business Activities: Several factors should be weighed in supporting activities in "competitive" or "traditional" areas of business. Producers of products for export are generally within competitive markets and there is no excess of product being generated. Even market women may use SME loans and other support to create other markets or introduce technology changes. There are business activities that may be overdeveloped by SMEs. This is a judgement call and hard and fast rules should be avoided. SME programs may be selective in the types of activities to be targeted. General categories considered by the study team included export, manufacturing and processing, and linkages with extractive and agricultural products. Program preferences could be made for businesses in new industries, those utilizing agricultural and other Liberian raw materials, and those with other competitive advantages.

- Rural And Urban Considerations: Business is customarily envisioned as a formal and urban activity. The primary economic activity of rural areas is agriculture and there is a tendency to distinguish between urban commerce and rural agriculture. Rural areas do have SMEs that support agriculture. In a definition of SMEs that emphasizes private ownership, small farms do qualify. For the purpose of defining the target populations and SME program priorities, the emphasis on rural and urban programs requires clarification. It is recommended that separate urban and rural SME strategies be developed and implemented.

THE LIBERIAN ECONOMY

Liberia is well endowed with a natural resource base consisting of iron ore, diamonds, gold, rubber, timber, cocoa, coffee and fish. The agricultural land reserves are extensive. The economy is dependent on primary commodity production. Much of the rural population is engaged in subsistence agriculture supplemented by cash crops. The linkages between different sectors of the economy and urban and rural areas are weak.

The Liberian economy has been in continuous decline since 1980, although an upturn is evident over the past two years. Capital flight was a serious problem in 1985 and US dollar bills are no longer in circulation. There is a serious reserves and transactions situation in the banking sector that has resulted in less acceptance of checks for payments. There has been a slight recovery since 1987 in the commodity producing sector with the rise of the international prices of rubber and iron ore. With the outflow of company remittances and increased foreign debt servicing, the balance of payments situation is serious.

The Government, under pressure from donors, formulated a comprehensive Economic Recovery Program in 1986. The Recovery Program sought to reduce government expenditures by 5 percent, reduce budget deficits, increase the efficiency of revenue collection, control government expenditures and establish audited accounts for the major public companies. The revitalization of the economy and its restructuring are major tasks. The implementation of this program has been far from satisfactory.

The Liberian economic structure consists mainly of a "modern" sector and a "traditional" sector with very little linkages between the two. The modern sector, with roughly 70 percent of export earnings and 50 percent of real GDP, consists of iron ore, rubber, forest products and few non-agricultural activities. The traditional sector engages about 70 percent of the population in agriculture.

The population of Liberia is estimated in 1989 at 2.5 million. It is estimated that the population in urban settlements with 2,000 and more population increased from 30 percent in 1974 to 40 percent in 1984. The population of Monrovia is estimated at 550,000 in 1989. Roughly 22 percent of the country's population is in Monrovia. The urban population growth rate is estimated at 6.4 percent but Monrovia is estimated to grow at 7.5 percent.

The Liberian labor force was estimated at about 1.15 million in 1985. According to an ILO estimate, the labor force increased at an annual rate of 3.3 percent between 1974-84. At this rate of growth, it is estimated that an additional 35,000 persons entered the labor force annually. The projected growth rates of the labor force indicate that the number of persons entering the labor market will increase to 40,000 in 1990 and 48,000 by 2000. About 75 to 80 percent of the adult population is illiterate.

Approximately 80% of total employment is in agriculture. Trade and government services are the next highest categories for employment. The manufacturing sector, including both large scale enterprises and SMEs, is small at 6.7% of employment. (The contribution of SMEs as a part of the total manufacturing sector is difficult to ascertain may be between 20 to 30% of the value of manufacturing output.) Data on the manufacturing sector are scarce and not always reliable. Based on this estimate, the contribution of SME manufacturing firms to Liberian GDP may be 2 percent or less. Similarly SMEs engaged in trade and serivces contribute around 3 to 4% of the GDP.

Most of the large enterprises and many of the medium size manufacturing enterprises are owned by expatriates. The presence of expatriates is significant in large and medium trade and service enterprises. The SME sector contributes up to 5 to 6 percent of the GDP and 3 to 5% of the total employment, including manufacturing, trade, and services. The Liberians and other Africans dominate in medium and small enterprises. Liberians are involved in small trade and service enterprises.

Vocational and technical education is provided by over 48 schools and vocational training centers run by the government and private agencies. It is reported that the enrollment is available for about 7,000 students and between 1,500 to 1,800 students graduate every year. There are no teacher training programs for vocational/technical education. The teachers and instructors are generally inadequate to deal with the subject matter and practical training. The programs cover a wide range of subjects. The largest number of programs is in the secretarial, clerical and bookkeeping, and in the building, manufacturing and repair trades. Two private institutions, the Arthur Barclay Institute and the Liberia Opportunities Industrialization Center, have been innovative and entrepreneurial in linking training with self-employment and private sector placements.

THE FINANCIAL SECTOR AND SME DEVELOPMENT

The Liberian financial sector has certain characteristics which are not to be found in many African countries. The National Bank of Liberia (NBL), the central bank of the country, has little control over money supply. The absence of exchange controls and import licensing, the open door policy of the Government of Liberia, and the use of the U.S. Dollar as legal tender have made the country attractive for investment. At the same time, the use of the U.S. Dollar and government deficit financing have created problems in bank reserves and interbank transactions.

The financial sector is made up of six commercial banks and four Development Finance Institutions (DFI) in addition to the NBL. The commercial banks are branches of multinational banks and control 80% of total bank deposits. These financial institutions together offer a wide range of financial services which include commercial banking, development banking, specialized lending to enterprises, mortgage lending and trade financing, as well as venture capital. There is no organized and active commercial money market in Liberia to assist in addressing short-term cash and debt problems of firms because such a market requires a high level of organization within the commercial and banking areas.

The banking network is mainly located in Monrovia with about 13 branches located in the rural areas. Because of the subsistence nature of much of the economic activity in rural areas, inadequate infrastructure, low financial sector development, and high minimum balance requirements by the banks, the foreign banks are located only in the capital city. Today, all of the 13 branches in rural areas are owned by DFI. Despite this low level of indigenization of the banking system, savings have grown from $30 million in 1974 to $60 million in 1988. This is an indication that as the monetized section of the economy grows, there exists a large potential for savings mobilization.

The National Bank of Liberia (NBL) was created in 1974 with all the powers of a central bank except the right of issuing bank notes. U.S. dollar notes are legal tender in Liberia and Liberian currency consists of coins up to the maximum denomination of 5. Because of this unique situation, NBL has little control over money supply except to the issuance of Liberian coins. The economy can expand or contract automatically as a function of the balance of payments.

The NBL effort to finance the Liberian SME sector started in 1981 with the signing of the International Development Agency (IDA) credit of US $3.4 million for the SME. The NBL played the key role by lending the funds at attractive spreads to the participating financial institutions, i.e., the Liberian Bank for Development and Investment (LBDI), the Agricultural and Cooperative Development Bank (ACDB) and the Small Enterprises Financing Organization (SEFO). Most of these funds went to finance already existing businesses.

A credit guarantee scheme was also introduced under the IDA credit in 1981. The NBL, to encourage institutional finance to the Liberian entrepreneurs by providing a degree of protection to banks against possible losses on loans and advances granted by them, established a special credit guarantee fund with an initial contribution of $500,000 to provide coverage to the scheme. The response to the scheme was not very encouraging. The objective of encouraging the banks to increase their lending to Liberian owned SMEs has not been achieved to the extent expected. On the other hand, NBL has not been satisfied with the quality of lending and the attitude of the banks to treat the guarantee as a measure of the first resort rather than the last resort.

To date, the NBL has not played a substantive role in SME promotion in Liberia. This situation is due mainly to the Bank's lack of financial resources. Originally, the ability of the Bank was restricted by its own modest capital base, and handicapped by the authority to mint only change coins. This situation precluded any ability on the part of the Bank to expand and contract the supply of money. Later, when the Bank proceeded to issue the $5 coin, it had already become heavily indebted and beholden to the commercial banks. Additionally and contrary to established norms, the expansion of the stock of money by the issuance of the $5 coin was monetized by ways and means advances to the Government to finance recurrent expenditures rather than to finance productive activities through the banking system. In the case of IDA credit, the NBL had played only an administrative role by establishing a project analysis section to coordinate the lending. The credit guarantee scheme has yet to be proven. The NBL is also responsible for the management of foreign exchange reserves of Liberia and for the regulation of interest rates. Its actions in these areas have an effect on SME development.

Interest rate policy is generally used to obtain what is considered to be a socio-economically desirable pattern of resource allocation to promote orderly and sound growth in the economy. It is used on the one hand to encourage the utilization of savings and on the other hand to supply investable resources to sound investment opportunities. The NBL has, since its establishment, issued several regulations setting savings and lending rates, taking into consideration both the domestic and international financial environment. Today interest rates within the commercial banking system do not conform to the levels set by the NBL. Actual lending interest rates of commercial banks vary in relation to factors such as credit rating, quality/quantity of collateral, and profitability. Lending rates in Liberia are very close to the maximum permissible under usury law (25% per annum). This has led to a very high spread between the deposit rate and the lending rate.

SME Team interviews with banking executives indicated that lending policies will not change in the near future and credit from these institutions to Liberian owned businesses is very unlikely. Three main reasons were given to explain the commercial banks' shift away from such credits:

- Most local businesses have been undercapitalized and otherwise structurally weak in terms of their ability to cope easily with changing economic conditions. Management has been generally inadequate to deal with rapidly changing conditions.

- For various reasons, not entirely under the control of these businesses, they have been unable to meet repayments on their debt obligations. External influences such as falling commodity prices or foreign exchange unavailability made it impossible for some to continue operating.

- There has been a record of inability of the banks to collect their money or on collateral through the courts. There are excessive delays in having cases heard in court. Not only have these delays been unrealistic, but in the end the court invariably found for the debtor and banks have lost confidence in courtroom remedies to their credit problems.

DEVELOPMENT FINANCE INSTITUTIONS

The four organizations that are considered Development Finance Institutions are the Liberian Bank for Development and Investment, the Agricultural and Cooperative Development Bank, the National Housing and Savings Bank, and The Small Enterprises Financing Organization.

- Liberian Bank for Development and Investment (LBDI): The LBDI was established in 1965 for financing productive enterprises in manufacturing, agriculture, tourism and services. In the past, the Bank's form of lending has been medium to long-term loans with 6 to 10 year maturities, typically for the financing of capital assets. Presently, LBDI's loans are largely short-term working capital loans. Analysis of the LBDI Annual Report showed that in 1988, 33.6% of the approvals had maturities of under 24 months and the remaining 66.6% had maturities between 24 and 71 months. In recent years, most of LBDI financing has been for the trade sector dominated by merchants and this trend continues presently. The Bank argued that the lack of foreign exchange has curtailed its traditional financing of capital assets for industry. Beside the IDA credit, very little of financing went to the SME sector.

- The Agricultural Cooperative and Development Bank (ACDB): The ACDB was established in November 1976 to a) provide agricultural credit either directly and/or through co-operative societies; b) develop rural areas and c) provide technical assistance to farmers/cooperatives. ACDB, of all the financial institutions in Liberia, has the most extensive branch network. It has eight branches including the main branch in Monrovia. The remaining seven branches are located in rural areas.

- The National Housing and Savings Bank (NHSB): The NHSB started operations in 1976. It is fully owned by the Government of Liberia with paid up capital of $5.0 million. Its main objective was to deal in housing mortgage loans and personal loans. NHSB's charter authorizes it to undertake commercial banking. Since 1979, after several bad loans to the housing sector, the bank stopped making loans to that sector and got involved in commercial loans. Presently, commercial loans account for 80% of total loans portfolio compared to 15% for real-estate mortgages. The NHSB did not participate in the IDA credit for SME financing.

- The Small Enterprises Financing Organization (SEFO): Created in 1981, SEFO is a component of an official project under the title "Small and Medium Enterprise Development" which was initiated at the time when the National Investment Commission was established. The broad objective of the SEFO is to assist Liberians in establishing and managing small and medium-scale enterprises. The program offers technical, managerial, and financial assistance to small businesses. The Small and Medium Enterprises Department (SME) at the National Investment Commission (NIC) provides technical and managerial services while SEFO is responsible for financial assistance to small enterprises in the form of term loans, working capital loans and equity participation. As of April 30, 1988, SEFO had committed 250 loans and disbursed $2,024,702. Loans have averaged about $8,100. They are for a wide variety of undertakings, including vehicle repair facilities, metal working, cement block production, pharmacies, retail shops, tailors, advertising companies, and poultry and piggeries. SEFO has concentrated on the financial and managerial needs of relatively well-off small scale firms.

THE PARTNERSHIP FOR PRODUCTIVITY (PfP)

Partnership for Productivity/Liberia (PfP/L) was established in 1974 by PfP/International. PfP/L's broad mandate was to diversify the economic base and improve the standard of living in Nimba County which is the second largest county in terms of population. Initially, it concentrated its early efforts within the Lamco concession area to generate alternative employment opportunities for thousands of mine workers. As the difficulty of this proposition became more apparent, PfP/L reoriented its program toward a rural development project. Its activities included small business assistance, savings program, and loan program.

Compared to the $181,383 in savings mobilized in 1987, PfP/L was able to mobilze savings amounting to $385,259 in 1988. Of this amount, $194,880 was "rolled-over" in the loan program. The average amount of savings per saver in 1988 was $40. The total amount of loans disbursed in 1988 amounted to $811,256 compared to $331,520 in 1987. New employment generated was 2,519 for an estmated cost per job created of $322.

Of all the financial organizations, the credit scheme of the PfP appears to be quite effective for small enterprises. Their credit assistance has concentrated on productive and service oriented activities such as poultry, beer processing, carpentry, tailoring and retail shops. Average loan size is $500 and since 1980, 60 percent of loans are for expansion; the remaining for new businesses. The repayment rate has been as high as 95 percent. The main reason for the high repayment rate is the efficient loan collection system of PfP and its grass roots approach. PfP works closely with the Market Women's Association and Farmer Development Associations. These relations have supported the mobililization of savings and as a means to check references on borrowers. PfP has a relatively large staff; 43 personnel including 27 persons who are actively engaged in extension or advisory services to the enterprises which have received the loans.

CONSTRAINTS TO SME DEVELOPMENT

Although the Liberian economy is reputed to be a *laissez faire* economy because the government has maintained a long- standing open door policy toward foreign investment, it is far from such from the point of view of domestic small and medium sized businesses. While a laissez faire economic philosophy must be coupled with free access to economic opportunities, all businesses do not have equal access. Some can take advantage of rent seeking, profiteering by those with power to grant economic favors, as a means to unfairly influence decisions.

Opportunities for profit making in the private sector abound because the country is extremely rich with natural resources. The government's policies and the rent seeking activities increase the costs of doing business and create additional risk and uncertainty for new investment. They define a complicated set of rules by which business is conducted in Liberia. The difficulties that they create can be avoided or bypassed if one learns how to play within the rules of the game. Many of the constraints are created to be bypassed and many businesses in Liberia have done just that. They have used different techniques to survive and prosper in the present economic system. The majority have been initially foreigners to Liberia: the Lebanese, Ghanaians, Guineans, Indians, Chinese, Americans and Europeans. The indigenous Liberians have not prospered as well as the other groups and remain mainly in agriculture. In business, the Liberians operate mainly in the small and medium enterprise sector.

While one could consider all of the factors, such as access to credit, that make up the rules of the game as constraints to businesses, large or small, many businesses have managed to transform these into challenges and have succeeded in spite of them. Therefore they cannot be called true constraints. The Liberian SME has not been able to do as well. The true constraints are the factors that have impeded the Liberian SME from competing as successfully as other groups. These constraints are the lack of skills and education, the lack of organization, and the lack of innovation and entrepreneurship.

System Characteristics

The economic system of Liberia is characterized by a major rift between "de jure" regulation (rules and regulations on the books) and *de facto* liberalism (in practice, a lack of regulation and economic constraints imposed by government). The system can be defined by three major characteristics: economic policy making that results in a proliferation of regulations which are often determined hastily, not well implemented and are often abrogated with the help of government officials; the open door policy which has allowed much foreign access to economic opportunities but has also allowed capital flight (repatriation of capital and profits); and the lack of an effective judicial system to uphold business contracts and agreements which increases the risk of doing business in Liberia.

Organization

A very important factor of success used by successful competitive groups is organization. They have created marketing networks and financial networks. Business organizations have been created that improve efficiency of production by dividing responsibilities according to specialization. Organizations have formed to make common use of physical capital and to pool financial resources to buy in bulk thus having access to lower prices and better quality inputs.

The only formal organizations that have been formed by Liberian businesses are the three unions which provide the smallest and least profitable occupations (for example, the market sellers and taxi cab owners) with protection, reduction of risks, and the means of spreading tax payments over a longer period of time. This has been very beneficial to the market sellers, the tailors and the taxi and bus drivers. Other Liberian businesses have not organized to provide support to their business activities. In part, this may be due to mutual distrust and competition that comes from a lack of education.

Another important reason why few working organizations have been formed is that most small entrepreneurs have a very short term economic outlook. Their internal rate of discount is so high that the notions of building long term institutions and similar investments of time and money hold little value for them. That is, due to a lack of a steady cash flow, cash holds a premium that can reach very high levels for the small entrepreneurs. They will be willing to give up substantial revenue flows in the future for a small amount of cash today. They do not place enough value on the earning of future cash flows. This can only be dispelled slowly and with good business management training, education, evidence of results, and good role models.

Private organizations are slowly forming as more small entrepreneurs begin to understand the value of support groups and working together. Privately, the Liberia Community Health Care Association (LCHC) is forming to support private clinics and hospitals throughout the country. A few educated businessmen in the woodworking, ready-made garment and metalworking industries are being helped by UNIDO to group themselves into associations. It is interesting to note that these associations are being spurred by educated Liberians, with the longer term in mind. Groups such as these can be very instrumental in providing skills, mutual financing and common use of expensive equipment such as a kiln for the woodworkers and a showroom to display their products. They can pool their resources to buy in bulk and reduce the price of their inputs. They may provide much needed moral support and motivation to individual entrepreneurs, especially those that are just starting out.

Many successful competitive groups have shown that they have the ability to make their businesses a success by aggressively marketing their products, entering new product areas, and taking other measures to seize business opportunities. Liberian small entrepreneurs tend to enter business activities that are already crowded and extremely competitive. Even in very competitive industries such as market selling and woodworking. There is little effort to use new approaches to marketing. In great measure, this lack of entrepreneurial skills can be improved with education and support groups which will

provide them with security, and self assurance. Improvement in their business endeavors will be the greatest source of motivation for the Liberian small and medium enterprise.

LIBERIAN GOVERNMENT AGENCIES

Reviews of the key agencies that are involved in SME development and that affect SMEs are presented below:

- Ministry Of Commerce And Industry (MCI): The MCI is responsible for promoting, developing, and regulating all commercial and industrial activities in the country with three major bureaus: Commerce, Industry and Central Administration. The Ministry is currently monitoring the activities of almost 4,000 businesses in and outside of Monrovia with a staff of only 230 persons and inadequate logistical support for surveying the market and for reaching businesses to properly monitor, promote, and regulate their activities. As an incentive for small businesses to register, MCI has lessened the annual registration fees from $200 to $100 for the small entrepreneur. As yet, the Ministry has no other specific policies for developing the SME sector. Consultations have been held with an advisory mission of the United Nations Industrial Development Organization to assist in developing a program for expansion of this sector. MCI has requested reexamination of the Investment Incentive Code to accelerate industrial growth and development as well as to encourage the promotion of SMEs.

- Ministry Of Finance (MOF): The primary function of the MOF is the fiscal operation of Government including revenue collection, expenditures, and debt management. The Revenue Department of the MOF consists of three bureaus: Internal Revenue, Customs & Excise, and Income Tax. Through the various divisions of the Revenue Department, the MOF collects revenues from the private sector in the areas of real estate and realty leasing, national identification cards, motor vehicles, income tax, corporation and partnership, national reconstruction, health, development & progress revenue, customs duties, transhipments, special releases & bonds, rubber sales, royalties on the gross sales of iron ore, diamond & gold, dividend and profit sharing revenue, and miscellaneous taxes. The MOF monitors the activities of Concessions in the Mining, Agricultural, and Light Industr Sectors. Trends in production, prices, and exports for Liberia's natural resources of iron ore, rubber, forestry, and oil palm are studied in the mining and agricultural sectors.

- Ministry of Planning and Economic Affairs (MPEA): The MPEA is the overall monitor for the various Government Ministries. The three bureaus are Sectoral Planning, Rural Regional Planning, and Economic Affairs. The activities of the MPEA are in the basic areas of research and statistics, monitoring of agreements and specific projects, and overseeing budget allotments for the various Ministries of Government. The MPEA is responsible for the drawing up and implementing the 3-year and 5-year economic development plans for the country. It is the responsibility of the MPEA to monitor the development projects set by each Ministry, to approve their quarterly allotments, and to ensure that their quarterly achievements are within the overall national development plans. The MPEA has identified the

following obstacles which need to be tackled in order to bring about needed structural adjustment changes: an inadequate development budget, the fiscal/foreign exhange systems, insufficient physical facilities, and an inadequate agricultural revenue base.

- Ministry Of Agriculture (MOA): The agricultural sector has the potential to accelerate the economy of Liberia. Approximately 70% of the country's population reside in the rural areas and more than two-thirds of the country's population depends on agriculture and related activities for their livelihood. Given the national objective for agricultural development, the dependency upon agriculture in the rural areas, and the contribution agriculture can make to the Liberian economy, the role of the MOA is important, directly and indirectly to the development of SMEs. MOA is situated to serve as a catalyst for the private sector and research institutions, like the Central Agricultural Research Institute (CARI) and the University of Liberia College of Agriculture and Forestry, to provide services to farmers and cooperatives, and rural enterprises. MOA could also provide incentives to producers to export crops in order to maximize their returns from the world market prices for themselves and for the economy as a whole.

- National Investment Commission (NIC): The NIC was created by an Act of the Legislature in September, 1979 to coordinate the investment policies of Liberia and to efficiently promote a more effective conclusion of investment agreements related to all sectors of the economy. The Commission receives, evaluates, and processes all investment agreements in collaboration with relevant Ministries and Agencies of Government. The NIC is a semi-autonomous agency which reports to a Board of Directors from the Ministries of Commerce, Finance, Planning & Economic Affairs, and from any other Ministry or Agency related to the particular sector of investment (i.e., Agriculture, Mining and Forestry). It is the only agency of Government to guide and monitor investment proposals. The SME Department of the NIC was instituted by Government approximately 6 years ago to help develop the SME sector. Currently, this department is catering to those who have requested project assistance in the areas of woodworking, carpentry, blacksmithing, animal husbandry, and restaurants. NIC/SME activities are primarily in the areas of Industrial Extension Service and Training, and Product Marketing. Investment proposals are screened and appraised in accordance with the Investment Incentive of Liberia. Evaluation reports are prepared for the review of NIC's Board of Directors and technical committee. The NIC is focusing more attention to provide managerial and technical assistance in an effort to promote indigenous businesses. For the period covering 1988, the NIC headquarters in Monrovia reported that out of 36 applications submitted, 14 projects were evaluated and approved. Six out of the 14 projects were implemented to a total investment of $6.4 million.

- Liberian Industrial Free Zone Authority (LIFZA): LIFZA was established in 1975 to induce foreign investment, promote exports, increase employments and improve industrial technology through the usage of local raw materials. LIFZA is a semi-autonomous agency headed by a Chairman, General Manager, and directors who collectively are accountable to a Board of Directors. The rules and regulations governing the admission of

industries are drawn up by LIFZA in consultation with the Ministries of Commerce & Industry and Finance. The Administration of LIFZA acts on behalf of various government agencies in handling matters with the Free Zone. In its 14 years of operation, LIFZA has a meager portfolio of investors operating within its Zone. The projected goals set at its inception for attracting investment capital, generating export sales, and creating job opportunities were severely hampered by political occurrences which interfered with an otherwise stable investment climate.

FINDINGS AND CONCLUSIONS

The following presents a summary of selected findings and conclusions affecting SME development which provide the basis for program and project oriented recommendations.

Economy

The Liberian economy has been affected greatly by the "open door" policy of encouraging foreign investment and private sector activities. Liberia has a rich natural resource base, an expanding population, and opportunities for new economic activities for small, medium and large enterprises.

- The Liberian economy has three major components: concession activities in mining of timber and rubber; the urban economy of Monrovia; and the agriculturally-oriented economy of the rural areas.
- The domestic market for consumer goods and services is segmented (enclave, rural and urban) and is small

Finance

Government deficit financing has affected the conduct of business through financial institutions. Checks are discounted and often not accepted for business transactions. Deposits are not encouraged and even large businesses have difficulty in arranging business loans.

- Foreign exchange is not readily available for SMEs without large resources and established bank relations.
- There are overhead costs and risks of default in providing credit to SMEs.
- Interest rates at commercial banks vary according to customer classifications and ranges up to 24% per annum. Interest rates are higher in other less formal markets.

Constraints

All businesses, even concession ventures, face an adverse business environment and the risk of failure. Programs can support the development of SMEs through addressing factors that can affect success.

- There is a shortage of skilled workers and managers and a low demand for their services.

- Training or technical services in business planning, management and related entrepreneurial skills are not generally available for persons seeking to start businesses.

- SMEs face strong competition in many domestic markets from larger expatriate firms and other SMEs.

- Liberian SMEs often encounter discrimination when marketing their goods and services.
- Technology *per se* is not a major constraint. Training is the main component in productivity, technology upgrading, and adoption of new technologies.

Government and Other Institutions

Government is committed to an open door policy, actively involved in the development of concession activities, and has been, at best, ineffective in stimulating and supporting SME development. Few other institutions are engaged in SME development.

- Government policy to stimulate SME development exists and is generally not being implemented.

- Rent seeking and rent giving exists for all levels of government and business.

- Private associations of enterprises and individuals are important for SME development for the exchange of business information in pursuit of common interests and potential for political recognition of business requirements.

- PfP and SEFO can play important roles for SME development.

Program Strategy

New ventures at all scales of business activity are being undertaken in Liberia. SME Programs entail some degree of risk in supporting certain firms and types of business activity. Successes and failures are characteristic of businesses of any size and category.

- Opportunities exist for linkages of SMEs in agriculture, labor-intensive manufacturing, and export goods.

- SMEs with fixed and public locations are registered with the Ministry of

Commerce or through government recognized associations. Informal SMEs, if defined as unregistered businesses, are not a major consideration for program strategy.

- There are relevant distinctions for the methods of production and marketing practices in the urban, rural and concession components of the economy.

- A few rural counties experiencing economic decline contribute to the increased population for Monrovia. Rural outmigration is not spread throughout the country.

PROGRAM RECOMMENDATIONS

Definitions of SMEs should be adopted that are operational and that recognize the diversity of SME economic activities and the appropriate scale and size of firms according to industry types and other factors. Financial definitions of SMEs should recognize the inflation and devaluation effects on the Liberian dollar. We recommend an initial investment of $50,000 or lower as defining a small enterprise and $50,000 to $100,000 as defining a medium enterprise. Small enterprises, other things being equal, should be given priority in SME programs. Other key considerations, however, are viability of the enterprise and jobs created. Loans in excess of the $100,000 level should be considered for enterprises that meet other SME program objectives. Hard and fast rules should be avoided.

It is recommended that priority consideration be given to Liberians and residents from other African nations. Other foreign nationals, however, should not be totally excluded from consideration. Depending upon the nature of the organizational structure and project or loan proposal, SME programs may find some merit in exercising flexibility in the support of SMEs.

Separate SME strategies for urban, rural and enclave components of the economy should be developed. The urban economy in Monrovia should be given the highest priority for SME program development. The PfP effort should be expanded into Bong and Lofa Counties to support the rural SME program effort. Concession oriented SME development will require special studies to determine opportunities and feasibility of SME activities.

Credit

Programs should be supported that facilitate timely access to or denial of credit. Business loans should be structured to recognize working capital needs in addition to start-up costs.

- Operations and follow-up support costs are associated with SME lending programs and should be explicitly recognized.

- SME lending programs should lend at interest rates tied to the market.

Technical Assistance, Technology Transfer and Training

Selected marketing and feasibility studies should be conducted on primarily export-oriented products that incorporate use of available manpower in labor-intensive industries, processing of agricultural produce, and utilization of semi-skilled or unskilled labor.

- Young Liberian business leaders should be selected and trained with intern/counterpart training programs in the United States.
- Entrepreneurship development programming should be utilized to identify potential entrepreneurs and provide them with training and other technical assistance.
- Personnel in key PVOs and other organizations should be trained in proven SME approaches in third countries.
- Intensive outreach is recommended to inform the extensive SME community of opportunities for loans, technical assistance and training.

Institutional Development

The continued organizing and development of associations of SMEs including trade, processing, and services industries should be encouraged. Selected NGO/PVO organizations should be supported to provide credit, technical assistance, and training for SMEs. Key organizations are PfP, SEFO, Arthur Barclay Institute, and the Liberian Opportunities Industrialization Center (LOIC).

- The basic charter and objectives of business organizations such as the Chamber of Commerce should be recognized and their participation in SME programming should be encouraged.
- The USAID Mission should cooperate with other programs that support SMEs such as the National Investment Commission (NIC) and the College of Business and Public Administration of the University of Liberia.
- SME programs should support the use of local consulting groups.

Policy

The Mission should continue its health, education, and basic infrastructure (road construction and maintenance) programming as supportive to SMEs in the long run. Use of SMEs should be encouraged in all local US contracting, including USAID Mission programs, U.S. Embassy activities, and military assistance.

The Mission should be alert to other opportunities to encourage SME development. Public information programs can be undertaken to identify sources of information and assistance in starting new businesses. Mission discussions on SME development should be targetted with selected Liberian Ministries, especially the Ministries of Commerce and

Industry; Finance; and Planning and Economic Affairs. The following topics are recommended for these discussions:

- Development of a long term plan that recognizes SME development requirements.
- Publication of statistics that affect business planning.
- Active support of SMEs in Government contracting including set asides for SMEs and subcontracting arrangements through prime contractors.
- Review effects of tariffs on SMEs requiring imported inputs and make appropriate changes.
- Support NIC efforts and incentive programs for SME development.

PROJECT RECOMMENDATIONS

The following project recommendations are based on SME findings and program recommendations. Project recommendations can be classified according to separate strategies for the urban, rural, and concession components of the Liberian economy. There is overlap across these components for many of the recommended projects. Projects in Monrovia should be given the highest priority due to the opportunites for SME development and urban demand for SME technical assistance. SME development in Monrovia would also address the issue of urban underemployment and unemployment.

Entrepreneurship Development

The promotion and development of medium and small industries depends on the entrepreneurial resource in the community. The experience in many developing countries indicates that entrepreneurs do not respond spontaneously to business ventures despite availability of opportunities and various incentives. Entrepreneurship development programs (EDP) are an effort to enlarge the pool of new and potential entrepreneurs who will be ventures. It is also essential that the new entrepreneurs should come from non-traditional groups, thereby breaking the monopoly of the dominant and established business groups and communities and diversifying the entrepreneurial resource base in the country. The EDP activities can be seen as an aspect of the human resources development to tap the human potential not only through the creation of small and medium enterprises but through self-employment projects both in the urban and rural areas.

Entrepreneurs International

This is a AID/W operated program under which young business managers, owners, and CEOs from developing countries are selected and offered an opportunity to work with their counterparts in the US for four to six weeks to gain first-hand exposure in a small business environment. It is a very valuable experience for young managers/owners. We recommend that at least four young Liberian managers/owners may be offered such an opportunity every year.

Training and Development

The opportunities for management training and development programs for Liberian managers are extremely limited. Given below are some of the training topics based on the discussions with some of managers and professionals in business.

- Export Marketing Workshops
- Financial Analysis of Investments
- Uses of Technical Information and Technology Transfer

Self-employment for Technically Qualified Young Persons

Many of the unemployed in Monrovia are young and educated at least to the high school level. Some of them are technically qualified and trained from private and government technical institutions. The public or private sector has not absorbed these persons and they can serve as a valuable resource to the industrial and public sectors that may need trained technicians. Arthur Barclay Institute and Liberia Opportunities Industrialization Center should be considered to implement self-employment programs. Arthur Barclay Institute's woodwork shop acts as a common service facility. LOIC has been functioning over the last ten years and has trained over 1,000 semiskilled technicians and almost 60 per cent have been placed in jobs.

SME Special Studies

The domestic market in Liberia is small and limited and as such enterprises based on import substitution become uneconomic due to the small size of the market. Many manufacturing units depend on imported raw materials, equipment, machinery and spares. The major raw material resources of the country are iron ore, rubber and timber. In view of the small size of the domestic market, another option is to identify international markets based on proper product analysis and market research. A series of market feasibility studies should be undertaken to establish viable export-based manufacturing units. These studies will identify the constraints and comparative advantages of locating such units in Liberia and the types of manufacturing activities that are best suited to the Liberian situation:

- Market and Feasibility Studies: International market studies can identify and study principal markets for the product groups in North America and Europe through desk and field research. Importers, potential partners and level of interest can be determined. Technology sourcing and infrastructure requirements should be identified. Policy, finance and investment factors should be considered.

- Liberia Industrial Free Zone Authority (LIFZA): LIFZA was established in 1975. Although the GOL policy favors export oriented foreign investments, promotion of exports, the Free zone has been a dismal failure and remains greatly underutilized. The export oriented manufacturing strategy will depend on the revitalization of LIFZA. It is recommended that USAID may undertake a study aimed to improve the performance of the

Free Zone Authority.

- o Technical Assistance Strategy: The studies proposed above are viewed as coordinated technical assistance efforts to private sector firms and potential investors. The studies are institution building efforts for strengthening the Chamber of Commerce, trade associations and private sector consulting firms in Liberia. Each study may require a minimum period of two years.

Institution Development

In the early 1980s, there was a concerted effort on the part of Government Ministries, the World Bank, the International Monetary Fund and other development agencies to assist the SME sector. The Small and Medium - Scale Enterprises Development (SME department) of the National Investment Commission was started in 1983. While many feasibility studies and business proposals have been completed by the SME Department, the lack of loan funds has hampered may of the SME projects. NIC is presently primarily engaged in evaluating large scale investment proposals. The 14 projects implemented through NIC in 1988 averaged an investment of nearly $500,000. The Government of Liberia, for several reasons, is largely uninvolved in SME development. SEFO, PfP, Liberian Opportunities Industrialization Center, and the Arthur Barclay Institute are conducting viable programs for SME development.

- o Strategy and Coordination: For the next 4 to 8 years, a USAID sponsored SME Project could serve to provide research/development and coordination of services. Such a project would provide USAID officials with resources to assure attention on the following areas of need identified by the SME Sector Assessment.

- o Small Enterprises Financing Organization: SEFO has gone through very difficult times organizationally and financially. The affairs of the agency appear to be stabilizing. The loan portfolio is becoming reliable, application appraisal systems are more sound and the repayment rate is improving. SEFO has a small and dedicated field staff. Their activities are limited to client investigation, loan appraisal, approval, follow-up and some technical assistance. It is recommended that USAID review the small industry development strategy in Monrovia and determining what role SEFO may play. If SEFO has two distinct objectives (development and promotion of SMEs and credit delivery), separate criteria need to be established for evaluating SEFO's performance. Cost recovery or self-sufficiency should not be expected for the development task.

- o Partnership For Productivity/Liberia: PFP has been working in the Nimba County for more than a decade and focuses on providing rural credit and generating savings. The loan portfolio includes loans for agricultural operations, retail operations undertaken by market women, and a variety of establishments such as pharmacies. Some productive and manufacturing units are also recipients of loans. PfP is doing very useful work and has an extremely dedicated complement of headquarters and field staff. After a decade of pioneering work and in view of the proposed plan to extend

operations to new counties, PfP and USAID need to reexamine the PfP role and future tasks.

- Commodity Import Program: The Commodity Import Program (CIP) provides foreign exchange to private and public sector agencies through a designated bank on a one to one basis to import machinery, equipment and raw materials from the United States for producing units. Certain features of the CIP could be modified to make it much more relevant to the needs of the SMEs. CIP foreign exchange could be provided to SMEs directly or through intermediary agencies such as LBDI, SEFO and PfP.

SECTION 1

INTRODUCTION

Over the past ten years, the United States Agency for International Development (USAID) has placed an increased emphasis on the private enterprise sector to support development objectives. In Africa, USAID Missions are engaged in direct programs for private enterprise development. Included are: Economic Policy Reform (EPRP), privatization (divestiture of parastatal organizations), reduction of civil service employees through early retirement and departure programs, reform of government agricultural marketing and pricing practices and similar programs designed to tap the energy and resources available through private individuals and organizations.

The USAID Mission in Liberia has developed and funded several projects that focus on the private sector. The major projects are Partnership for Productivity (PfP); Small Enterprises Financing Organization (SEFO) and the Commodity Import Program (CIP). In order to review overall program strategy for private sector development and define the Mission's role in addressing the issues affecting small and medium enterprises, a Sector Assessment was conducted.

The firm of Arthur Young, under contract with the A.I.D. Bureau for Private Enterprise, assembled a project team to conduct the Sector Assessment. Two firms under subcontract to Arthur Young, MetaMetrics Inc. and The Services Group, provided team members. Two independent consultants also participated on the team.

The purpose of the Sector Assessment was to present findings and recommendations concerning the potential role of USAID/Liberia in assisting small and medium enterprise (SME) development. From collected data, the team conducted analyses for deriving study conclusions and recommendations. Tasks included definition of the SME Sector, description of the current situation, identification of constraints to SME growth, assessment of credit availability from existing financial institutions and identification of possible courses of action for USAID/Liberia.

1.1 SECTOR ISSUES

In developing recommendations for courses of action to support small and medium enterprise development, there were several issues to be addressed. The Sector Assessment provides additional information and analyses to clarify these issues. The issues of SME development that affect the SME strategy and program development to be undertaken by USAID/Liberia include the following:

- Definitions: Identification of target populations of proposed programs depends upon SME needs and opportunities. Clearly defined terms can assist in developing appropriate SME programs.

- Markets: The relationship of the Liberian economy to the West African and general international trade will affect SMEs. The size of domestic and foreign markets is an important consideration.

- Resources: Labor, management, natural resources, technology, infrastructure and capital equipment are the necessary ingredients for SME operations.

- Organizational Considerations: Existing institutions, private and governmental, affect the SME Sector. Deficiencies can be addressed by program actions.

- Regional Differences: Urban and rural distinctions may require tailored approaches to support SME development.

- Cultural Considerations: The composition of the Liberian population, traditional business arrangements and practices and related cultural elements require attention to assess the effect on SMEs.

- National Policy and Programs: The national administration and the orientation of government agencies affect SMEs as well as other segments of the economy that have an impact on SMEs.

1.2 SECTOR ASSESSMENT METHODOLOGY

The five person team conducted the Sector Assessment over a six week period in April and May of 1989. Tasks were allocated as follows:

- Team Leader and Project Director: Leo T. Surla, Jr.

- Definition of the SME Sector and Current Situation: Bapu R. Deolalikar

- Team Scheduling, Listing of Agencies and Role of Government in SME Development: Luesette S. Howell

- Government Policy and Non-governmental Constraints: Micheline Mescher

- Credit and Financial Institutions: Ibrahima Seydi

There were substantial interrelationships between the tasks and each team member addressed these areas within the context of the assigned task. All team members participated in the analyses and discussions that resulted in the findings and recommendations.

The team compiled and reviewed an extensive number of relevant studies and printed materials on SMEs and related program development issues as listed in the bibliography. Interviews were conducted with nearly two hundred individuals, representing over a hundred organizations and agencies. Unpublished data was obtained from government agencies. This information base constituted the foundation for analyses and the derivation of SME Sector development recommendations.

SECTION 2

SECTOR ASSESSMENT FRAMEWORK AND DEFINITIONS

According to several observers and selected indicators, the Liberian economy has been growing over the past two years. Factors such as increased prices of export commodities, particularly rubber and iron ore, and adjustment to the parallel market for foreign exchange, among others, are cited as reasons for this growth. The small and medium enterprises sector is greatly affected by external factors such as the overall health of the economy. Clearly, any policy or related program activities that foster the overall economy will eventually have an impact on small and medium enterprises.

Similarly, external factors can adversely affect the general economy and the small and medium enterprise sector. The closing of the Lamco Iron Ore Mine in Nimba County would affect local employment in Yekepa and Buchanan as well as government revenues. If no substitute activity were developed, the Liberian economy would experience a serious setback.

The challenge facing the USAID Mission is to develop and implement a program that encourages the SME sector under most conditions, including downward cyclical periods. Such a program must have sufficient flexibility to make appropriate adjustments as necessary. In essence, an outlook not unlike that of the successful entrepreneur will greatly serve the SME Sector program. To assist USAID in the process of developing an overall program and the supporting project components, the Sector Assessment was designed to focus on analyses that were "operational" or oriented to defining a Sector program that is realistic and appropriate to Liberian conditions. By the same token, the vision of an effective SME Sector was also retained and related policies are also identified. The Sector Assessment was based on key definitions that can assist in developing an operational program. Also identified were the broad categories of program options and areas of opportunity for SME development.

During the final week of the SME Team's work on site in Monrovia, discussions were held with Mission personnel to translate findings and recommendations into concrete and specific prospects for SME programs. Constraints and opportunities for SME development were reviewed within the context of organizational resources available in Liberia. Project possibilities are presented in Section 8, SME Program and Project Recommendations.

2.1 SME PROGRAM STRATEGY

Economic Development has been described as the process of allocating scarce resources to achieve specific objectives. The intent is to increase specific measures of economic well-being such as per capita income, health indicators including life expectancy and infant mortality rates and assets and infrastructure indicators such as quality housing and electricity consumption. Ideally the political system enveloping the economy allows for freedom of choice in professions or economic pursuits, places to live and individual life styles. The open door policy of Liberia encourages investment and participation in the

economy by non-Liberians. The Lebanese and Indian communities are vital to commerce, agriculture and the limited manufacturing sector.

A new generation of Liberians is entering the economy as entrepreneurs. Individually and sometimes in association with Lebanese and expatriate interests, Liberians are engaging in developing small and medium enterprises.

Liberia owes a debt to individuals and organizations that, in the spirit of entrepreneurship, innovation and profit motivation, have increased the economic activity of the nation. Liberians have not all shared equally in the benefits of these economic activities and the challenge is to enable others to participate and create value themselves. SME development offers opportunities for Liberians to contribute and participate directly in the Liberian economy.

2.1.1 Opportunities for SME Development

To facilitate the development and expansion of SMEs, areas of opportunity were investigated. SMEs may supply these existing areas of economic activity with necessary inputs or create value added to the products that are generated. These categories include the following:

- Export Agriculture: Major products are rubber, coffee and cocoa.
- Agriculture for Domestic Consumption: Agriculture produce, including that of fisheries, is created for local or national markets.
- Retail and Wholesale Trade Services: Monrovia has a highly developed wholesale and retail trade structure based largely on export consumer items for a selected segment of the population. Examples of professional services include health care and accounting. Tourism can generate foreign exchange in addition to providing possibilities for SME development.
- Extractive Industries: Iron ore, diamonds and timber are major products for export.
- Manufacturing and Processing: While this area is not highly developed in Liberia, some possibilities exist for exports.

2.1.2 SME Program Possibilities

The required inputs to generate goods or services are capital, management, technology and labor. SME programs generally support one or more of these necessary inputs as outlined below:

- Capital: Capital in classical economics referred to equipment as a means of production as in the case of factories. Capital also can be interpreted as the money necessary to purchase equipment and to finance ongoing operations pending the receipt of income. Programs that support the financing of SMEs include loan guarantee programs, provision of funds to make loans

and the associated support for making loans to SMEs.

- Management: Distinctions are sometimes made between the entrepreneur, who identifies business opportunities and secures the necessary resources, and managers, who operate the business and make decisions to maximize profit. In the case of SMEs, the two functions are usually performed by the same person or partners. Programs to support management include entrepreneurship identification and training, assistance in obtaining necessary financing, training in management and business planning and services to management such as marketing and accounting.

- Technology and Technology Transfer: In classical economics, technology was envisioned as mechanical machinery to increase the productivity of labor. As we approach the year 2000, technology has an expanded meaning. For example, all industries are taking advantage of advances in communications and information handling. Retail and wholesale organizations in Monrovia are using computers to assist in inventory control and accounting. Tailored applications and introduction to these and other tools can assist SMEs in addition to the adoption of appropriate technologies as experienced in other countries An example of such technology transfer is inland fisheries development in Liberia by the Peace Corps.

- Labor: Liberia lags behind other African countries in the provision of trained personnel. Unlike some countries, Liberia does not have an abundance of educated laborers.

Mission Policy Opportunities

While an agency equivalent to SBA does not exist for Liberia, government policy and programs do affect SMEs along with other components of the economy. Information gathering and data analysis will result in the identification of policies as contraints to or opportunities for SME development. The Mission can support the collection of economic data on SMEs. USAID activities in human resource development, education, health and population are necessary to the provision of a healthy and productive labor force.

In reviewing areas for the development of SMEs, there is a tendency to overlook and underplay the importance of the public sector. Major procurements, in which SMEs may play a role, are made for the military and construction, primarily highway development and maintenance. The Mission can encourage the Government of Liberia to set aside proportions of construction funds for SMEs.

Similarly, the Mission can encourage the set-aside of funds for SMEs in the contracting of the Mission, the U.S. Embassy and other U.S. agencies in Liberia such as the United States Information Service (USIS).

Training

Many of the Liberian leaders in business, as well as other sectors, have been educated in the U.S. The general manager of PFP received his graduate training in Economics and Anthropology in the United States. Many of the new Liberian entrepreneurs who were interviewed were also trained in the U.S. Training programs

could be instituted for personnel of the selected participating PVOs as well as for businesspersons and entrepreneurs.

Selected Studies

There are risks associated with SME development and the SME program can take steps to minimize such risks to entrepreneurs, investors, credit institutions and employees. Risks may be associated with expectations for high returns. Market and feasibility studies can be studied to determine constraints and opportunities for SME activities.

Such studies, in isolation, can be academic. With the involvement of investors, product-oriented associations, entrepreneurs and appropriate organizations, the study methodology can be adapted to address key questions for feasibility and of concern to potential participants. Additionally, these organizations and individuals would be involved in analyzing information and can be better prepared to make business decisions and choose courses of action.

Institutional Development

The Small Business Administration (SBA) of the U.S. Department of Commerce is responsible for encouraging SME development in the United States. SBA also implements preferential programs to provide U.S. government contracts to small business and assists in developing policies at the national level to support small business development. SBA provides grants and contracts to institutions and organizations to support small businesses.

In the absence of a comparable Liberian agency, USAID/Liberia is faced with the challenge of identifying or supporting the development of organizations to implement SME programming. Existing organizations that may take on new programs related to SMEs include: PfP, SEFO, NIC, Chamber of Commerce, Associations of SMEs, CIP, and the University of Liberia among others.

Institutional or organizational development takes place in urban and rural settings. The Nimba County Rural Development Project is encouraging the development of Associations to represent farmers at different levels. Farmer groups of up to 20 farmers have been organized. The groups are encouraged to participate in Farmer Development Associations. The next level is Clan Marketing Associations to include several Farmer Development Associations.

The PFP has worked with Farmer Development Associations and Clan Marketing Associations for the Saveway Program and the Loan Program. The Associations can serve as credit references for individual loans. Loans are also made to the Associations to allow them to purchase crops from the farmers for subsequent delivery and sale to LPMC.

SME institutional and organizational development in the urban setting may, similarly, rely on associations of producers (woodworking, textile). Of necessity, such organizations may be more complex and the first step would be the establishment of an agency to formulate the strategy for institutional development.

2.1.3 Rural And Urban Considerations

Business is customarily envisioned as a formal and urban activity. The primary economic activity of rural areas is agriculture and there is a tendency to maintain a dichotomy of urban commerce as contrasted to rural agriculture.

Rural areas do have SMEs that support agriculture. In a definition of SMEs that emphasizes private ownership, small farms can also qualify. For the purpose of defining the target populations and SME program priorities, the emphasis on rural and urban programs requires clarification.

2.2 TARGET POPULATIONS FOR SME PROGRAMS

The identification of target populations is essential for USAID SME programming. The assigning of priorities to segments of the SME population as well as to areas of potential business opportunities can be supported by agreement on the basic terminology. Another purpose is to aid in classification in order to conduct analyses. Analysis on micro and small businesses, for example, could result in designation of this group as a key target for SME programs as contrasted to larger enterprises. Similarly, priority may be given to Liberians as contrasted to Lebanese, Indians Ghanaians, and other nationalities that currently participate in the country's economy.

Defining the financial dimensions of small and medium enterprises will have operational ramifications. For example, the use of asset requirements to define medium enterprises, such as the $50,000[1] in current use, may affect the ability of a financial institution to make larger loans that can help support the lending organization's cost structure. The cost per job created is a definition that also has operational significance. Such costs are usually envisioned as the investment necessary per job created. Minimizing such costs can result in the selection of labor-intensive areas for SME development. Where the probability for business success is also weighed, decisions may be made for supporting activities which are more capital intensive and are at a larger scale. The SME definitions will affect the assessment of credit needs of enterprises. SME definitions can also affect decisions on the nature and size of training, technical assistance and other inputs. Criteria for definitions will vary with the type of enterprise. For investment purposes the criterion for a manufacturing enterprise will include investment in fixed assets plant, land, machinery and working capital; for a trading business the criterion may be inventory turnover. The number of employees will be the criterion to determine the required level of technical assistance and training.

2.2.1 SME Size

Indigenous small scale enterprises (SSEs) are viewed by the Government of Liberia as wholly Liberian-owned enterprises with maximum fixed assets of $25,000. This

[1] Financial figures are given in Liberian Dollars unless otherwise noted.

amount was defined by the World Bank and IMF as an international standard. This amount represents a ceiling under which many SSEs fall below in terms of investment capital. Government looks upon SSEs as having the following, generally considered favorable, characteristics:

- Requiring relatively low investment costs which can lead to quicker breakeven points. They can therefore prosper in small markets without incentive agreements, protection, and/or other forms of market exclusivity often sought by large-scale enterprises;

- Investment in SSEs is largely in local currency which is more readily available than foreign exchange. Given the general reluctance of the formal banking units to make loans to small business and to provide foreign exchange, the use of local currency is more appropriate.

- Generally SSEs are more intensive in the use of local raw materials which thereby reduces the need for imports and foreign exchange.

- Production technologies are relatively simple. Equipment may be simple in operation and easy to maintain and repair locally.

The medium-scale enterprises (MSEs) are regarded by the Government as having larger monetary size of $50,000 or less which again represents a ceiling. The MSEs can be placed on a level between small-scale and large-scale enterprises. Many of their characteristics are mixed between the two extremes of small and large, but MSEs are generally not at the "sophisticated" level of the large-scale enterprises.

2.2.2 Informal Sector

The literature on SME development has increased the awareness of international development agencies on the potential inherent in investing in "traditional" and small enterprises. In some instances, these activities have been referred to as the "informal" sector in contrast to large and more formalized enterprises. ILO and UNIDO studies have defined informal in business terms of size, such as less than ten employees, classes of business activities, and in terms of sophistication of technology.

"Informality" has different definitions. The ILO and UNIDO definitions are usually descriptions that characterize enterprises that do not fit the traditional capitalist mode of business operations. In reality, those workers and businesses typically viewed as "informal" are a very heterogeneous group. The occupations range across a spectrum of organizational forms: from the very simple self-employed peddler who buys and sells on the street to micro enterprises comprised of several employees producing relatively sophisticated products for a larger formal firm. Their primary unifying characteristics are that they operated generally without the sanction or help of governmental institutions and were started with very little capital by people with low levels of education and, at times, only rudimentary job skills.

For the purposes of the Sector Assessment, the working definition of "informal" was an unregistered business operating without the approval of the Ministries of Commerce and Finance. The term "informal " is widely used when referring to small and medium enterprises. A description about how the Government and others generally view the "formal" and "informal" sectors is instructive. "Formal" businesses are individually registered with the Ministry of Commerce and Industry and pay taxes to the Ministry of Finance as prescribed by the Revenue and Finance Laws of Liberia. They are directly affected by policies within the system set up by Government to govern business activities in the country. Annual registration fees are now as high as $400 for corporations. For small businesses, the annual registration is from $50 to $100. Market women pay a low, one-time fee to register with the Market Women's Association.

The "informal" sector is usually seen as containing businesses that are small in monetary size and comprised of petty traders, craftsmen and market women. They arise with seemingly little effort and sustain their own existence without having to interact directly with the Government. These small businesses conduct their activities in an informal network of trade, industry, and banking since individually, they do not meet some of the criteria for conducting business in formal or conventional systems. To satisfy the objectives of doing business in formal systems, they may operate through common-interest associations. Through registered associations, small individual businesses become recognized collectively within the formal system (e.g., Liberia Marketers' Association, Woodworking and Carpentry Industry Association, Federation of Transport Unions of Liberia). A structured and working association becomes the "government" for its members who adhere to the association's policies set within the framework authorized by the Government of Liberia.

The rural-based enterprises surveyed during the six-week study were particularly conscientious about business registrations. They wanted to ensure their legitimacy and solidify their ties with the central Ministerial offices by having their names on official rosters. They also felt that by contributing to Government revenues, the plans for infrastructure development, such as roads and education, might be realized.

Interviews also indicated that unregistered enterprises are subject to unauthorized requests for payments to revenue inspectors or those posing as inspectors. Payment of the annual registration fee is most often much less than these unauthorized payments. Since the registration process is relatively quick, almost all businesses are registered with the Ministry of Commerce or through government authorized associations.

2.2.3 Potential Target Populations

Unlike privately owned lending institutions, a USAID supported SME program is not limited to profit considerations alone. SME programs can consider supporting businesses that have other characteristics including a high degree of risk as well as a high potential for profitability. Selected segments of the economy such as value added activities or export-oriented firms could be targeted. In Liberia, nationality is an important consideration. Foreign nationals are active in business in Liberia. Government regulations prevent foreign nationals who are not of African descent from owning land. Some types of businesses are also not legal for foreign nationals.

Lebanese, Indian and other foreign nationals engaged in business in Liberia are well-organized and financed. They have access to government agencies and the Executive Mansion (executive branch at the highest level). While many Lebanese merchants could be classified as medium size enterprises, they apparently have ready access to financing, technology and necessary business services.

African immigrants, primarily those from Guinea and Ghana, are engaged in SMEs in selected sectors. They successfully compete with Liberians for business and jobs. Liberians, except for those who front for larger organizations, are basically at the bottom in terms of entrepreneurship and new business development. Within contracting for government agencies, there is some discrimination against Liberian firms. Established Lebanese firms dominate business conducted under government contracts. Liberians apparently suffer from a stereotype not unlike that faced by U.S. minority firms in the early years of the 8(a) program of the Small Business Administration.

2.2.4 Recommendations on SME Definitions

SME definitions and target groups should be treated as indicative and not be binding on lending institutions and other SME programs. SMEs operate in the dynamic market place and under diverse operating conditions. SME programs must be sensitive to these factors and must exercise maximum flexibility in considering program action plans and project proposals for applications for loans.

SME Size

Currently, the Government of Liberia and the National Investment Commission define small enterprises as those with an investment of less than $25,000 and medium enterprises as those with an investment of less than $50,000. In view of the *de facto* devaluation of the Liberian dollar in the market, it is recommended that the current limits be scaled up and doubled to $50,000 for small enterprises and $100,000 for medium enterprises. These levels allow for the potential to plan for growth. Such investment definitions also allow financial institutions to broaden and diversify loan portfolios to cover some overhead, offer clients differential interest and service charges and possibly cross subsidize operations. This is necessary for USAID funded financial institutions such as SEFO and PfP/L dedicated only to specific small borrowers and not to larger firms. Use of the figure $100,000 is an approximate indication of size. Some "medium" size enterprises may require loans that exceed $100,000 when considering the type of business and requirements such as working capital. Loans to associations benefiting several firms can easily exceed $100,000.

The term SME is an omnibus concept. Considering the range of enterprises the USAID funded projects can assist and finance. The following lists size, activities and related financial definitions:

- Household or Cottage Enterprises: These include handicrafts, tailoring, weaving, knitting, vendors and similar income supplemental activities requiring investments ranging from $25 to $500.

- Micro Enterprises: These include full-time individuals and small shops, tailors, carpenters, electricians, mechanics, shoe-makers and leather repairers, market women and similar activities requiring investments ranging from $500 to $10,000.

- Small Enterprises: These may cover manufacturing, retailing and services and will include workshops, production units, woodworking shops and similar activities requiring investments ranging between $10,000 to $50,000.

- Medium Enterprises: These include mainly manufacturing and trading/service enterprises, processing units, large poultry units and other similar activities requiring investments ranging between $50,000 to $100,000.

Informal Sector

Interviews have indicated that businesses with defined locations, including market women, are all recognized by a formal organization or are registered with the Ministry of Commerce. Itinerant merchants, some cottage industries operating away from the public, and mobile street vendors constitute the unregistered sector in Liberia. Even in the remote rural areas of Liberia, businesses with fixed locations are registered.

In view of the almost universal registration of enterprises to be supported through SME programs, it is recommended that the term "informal" not be included for defining target groups. Since "informal" is of marginal utility for describing SMEs and has a somewhat condescending tone, its use should be limited. The process of organizing and operating a business has strong similarities irrespective of size of firm. Loans are often necessary. Markets need to be identified and good management is essential. The fact that loans may be obtained "informally" from friends, relatives or other sources is descriptive and can be misleading.

Target Populations and Business Activities

Lebanese and Indian business persons are competing successfully in Liberia. Liberian residents from other African nations are doing well and share some of the constraints faced by Liberian small and medium enterprises.

It is recommended that priority consideration be given to Liberians and residents from other African nations. Other foreign nationals, however, should not be totally excluded from consideration. Depending upon the nature of the organizational structure and project or loan proposal, SME programs may find some merit in exercising flexibility in the support of SMEs.

Similarly, several factors should be weighed in supporting activities in "competitive" or "traditional" areas of business. Products for export are generally within very competitive markets and there is no excess of product being generated and the competition primarily is with external firms. Even market women may use SME loans and other support to create other markets or introduce technology changes.

There are business activities that may be overdeveloped by SMEs. This is a judgement call and hard and fast rules should be avoided. For example, taxi transport in Monrovia is well developed and additional taxis beyond the growth of the market may be excessive and possibly counterproductive. However, entrepreneurs may want to introduce scheduled bus services that lower consumer costs and facilitate transport. Each situation should be weighed on its own merits and no business area should be automatically excluded.

SME programs may be selective in the types of activities to be targeted. General categories considered by the study team included export, import substitution, manufacturing and processing and linkages with extractive and agricultural products. Program preferences could be made for businesses in new industries, those utilizing agricultural and other Liberian raw materials, and those with other competitive advantages.

SECTION 3

THE LIBERIAN ECONOMY AND STATUS OF SMALL AND MEDIUM ENTERPRISES

Liberia is well endowed with a natural resource base consisting of iron ore, diamonds, gold, rubber, timber, cocoa, coffee and fish. The agricultural land reserves are extensive. The economy is dependent on primary commodity production. Much of the rural population is engaged in subsistence agriculture supplemented by cash crops. The linkages between different sectors of the economy and urban and rural areas are weak.

Government revenues come mainly from taxation of the rubber and mining companies, rubber and iron ore exports, shipping fees and foreign assistance. The level of Government recurrent and development expenditures is thus vulnerable to external economic and political situation.

The Liberian economy has been in continuous decline since 1980, although an upturn is evident over the past two years. GDP is estimated to have declined by about four percent during 1986. The revenue collection has gone down. Capital flight was a serious problem in 1985 and US dollar bills are no longer in circulation. There is a serious reserves and transactions situation in the banking sector that has resulted in less acceptance of checks for payments. There has been a slight recovery since 1987, in the commodity producing sector with the rise of the international prices of rubber and iron ore. With the outflow of company remittances and increased foreign debt servicing, the balance of payments situation is serious.

The Government, under pressure from the donors, formulated a comprehensive Economic Recovery Program in 1986. The Recovery Program sought to reduce government expenditures by 5 percent, reduce budget deficits, increase the efficiency of revenue collection, control government expenditures and establish audited accounts for the major public companies. The revitalization of the economy and its restructuring are major tasks. The implementation of this program has been far from satisfactory.

The Liberian economic structure consists mainly of a "modern" sector and a "traditional" sector with very little linkages between the two. The modern sector, with roughly 70 percent of export earnings and 50 percent of real GDP, consists of iron ore, rubber, forest products and few non-agricultural activities. The traditional sector engages about 70 percent of the population in agriculture.

3.1 DEMOGRAPHIC PROFILE

The population of Liberia is estimated in 1989, at 2.5 million. It is estimated that the population in urban settlements with 2,000 or more increased from 30 percent in 1974, to 40 percent in 1984. The population of Monrovia is estimated at 550,000 in 1989. Roughly 22 percent of the country's population is in Monrovia. The urban population growth rate is estimated at 6.4 percent, but Monrovia is estimated to grow at 7.5%.

The Liberian labor force was estimated at about 1.15 million in 1985. According to an ILO estimate, the labor force increased at an annual rate of 3.3 percent between 1974-84. At this rate of growth, it is estimated that an additional 35,000 persons entered the labor force annually. The projected growth rates of the labor force indicate that the number of persons entering the labor market will increase to 40,000 in 1990 and 48,000 by 2000. About seventy-five to eighty percent of the adult population is illiterate.

3.2 SECTORAL ORIGINS, GROSS DOMESTIC PRODUCT AND EMPLOYMENT

The GDP at current factor cost as per Government preliminary estimates is $972.8 million in 1987. The GDP at constant factor cost (1981) is estimated at L$922.5 million. The GDP in 1987, recorded an annual growth rate of 1.8%. Total employment for 1985, was 735,206 and showed a slight decline from 1984.

Figures on the distribution of GDP are not consistent in definitions and amounts. The following is presented by selected sectoral origins as general indicators of distributions of GDP and employment:

Employment	GDP 1986†	1985
Agriculture		
Export Crops	9.5	9.2
Other Agricultural Goods & Services	22.0	70.3
Government Services	14.9	5.7
Mining	10.3	3.2
Forestry	5.9	.8
Manufacturing	7.1	6.7
Trade, Hotels, etc.	5.7	
Services		
Utilities	2.6	
Construction	2.9	.6
Financial Institutions	9.6	
Transportation	7.8	1.0
Other Services	1.7	2.5
Total	100.0	100.0

† Source: IMF Mission Report, July 20, 1988.
Includes forestry and fishing.

From the above, the contribution of the manufacturing sector, which includes both large scale enterprises (LSEs) and SMEs, to the GDP and the national economy, is small at 7.1%. The contribution of SMEs to the GDP as a part of the total manufacturing sector is difficult to ascertain and it may be between 20 to 30%. Data on the manufacturing sector are scarce and not always reliable. Based on this estimate, the contribution of SME manufacturing firms to GDP may be 2% or less. Similarly SMEs engaged in trade and services contribute around 3 to 4% of the GDP. Approximately 80% of the employment is in agriculture. Trade and government services are the next categories for employment.

3.3 LEVELS OF EMPLOYMENT

Estimates reported in an ILO report, show that the unemployment rate in Liberia rose from 12.8% in 1980 to 17.9% in 1984. On the basis of these estimates, the number of unemployed may be about 224,000 in 1987. With the retrenchment in the government sector and private establishments in many sectors such as mining and manufacturing, it is estimated that the rate of unemployment in 1987, may have been higher than the estimate of about 20%. The ILO report also indicates that unemployment in Monrovia may be as high as 50% of the labor force in the city. These estimates do not take into account the problem of underemployment in rural areas and for most small scale urban activities. The problem of open unemployment will be mainly in Monrovia and will be acute for the youth in the age group 15 to 24 as they constitute a high percentage of the total population. It is presumed that many of this group are educated up to at least high school level. A large number of educational and vocational institutions train their students mainly for formal and modern sector employment which had been in decline. Thus, most graduates of vocational training institutes remained unemployed after their courses.

The current level of Monrovia unemployment is estimated at 130,000 or 50% of the labor force and there are new additions to the labor force every year. At this level, currently one in every four persons in Monrovia may be looking for work. There are safety valves in the Liberian system. The dependency ratio is rather high; the extended family system and fall back on rural connections may act as buffers. The above numbers may be inaccurate, but even at an unemployment rate of 21% there are many persons in Monrovia looking for jobs. Data for the mid-1980s indicates that both the private and public systems were unable to generate enough jobs through formal sectors to engage them.

According to the survey undertaken by GOL in 1985, and quoted by ILO, it is reported that combined total employment in establishments employing less than five and five or more persons was as high as 120,718. In all, 11,291 enterprises were enumerated. Of these, 76.5% were in the less than five employee category. There were 8,587 establishments in this category which employed 19,375 persons or 16% of the employment in establishments. Deducting these from the total, the remaining 2,704 establishments employed 101,343 persons and include enterprises of over five employees. These figures indicate that firms employing less than five employees average 2.3 employees and employ approximately three of the total employment and in the absence of any reliable data, it is very difficult to estimate the total employment in the SME sector. Based on interviews, the SME sector is a major provider of jobs in the service sector. The SME manufacturing sector has also done relatively well in comparison to the large sector in the face of the serious economic conditions in the country. There has also been significant activity for market women, vegetable, fruit and food vendors by roadside, cigarette and drinking water sellers, taxi drivers, handicraft sellers, car washers and watchers and journey men in the transport sector.

In summary, it is difficult to determine the number of SME enterprises beyond the above broad approximations. Most of the large enterprises and some of the medium size manufacturing enterprises are owned by expatriates. The Liberians dominate in medium and small enterprises. The presence of expatriates is significant in large and medium trade

and service enterprises. Liberians are involved in small trade and service enterprises. The SME sector contributes up to five to six percent of the GDP and three to five percent of the total employment, including manufacturing, trade and services.

3.4 AVAILABILITY OF TECHNOLOGY AND SUPPORT SERVICES

The large firms in the manufacturing sector in Liberia utilize fairly modern technology. By international standards, these firms are small to medium in size. The technology comes in these cases as a package through engineering and machinery purchases. Smaller firms are by and large labor intensive and use outmoded technology. The productivity is low. The problem in Liberia is not the availability of technology, but the access to the technology, which is limited by a variety of factors. The restricted and small size of the market, limited finance and lack of institutional finance, competition from imported goods, non-availability of technical support services and similar other factors inhibit the use of better technology. The technology introduction and dissemination in the early stages of industrialization takes place through machinery manufacturers and their technical sales representatives. As the demand for such products is low in Liberia, there are, if any, very few technical sales representatives of machinery firms.

The promotion of appropriate and relevant technology is a significant area. But the agencies to promote these do not exist. Some effort in this direction is undertaken by the SME Department of the National Investment Commission. However, the demand for such services is low and the quality of service is poor due to the lack of experienced staff.

Another route for technology transfer and dissemination at the lower end of the spectrum is through technically trained professionals: engineers, technicians, and skilled workers. These activities are required in some small and self-employment firms in Liberia and through them, improved technology could be disseminated: better tools, improved methods, and increased productivity. Training is needed and a few institutions such as the Arthur Barclay Institute and the Liberia Opportunities Industrialization Center are providing training to some extent. These organizations would benefit from technical and financial support. Apart from these areas, there are some technology possibilities in agricultural tools, fruit and vegetable processing, and construction materials. Training in productivity and quality improvement is also needed.

The quality of the Liberian work force is poor. Most of the trained and skilled workers are expatriates from neighboring countries. Local labor, reportedly, is unskilled, illiterate and lacks work discipline. Productivity is low and absenteeism is high.

There is a sizable chartered and certified accountancy infrastructure available in Liberia and many international firms are represented. Their services are required for the statutory corporation audits and most importantly for securing governmental incentive and financial benefits. Apart from accountancy firms, a few other consultancy firms and individual specialists exist. Some of these firms are Vista, Sugarvi and Centrem. Some of these firms have highly qualified professionals whose services are used by international agencies rather than local businesses.

The demand for business, management and financial consultancy from private businesses is limited. Most of the businesses are small and the large ones, small by international standards, do not see the need for such services. Most of these firms do not have professionals in management, as many of them are owner managed. The SME department of the National Investment Commission is another resource for SMEs to draw upon for business and technical assistance. Some business and technical assistance is provided by the staff of SEFO and PFP/L and these services are available only to their clients.

In summary, the demand for business support and consultancy does not exist beyond what is required by procedure and law by various Ministries and the NIC. The need is there, but the ability and willingness to pay for such services is doubtful. The potential clients for such services are private and public sector corporations, businesses and government Ministries.

3.5 REGIONAL CONSIDERATIONS

Heading northeast and then to the northern most part of Liberia from Monrovia are the key towns of Kakata, Gbarnga and Voinjama (at the Guinea border). Up to Gbarnga, the road is well paved. To reach Voinjama, the road from Gbarnga is unpaved. Continuing northeast from Gbarnga on an unpaved road, the major towns are Ganta (Gompa City), Sanniquellie and Yekepa (at the Guinea border). From Ganta, one can travel southeast on a paved road to Harper on the ocean at the eastern edge of the country near Côte d'Ivoire.

For the three county area of Bong, Lofa, and Nimba, the key towns are Gbarnga and Ganta. Gbarnga is at the apex of a two legged journey from Monrovia to Voinjama. Ganta is on the way from Monrovia to Yekepa and is the apex of a two-legged journey from Monrovia to Harper. Gbarnga and Voinjama are collection points of LPMC for rice, coffee and cocoa. Gbarnga is the collection point for the Rubber Corporation of Liberia, the major quasi-governmental agency for rubber export. Alan Grant, another major rubber export firm that purchases from independent Liberian farmers, is located close to Gbarnga.

The above listed towns also have regional markets. Market days are usually once a week and the rotation allows for market women (also includes men) to journey from market to market to display and sell their goods. Each of the above communities also has a permanent market.

In many developing countries, there has been a substantial exodus from rural areas to urban centers. This has not been the case for Bong and Lofa Counties. The 1974 to 1984 population growth rate for these two counties was 40.4% and 37.0% respectively as compared to the overall Liberia population growth rate of 39.8%. Nimba County had a 25.4% growth rate and there may have been some net outmigration during that decade. In contrast, the two lowest counties in terms of population growth were Bomi (adjacent and to the northeast of Montserrado) at 6.9% and Sinoe (on the coast halfway between Monrovia and Harper) at 11.3%. Seven of the 15 counties/territories had growth rates lower than the nation as a whole. Six had comparable rates and two, Montserrado and Marshall Territory (two contiguous areas), were substantially higher at 69.3% and 50.4% respectively.

The seaports with access to the interior are (from the northwest to southeast) Robertsport, Monrovia, Buchanan, Greenville and Harper. A 150-mile railroad links the Lamco iron ore mine in Yekepa to the port of Buchanan. Some timber operations use the railroad to send logs to Buchanan for transhipment. The ports of Greenville and Harper are in the least populated area, the southeast region encompassing more than 30% of the land area and having less than 15% of the population. In contrast, Lofa, Bong and Nimba, with almost 40% of the Liberia land area, has approximately 40% of the population.

SECTION 4

THE FINANCIAL SECTOR AND SME DEVELOPMENT

The Liberian Financial Sector has certain characteristics which are not to be found in many African countries. The National Bank of Liberia (NBL), the central bank of the country, has little control over money supply. The absence of exchange controls, of import licensing, and the open door policy of the Government of Liberia, plus the use of the U.S. Dollar as legal tender have made the country attractive for investment. At the same time, the use of the U.S. Dollar and government deficit financing have created liquidity problems in bank reserves and interbank transactions.

The financial sector is made up of six commercial banks and four Development Finance Institutions (DFI) in addition to the NBL. The commercial banks are branches of multinational banks and control 80% of total bank deposits. These financial institutions together offer a wide range of financial services which include commercial banking, development banking, specialized lending to enterprises, mortgage lending and trade financing, as well as venture capital. There is no organized and active commercial money market in Liberia to assist in addressing short-term cash and debt problems of firms because such a market requires a high level of organization within the commercial and banking areas.

The banking network is mainly located in Monrovia with about 13 branches located in the rural areas. Because of the subsistence nature of much of the economic activity in rural areas, inadequate infrastructure, low financial sector development, and high minimum balance requirements by the banks, the foreign banks are located only in the capital city. Today, all of the 13 branches in rural areas are owned by DFI. Despite this low level of indigenization of the banking system, savings have grown from $30 million in 1974 to $60 million in 1988. This is an indication that as the monetized section of the economy grows, there exists a large potential for savings mobilization.

4.1 THE NATIONAL BANK OF LIBERIA

The National Bank of Liberia (NBL) was created in 1974 with all the powers of a central bank except the right of issuing bank notes. U.S. dollar notes are legal tender in Liberia and Liberian currency consists of coins up to the maximum denomination of five. Because of this unique situation, NBL has little control over money supply except to the issuance of Liberian coins. The economy can expand or contract automatically as a function of the balance of payments.

During the late 1970s, Liberia began to experience balance of payment difficulties as a consequence of soaring oil prices and the need to finance imports and government expenditures. The April 1979, rice riots and the 1980, change of Government were to superimpose themselves on a deteriorating situation to precipitate the crisis of confidence which led to a strong outflow of U.S. dollar assets and bank notes. The IMF estimates that U.S. dollars circulating in Liberia declined by $18 million between 1979 and 1982 to $39.0 million. The NBL, relegated only to the minting of coins and with frozen external

credit lines could not provide the liquidity to sustain the smooth functioning of the economy.

Instead of allowing the money supply to contract which, given time, would have led to a reduction in consumption represented by lower levels of imports, the NBL introduced two fundamental policy measures that would prove to exacerbate the expansionary fiscal policy pursued by the authorities since the second half of the 1970s. The Bank: (1) minted and put in circulation the L$ 5 coin in 1982; and (2) raised the reserve requirements of the commercial banking system to 30% that year from about 12%. These policy measures were designed to put, at the disposal of the Government, additional domestic resources. By the end of 1986, roughly L$ 90 million in coin were in circulation. As a result, the regular circulation of United States dollar notes largely ceased.

In spite of this, domestic resources proved inadequate and the need for external financing remained high with the use of IMF resources. These policy measures contributed to the domestic inflationary pressure, a rapidly growing parallel market for foreign exchange due to the scarcity of foreign exchange and the virtual collapse of a sound credit and monetary system.

The NBL has been using the regulation of reserve requirements (immobilization of as much as 50% of bank deposits) more often as an instrument of fiscal deficit financing rather than as an instrument of control over creation of credit. As a result, the banking system in Liberia suffers from acute scarcity of cash liquidity. NBL is unable, at present, to repay in cash the excess balances of commercial banks. This growth of excess balances is a source of involuntary lending to the Government through the NBL operated clearing house. This situation has eroded acceptability of checks in settlement of commercial/private transactions.

4.1.1 NBL Policy Towards the SME Sector

One role of a central bank towards the SME sector was to channel funds to the banking sector for special SME lending programs and establish and operate credit guarantee schemes for SME loans. Special lending programs ensure credit to SMEs on concessionary terms and the credit guarantee schemes insure (partly) the banks involved against losses on their SME loans. It is important that certain credit lines be earmarked for SMEs. Otherwise, they hardly get any loans from the formal credit sector. In most developing countries, formal credit is scarce and in competition with large companies, there is normally little left for the SMEs.

The NBL effort to finance the Liberian SME sector started in 1981, with the signing of the IDA credit of US $3.4 million for the SME. The NBL played the key role by lending the funds at attractive spread to the participating financial institutions, i.e., the Liberian Bank for Development and Investment (LBDI), the Agricultural and Cooperative Development Bank (ACDB) and the Small Enterprises Financing Organization (SEFO). Most of these funds went to finance already existing businesses.

A credit guarantee scheme was also introduced under the International Development Agency (IDA) credit in 1981. The NBL, to encourage institutional finance to the Liberian entrepreneurs by providing a degree of protection to banks against possible losses on loans

and advances granted by them, established a special credit guarantee fund with an initial contribution of $500,000 to provide coverage to the scheme. The response to the scheme was not very encouraging. The objective of encouraging the banks to increase their lending to Liberian owned SMEs has not been achieved to the extent expected. On the other hand, NBL has not been satisfied with the quality of lending and the attitude of the banks to treat the guarantee as a measure of the first resort rather than the last resort.

To date, the NBL has not played a substantive role in SME promotion in Liberia. This situation is due mainly to the Bank's lack of financial resources. Originally, the ability of the Bank was restricted by its own modest capital base, and handicapped by the authority to mint only change coins. This situation precluded any ability on the part of the Bank to expand and contract the supply of money. Later, when the Bank proceeded to issue the $5 coin, it had already become heavily indebted and beholden to the commercial banks. Additionally and contrary to established norms, the expansion of the stock of money by the issuance of the $5 coin was monetized by ways and means advances to the Government to finance recurrent expenditures rather than to finance productive activities through the banking system. In the case of IDA credit, the NBL had played only an administrative role by establishing a project analysis section to co-ordinate the lending. The credit guarantee scheme has yet to be proven. The NBL is also responsible for the management of foreign exchange reserves of Liberia and for the regulation of interest rates. Its actions in these areas has some effect on SME development.

4.1.2 Management of Foreign Exchange Reserves

The NBL is charged with the duty of constituting and managing the country's foreign exchange reserves. At present, however, Liberia's foreign exchange reserves are virtually depleted and the government is now experiencing the difficulties of conducting business under one of the most severe shortages of foreign exchange in its history.

Prior to 1982, when the US dollar constituted the bulk of the money supply, the need for monitoring external reserves was not as pressing as it is today. With the introduction of the L$5.00 coin and the flight of the US bank notes from Liberia, a parallel or extra-legal foreign exchange market emerged where Liberian coins were traded at a discount to the US dollar. This discount gradually increased until October 1988, when US 1.00 was around L$ 2.30. Meanwhile, the official exchange rate remained one to one, resulting in a *de facto* dual currency system. In spite of the problems and distortions in the current money system, the parallel market has served as a source of needed, if more expensive, foreign exchange for importers. Imports have actually increased in the period since the parallel market has emerged. Much of the foreign exchange, however, seems to have been used to buy consumer goods Manufacturing establishments have encountered some difficulty in obtaining foreign exchange for raw materials. Arrangements with banks for foreign exchange vary widely. Some firms maintain separate accounts for U.S. currency and Liberian currency. Established businesses can acquire foreign exchange at the current parallel rate plus a 1/2% to 3% service change. SMEs without established bank relations pay rates above the current parallel market rate to obtain larger amounts of foreign exchange.

Since May 1986, exporters are required to surrender 25% of their foreign exchange earnings to the Government of Liberia in exchange for Liberian dollars at the official exchange rate of one to one. These regulations are intended to enable the authorities to obtain foreign exchange for official purposes, including debt service. A comprehensive import surveillance scheme (CISS) through the Swiss firm of Société Genérale de Surveillance (SGS) has also been instituted. At the time this report was written, there were some problems with the CISS.

It is incumbent upon the authorities to institute internal and external corrective measures to arrest and reverse this deterioration in the foreign exchange reserve position. Limited accessibility to foreign exchange is one of the constraints to SME development.

4.1.3 Regulation of Interest Rates

Interest rate policy is generally used to obtain what is considered to be a socio-economically desirable pattern of resource allocation to promote orderly and sound growth in the economy. It is used on the one hand to encourage the utilization of savings and on the other hand to supply investable resources to sound investment opportunities. The NBL has, since its establishment, issued several regulations setting savings and lending rates, taking into consideration both the domestic and international financial environment. Today interest rates within the commercial banking system do not conform to the levels set by the NBL.

Actual lending interest rates of commercial banks vary in relation to factors such as credit rating, quality/quantity of collateral, and profitability. Lending rates in Liberia are very close to the maximum permissible under usury law (25% per annum). This has led to a very high spread between the deposit rate and the lending rate.

4.1.4 Foreign Exchange and the Consumer Price Index

As a result of the devaluation of the Liberian dollar, the U.S. dollar has substantially more purchasing power in Liberia in 1989, as compared to 1985, the year that the parallel market was created. In spite of possible price declines in prices of export commodities, the relative decrease in production and raw materials costs in Liberia can result in higher profit margins. Another result is a comparative advantage of the Liberian dollar vis-a-vis the overvalued CFA of much of West Africa.

Monrovia Consumer Price Index†

1983-89

Year		Index	Percent Change
1982		376	---
1983		384	2.0
1984		388	1.0
1985		384	-1.0
1986		400	4.2
1987		420	4.8
1988		460	9.5
1989	January	479	
	February	478	
	March	476	3.5

† Source: Industrial Statistics Division, Ministry of Planning and Economic Affairs.
The weights and selected items were derived form a family expenditure survey conducted in Monrovia among a sample of wage earners and clerical employees households of two or more persons with monthly income not exceeding $250.00.

In 1982, the Liberian 5 dollar coin was introduced. The inflation rate for 1983, as reflected by the Monrovia Consumer Price Index was 2.0%. After the attempted coup of 1985, U.S. notes disappeared form general circulation. In 1986, the inflation rate jumped to 4.2%. A parallel market for U.S. notes developed and in the past three year period, the exchange rate (unofficial) has fluctuated up to 2.28 coin to 1 note. The rate in May of 1989 was 2.0 to 1. For the two-year period after the attempted coup, the annual inflation rate was about 5%. In 1988, it increased to 9.5%. The index rate for the first quarter of 1989 indicates that the annual inflation rate of the year may be approximately 7%.

With the *de facto* deflation of the Liberian dollar, those export commodities with a substantial local labor component may be competitive even with decreases in the world market price. To the extent that there is available labor, and there is apparently a surplus of unskilled labor, export goods that require a large labor input may also be cost competitive. Some additional opportunities could exist for import substitution activities such as clothing which has shown a 30% price index increase for the period 1983 to 1988 as compared to 20% of the overall consumer price index.

4.2 COMMERCIAL BANKS

The six commercial banks, Citibank, International Trust Company, Eurobank, Tradevco, Bank of Credit and Commerce International and Meridien Bank mobilize 80% of customers' deposits. These funds represent the single largest source of funds for them. Over the years there has been an uneven trend in bank deposits. Since 1983, with the customer's confidence partially restored, the level of deposits has been increasing.

The composition of bank deposits reveals that savings deposits have been increasing due to the increase of the number of new accounts as well as the increase of the average size of accounts. Demand deposits also registered growth both in terms of account numbers and in size of average accounts. Only time deposits fell sharply. This is mainly due to interest rates on time deposits which are often less than prevailing deposit rates in New York and London. The deposit rates are not attractive enough to discourage outflow of funds. However, banks have managed despite the downward trend to keep some big accounts. They have become highly selective in their deposit-taking.

High reserve requirements coupled with the high balances in excess of reserve requirements account for immobilization of almost 50% of bank deposits. This has been a disincentive to commercial banks in their deposit mobilization efforts and explains partially their apathy in reaching out to rural areas where money is still hidden "under the carpet." Commercial banks limited the lending from those deposits.

Lending by commercial banks forms the most important source of short term finance and is concentrated in trade finance. Most of this lending to the private sector goes to businesses owned by foreigners and may contribute to the perpetuation of a traders economy. Of total banks' credit in 1988, more than 50% went to trade related activities, 29% to the Government of Liberia and public corporations, 13% to agriculture, 6% to construction and 2% to the manufacturing sector. These operations and lending policies of commercial banks have contributed to the huge increase of commercial banks profitability. The study of the consolidated statement of income and expenses of commercial banks shows that total income jumped over one hundred between 1987 and 1988. This increase is due to: 1) expected increase in income from interest on loans and advances because of a) the wide interest spread between deposit and lending rates, b) high minimum balance requirement in deposit accounts, and c) high unregulated service charges; and 2) unexpected income from foreign exchange transactions, which has contributed to over 25% of the total income increase between 1987 and 1988. This large income increase has contributed to increased profit from current operations even with an increase in current operating expenses.

SME Team interviews with banking executives indicated that lending policies will not change in the near future and credit from these institutions to Liberian owned businesses is very unlikely. Three main reasons were given to explain the commercial banks' shift away from such credits:

- Most local businesses have been undercapitalized and otherwise structurally weak in terms of their ability to cope easily with changing economic conditions. Management has been generally inadequate to deal with rapidly changing conditions.

- For various reasons, not entirely under the control of these businesses, they have been unable to meet repayments on their debt obligations. External influences such as falling commodity prices or high foreign exchange availability, not under the control of the business manager, made it impossible for some to continue operating. One such event was the coup of 1980. Many businesses were caught by looting and simply could not replace the goods they needed to operate.

- When taken to court, there has been a record of inability of the banks to collect their money or on collateral. Once the credit has gone sour, there is excessive delay in having the case heard in court. Not only have these delays been unrealistic, but in the end the court invariably found for the debtor. This has happened so many times that the banks have lost confidence in courtroom remedies to their credit problems. The result was a drying up of credit to indigenous businesses.

4.3 DEVELOPMENT FINANCE INSTITUTIONS

The four organizations that are considered Development Finance Institutions are: The Liberian Bank for Development and Investment, The Agricultural and Cooperative Development Bank, The National Housing and Savings Bank and The Small Enterprises Financing Organization.

4.3.1 Liberian Bank for Development and Investment (LBDI)

The LBDI was established in 1965, for financing productive enterprises in manufacturing, agriculture, tourism and services. In the past, the Bank's form of lending has been medium to long-term loans with 6 to 10 year maturities, typically for the financing of capital assets. Presently, LBDI's loans are largely short-term working capital loans. Analysis of the LBDI Annual Report showed that in 1988, 33.6% of the approvals had maturities of under 24 months and the remaining 66.6% had maturities between 24 and 71 months.

In recent years, most of LBDI financing has been for the trade sector dominated by merchants and this trend continues presently. The Bank argued that the lack of foreign exchange has curtailed its traditional financing of capital assets for industry. Beside the IDA credit, very little of financing went to the SME sector.

4.3.2 The Agricultural Cooperative and Development Bank (ACDB)

The ACDB was established in November 1976, to: (a) provide agricultural credit either directly and/or through co-operative societies; (b) develop rural areas; and (c) provide technical assistance to farmers/cooperatives.

ACDB, of all the financial institutions in Liberia, has the most extensive branch network. It has eight branches including the main branch in Monrovia. The remaining seven branches are located in rural areas.

As in the case of LBDI, the larger proportion of the ACDB's loans, 70% went for working capital to mainly state enterprises followed by produce marketing and commercial loans (20%). In recent years, ACDB has been getting more and more of its revenues from commercial activities. For instance, commission on letters of credit, acceptances and similar activities accounted for 62% of total revenues in 1987, as compared to 44% in 1986. ACDB has participated in the IDA SME project scheme. Apart from that project the Bank is involved in the Lofa County Agricultural Development Project, Bong County

Agricultural Development Project and the Liberian Rubber Development Unit.

4.3.3 The National Housing and Savings Bank (NHSB)

The NHSB started operations in 1976. It is fully owned by the Government of Liberia with paid up capital of $5.0 million. Its main objective was to deal in housing mortgage loans and personal loans. NHSB's charter authorizes it to undertake commercial banking. Since 1979, after several bad loans to the housing sector, the bank stopped making loans to that sector and got involved in commercial loans. Presently, commercial loans account for 80% of total loans portfolio compared to 15% for real-estate mortgages. The NHSB did not participate in the IDA credit for SME financing.

4.3.4 The Small Enterprises Financing Organization (SEFO)

Created in 1981, SEFO is a component of an official project under the title "Small and Medium Enterprise Development" which was initiated at the time when the National Investment Commission was established. The broad objective of the SEFO is to assist Liberians in establishing and managing small and medium-scale enterprises. The program offers technical, managerial and financial assistance to small businesses. The Small and Medium Enterprises Department (SME) at the National Investment Commission (NIC) provides technical and managerial services, while SEFO is responsible for financial assistance to small enterprises in the form of term loans, working capital loans and equity participation. Its shareholders are LBDI, ACDB, NHSB, The Liberia Finance and Trust Company (LFTC), the Netherlands Development Finance Corporation (FMO) and the PVO Partnership for Productivity/Liberia (PfP/L). USAID is assisting SEFO through the Small and Medium Enterprise Development Support Project. Volunteers in Technical Assistance (VITA) became USAID's implementing agency in January 1988, replacing Partnership for Productivity (PFP)/International which ceased operations.

As of April 30, 1988, SEFO had committed 250 loans and disbursed L$2,024,702. Loans have averaged about L$8,100. They are for a wide variety of undertakings, including vehicle repair facilities, metal working, cement block production, pharmacies, retail shops, tailors, advertising companies and poultry and piggeries. SEFO has concentrated on the financial and managerial needs of relatively well-off small scale firms. At present, all the 49 enterprises which have benefited from the loan scheme were in existence prior to benefiting from the loan.

SEFO is facing three major financial problems: long-term debt far too great relative to equity, massive losses from obligation to repay foreign debt in hard currencies and bad loans. The two first problems are being solved as a result of major recapitalization decisions taken by the shareholders and Board. FMO, the largest creditor, has agreed to convert its loan to non-cumulative 2 1/2% preferred stock redeemable in 10 years and to waive the foreign exchange losses. The other owners and USAID agreed to take actions to reduce the debt burden and to seek additional capital. These decisions will improve SEFO's debt equity ratio. The final major problem of bad and collectable loans comes from commitments made during SEFO's early years, 1983 - 1985. Strengthening of staff and procedures for appraisal/monitoring collection since 1987 have improved this situation and loans made since are sound as a group. The problem of what to do with the early loans remains.

SEFO has been the biggest beneficiary of IDA credit. Out of 89 projects provided under the credit totalling $2 million, SEFO utilized $1 million for 54 projects, ACDB $630,000 for 25 projects and LBDI $370,000 for 10 projects.

4.4 THE PARTNERSHIP FOR PRODUCTIVITY (PfP)

Partnership for Productivity/Liberia (PfP/L) was established in 1974 by PfP/International. PfP/L's broad mandate was to diversify the economic base and improve the standard of living in Nimba County which is the second largest county in terms of population. Initially, it concentrated its early efforts within the Lamco concession area to generate alternative employment opportunities for thousands of mine workers. As the difficulty of this proposition became more apparent, PfP/L reoriented its program toward a rural development project. Its activities included small business assistance, savings program and loan program.

The small business management assistance includes working capital management, business planning and organization, fixed asset management and rudimentary accounting and bookkeeping. As of December 1988, 9,452 clients have benefited from such assistance. This number includes loan clients.

Compared to the $181,383 in savings mobilized in 1987, PFP/L was able to mobilize savings amounting to $385,259 in 1988. Of this amount, $194,880 was "rolled-over" in the loan program. The average amount of savings per saver in 1988 was $40.

The total amount of loans disbursed in 1988, amounted to $811,256 compared to $331,520 in 1987. New employment generated was 2,519 for an estimated cost per job created of $322.

Of all the financial organizations, the credit scheme of the PfP appears to be quite effective for small enterprises. Their credit assistance has concentrated on productive and service oriented activities such as poultry, beer processing, carpentry, tailoring and retail shops. Average loan size is $500 and since 1980, 60% of loans are for expansion; the remaining for new businesses. The repayment rate has been as high as 95 percent. The main reason for the high repayment rate is the efficient loan collection system of PfP and its grass roots approach. PfP works closely with the Market Women's Association and Farmer Development Associations. These relations have supported the mobilization of savings and as a means to check references on borrowers. PfP has a relatively large staff; 43 personnel including 27 persons who are actively engaged in extension or advisory services to the enterprises which have received the loans. The location of PfP and its branch offices are such, that small and micro enterprises in Monrovia are not likely to benefit from their support. PfP is consciously following a rural development strategy and proposes to expand into neighboring Bong and Lofa Counties. The headquarters has been Yekepa, about 500 kilometers northeast of Monrovia. The branch offices are at Ganta, Sanniquellie, and Tappita. PfP plans to move its headquarters to Ganta. The services of PfP should be extended to other counties which will require an increase in resources to PfP.

SECTION 5

CONSTRAINTS TO SME DEVELOPMENT

Although the Liberian economy is reputed to be a *laissez faire* economy because the government has maintained a long- standing open door policy toward foreign investment, it is far from such from the point of view of domestic small and medium sized businesses. While a laissez faire economic philosophy must be coupled with free access to economic opportunities, all businesses do not have equal access. Some can take advantage of rent seeking, profiteering by those with power to grant economic favors, as a means to unfaily influence decisions.

Opportunities for profit making in the private sector abound because the country is extremely rich with natural resources. The government's policies and the rent seeking activities increase the costs of doing business and create additional risk and uncertainty for new investment. They define a complicated set of rules by which business is conducted in Liberia. The difficulties that they create can be avoided or bypassed if one learns how to play within the rules of the game. Many of the constraints are created to be bypassed and many businesses in Liberia have done just that. They have used different techniques to survive and prosper in the present economic system. The majority have been initially foreigners to Liberia: the Lebanese, Ghanaians, Guineans, Indians, Chinese, Americans and Europeans. The indigenous Liberians have not been able to prosper as well as the other groups and remain mainly in agriculture. In business, the Liberians operate mainly in the small and medium enterprise sector.

While one could consider all of the factors, such as access to credit, that make up the rules of the game as constraints to businesses, large or small, many businesses have managed to transform these into challenges and have succeeded in spite of them. Therefore they cannot be called true constraints. The Liberian SME has not been able to do as well. The true constraints are the factors that have impeded the Liberian SME from competing as successfully as other groups. These constraints are the lack of skills and education, the lack of organization and the lack of innovation and entrepreneurship.

The economic system of Liberia is characterized by a major rift between "de jure" regulation (rules and regulations on the books) and "de facto" liberalism (in practice, a lack of regulation and economic constraints imposed by government). The system can be defined by three major characteristics: economic policy making that results in a proliferation of regulations, which are often determined hastily, not well implemented and are often abrogated with the help of government officials; the open door policy which has allowed much foreign access to economic opportunities, but has also allowed capital flight (repatriation of capital and profits); and the lack of an effective judicial system to uphold business contracts and agreements which increases the risk of doing business in Liberia.

5.1 ECONOMIC POLICY MAKING

The economic system in Liberia is defined by a maze of regulations which make running a business according to those regulations extremely difficult and costly. Getting

around these regulations is more the rule than the exception in this system and is expected by those that have made the rules. Given that the government does not have the capacity to implement many of these regulations, many are either disregarded or rescinded soon after being decreed. The recurrent desire to reserve certain sectors of the economy for Liberian ownership is the most noteworthy example of such a policy.

The abrupt and temporary nature of policy making creates great uncertainty which can discourage new investment. When the economy is low and foreign exchange tight, policies become more restrictive. They remain on the books. but are not enforced when the economy improves. Trade policy is an example of such measures. Import tariffs are changed often, depending on the particular outlook of government officials. The Ministry of Commerce has undergone leadership changes several times in the last five years and trade policy has been affected. The widespread occurence of rent seeking activities is the force behind much of economic policy making in Liberia.

5.1.1 Commercial Regulations

There are eight major categories of taxes and regulations: 1) regulations on registering a business; 2) taxes and occupational licenses; 3) rules on the ownership of land; 4) rules on the use of labor; 5) interest rate ceilings; 6) price controls; 7) regulations relating to exports; and 8) regulations relating to imports. All of these directly and indirectly affect small and large businesses in Liberia.

Business Registration and Informality

All businesses in Liberia must register with the Department of Commerce, which has branches in every county. Registration of sole proprietorships and partnerships is relatively easy and takes only a few days. After filling out an application at the Ministry of Commerce, the premises of the business are visited by the health, fire and labor inspectors. Each application requires their approval before the license is issued. The fire regulations require that fire extinguishers be bought and the fire department has the monopoly on fire extinguishers. Health officials check availability of common facilities and labor officials check the validity of work permits for non-Liberian employees. Health, fire and labor norms and their enforcement vary depending on the type of business and the relative wealth of the entrepreneur. For small businesses the rules are relaxed and the process can be eased with $50 to $100. But for corporations, the rules are tightened and rent seeking may involve thousands of dollars.

The registration fees have recently changed and are the following:

Corporations -- $400
Partnerships -- $400
Sole Proprietorships -- $100
Cooperatives -- $175

The Commerce Department has about thirty inspectors in Monrovia and two in each of the thirteen counties who make sure businesses register. The first offense will usually result in a warning and the official fine for further offenses can be as great as $10,000, although it is usually $200. The inspectors report that most of the offenses are made by

urban businesses. It was also observed by our visit to Gbarnga in Bong County and Zorzor and Voinjama in Lofa County that the rural businesses were all registered, no matter how small. This may be due to the help of the Paramount Chiefs who have helped the authorities in the counties.

Interviews have pointed out that small businesses prefer being registered because inspectors will extract money for their own account for the favor of not closing down the operation or confiscating the goods or to give an extension on the registration fee. In many cases these cash payments add up to more than the registration fee over the year. Those businesses which do not have the ready cash resort to paying off the inspectors, who come often in teams of two or three and as often as once a week. We interviewed an informal mechanic, having just started in business, with less than $1000 of capital who was paying between $100-$150/month to avoid paying the registration fee and associated business taxes simply because he didn't have the cash. A furniture maker working from an abandoned building is paying $10/week to inspectors and tax collectors to avoid being closed down. One street vendor interviewed is paying $2/week so that inspectors and tax collectors would not confiscate his goods. Once an informal applies for electricity, his record starts and he has no peace with the inspectors and tax collectors. For this reason, because the registration fees are affordable and the procedure is relatively speedy, there are very few unregistered businesses in Liberia. Once registered, it is not uncommon for entrepreneurs to ignore inspectors who keep coming back. However, it no longer presents a danger of disuse or confiscation.

The working definition of "informal" for the purpose of the study is an unregistered business operating without the approval of the Ministries of Commerce and Finance. Using this definition, we have found that there are not many informal businesses in Liberia. The informal businesses tend to be concentrated in home workshops, in residential neighborhoods and itinerants who can move from place to place with less fear of being raided or fined. The cases of market vendors, tailors and transport companies are special because they are not informal, since they are recognized by the authorities as legal entities, nor do they pay license fees and taxes the way other formal firms do. They are represented by associations which have won them recognition in the public eye without the cost of formalization, which for them would have been excessive.

Taxes and Licenses

Only the central government has the power to collect taxes, therefore businesses do not pay taxes to the county governments or the city governments. There are over twenty different general taxes being collected by the Ministry of Finance. Taxes can be paid through the commercial banks or to tax collectors. Although the Ministry has more than 1000 collection agents, inspectors and revenue agents, collection of most taxes is difficult for a few reasons. With only 33 auditors in Monrovia and limited resources for verification of income tax returns, there is widespread tax evasion. There are also problems with tax collectors: 1) they do not have means of transportation; 2) they have difficulty determining the amount of tax owed; and 3) government salaries are very low, they tend to pocket some of the moneys collected especially from those that do not have enough to pay the full amount owed. There are problems with customs whose agents can easily be swayed into falsifying the value and sometimes the amount of goods being imported and exported.

The taxes that provide the greatest revenue to the government, in order of importance, are the import duties, the individual income tax, the excise tax, the corporate and partnership income tax, the customs user's fee, and the tax on non-residents. Similarly to registration agents, tax collectors are relatively efficient in taxing businesses in Liberia because they receive personal gain from making the rounds of all the businesses.

The Ministry is improving tax collection efforts further by providing new incentives to hand over more taxes by requiring that the collectors record collections, give receipts and hand in reports. They are also given certain targets by region for which they will receive bonuses. A national ID card system was instituted, but not fully implemented, therefore, it cannot help the revenue agents catch income tax evaders. So far it encompasses only some of the government workers, which have their taxes withdrawn from their salaries anyway. The taxes a small business will have to pay are discussed below:

- Business Occupation License: This tax is a yearly renewal of a license which only some businesses are required to have. It differs depending on the business as follows:

  - Liquor license (retail)--$50
  - Tailor's license-$50
  - Restaurant license--$30
  - Itinerant merchant license--$10
  - Commercial fishing license--
    per boat and size--from $5 for a canoe to $225
    for a trawler of more than 50 ft.
  - Prospecting license for precious minerals--$150
  - Diamond mining license--$450
  - Mining license for precious minerals--$100

- Business Trade Levy: This tax is paid on gross revenues which is determined by inspecting bank records of the business. The tax is deductible from income tax and is paid once a year on March 31. It ranges from .05% or a minimum of $100 for service and manufacturing industries to 2% or a minimum of $2500 for banks and insurance companies. Wholesale and retail trade pay 1% or a minimum of $125. Professional occupations like doctors and lawyers pay 1% or a minimum of $30. The tax is deductible from gross income for the purpose of determining taxable income.

- Excise Tax: This tax is levied on all goods manufactured in Liberia. It is 5% of the sales price or a $50 minimum. It is paid monthly. The tax is deductible from gross income for the purpose of determining taxable income.

- Income Tax: The income tax for individuals, sole proprietorships and partnerships is graduated from 11% on taxable income under $2000, rising to 65% on income above $99,000. Corporate tax rates start at 20% on income up to $10,000 and rise to 50%.

- Social Security Tax: This tax is supposed to be split evenly between the employee and the employer, but is often paid by the employer as a benefit. It is 6% of the wage bill.

- Miscellaneous Tax: A tax of 3% of net income is levied from all businesses.

- Local Tax (Development or Progress Tax): Although this tax is supposed to be paid by the employee, it is often paid by the employer. It is a flat $10 per person gainfully employed in Liberia.

- Real Property Tax: This tax touches land and buildings. In the city, the tax on a parcel of: unimproved land is 5%, improved property for commercial purpose is 2%, improved property for industrial purpose is 1%, improved property for residential purpose is .05% of the assessed value which is updated every 2 years. Farmland is taxed at 5 cents per acre with a minimum of $5 per parcel.

- Realty Lease Tax (Coast Guard Tax): The tax of 10% is levied on all rents paid. The tax is withheld from the rent and paid by the lessor of the land.

- Motor Vehicle Tax: An annual tax is paid on all vehicles. Taxes on commercial vehicles range from $96 for business cars, $156 for taxis, $204-$252 for buses. License plates cost $10 per year.

The tax system significantly disfavors manufacturing enterprises, especially the small and medium ones. That is, small commercial enterprises are taxed 41% less than manufacturing ones and medium commercial enterprises are taxed 39% less than manufacturing ones. For large enterprises, the differential narrows to 19.5% and for giant enterprises the difference is only 12.3%.

The tax burden for small and medium enterprises is approximately 28% of their gross income and is not generally considered heavy. It rises to 46% for large, incorporated businesses. All of this analysis assumes that businesses are paying the taxes as per the tax code. There may be, however, major differences between what a business should pay and what it actually pays.

The tax burden is heaviest on the medium enterprise and the concession holders. The small enterprises pay less than they ought to because few have books to verify their incomes and some of the large enterprises pay less because they falsify their books. Both will tend to spend more in unofficial payments. The medium sized firm is keeping books and can afford to pay the taxes which are not very high at this level, around 28% if it is a manufacturing enterprise and 17% if it is a commercial or service business.

Comparing the total amount of actual payments to the official tax owed is more rewarding to a small and medium sized firm than it is for the larger firms, i.e. the difference between the total tax owed and the total actual payments is greater the smaller the enterprise. Although the return is greatest for the small enterprise, it is least able to afford these payments.

Ownership of Land

The ownership of land remains the sole domain of citizens of Liberia. Lebanese, Indians and others of non-African descent have been rejected both Liberian citizenship and ownership of land. That has not stopped expatriates from leasing land from Liberians. Leasing land does not provide the needed certainty required to invest in durable structures. Not being assured full ownership, foreigners are reluctant to build for fear of having the structures revert legally back to the owner of the land after the lease is expired, especially in view of the fact that Liberians are reluctant to give leases of longer than 20 or 30 years.

This rule has implications for all land, rural and urban, except that offered to a concessionaire. As with all the other rules, exceptions are being made outside of Monrovia.

Use of Labor

There are no major rules on the use of local labor except that the employer must pay social security benefits. The use of foreign labor is not restricted, but foreign workers must obtain a worker's permit from the Ministry of Labor. It is not hard to get Employers who employ illegal workers are subject to a fine and run the risk of having their businesses closed. Labor inspectors make the rounds of businesses in the same way as tax collectors and Department of Commerce inspectors.

Interest Rate Ceilings

Banks are subject to the usury law which limits interest rates to 25%, and have put a 14% ceiling on commercial loans regardless of the rate of inflation, the cost of financing, risk and uncertainty. Most banks have greatly reduced the amount of lending they do to private individuals and businesses without secure foreign collateral. Domestic collateral is no longer viewed as valid collateral because it is difficult to appropriate due to the undependable nature of the judicial system.

Price Controls

The Ministry of Commerce controls wholesale and retail prices of all commodities. The increase of any price requires a price approval from the Minister. The granting of a price approval by the Ministry of Commerce can cost a company up to $5000. Presently, however, the system is relaxed and only the prices of some essential commodities, medicines, auto parts, agricultural implements and construction materials are being monitored by the Ministry. The controlled price is determined by adding an allowed margin onto a cost declaration. The margin is based on turnover frequency: wholesale foods--10%; retail foods-- 10%; retail clothing--25%; wholesale clothing--20%; spare parts-- 100%.

To take into consideration the "de facto" devaluation of the Liberian dollar, the allowed price markup for importers has been 100% while for manufacturers it has only been 30% to cover the portion of their costs that has necessitated foreign exchange. This

severely disfavors manufacturers with a high proportion of imported inputs such as assembly-type operations. All but five large manufacturing enterprises in Liberia fall in this category.

Import Taxes and Regulations

Imports are readily available in Liberia and create an important source of competition to local manufacturing since April-May 1987, when bans on the importation of those goods that are also domestically produced were lifted and the import surcharge of 20% was reduced to 10% of the c.i.f. value of goods in September 1987. Imports are now subject to the import tariff, the surcharge and a customs user's fee of 7.5% on duty-free and transhipment goods, 5% on duty-paid goods, and 1.5% on essential duty-paid goods.

The import tariff has been a major source of contention between those who favor protection for domestic industry and those who prefer to let market forces play. The tariff and surcharge are the domain of the Ministry of Commerce although they can also be changed by the Ministry of Finance. The procedure for changing a tariff does not require that a law be amended, hence it is done frequently. The Liberian Tariff Commission is empowered to study tariff related issues and act as a consultative body to decision makers.

The present tariff code tends to favor imported goods against domestically produced goods. Many inputs bear a higher tariff than the finished product made from them, i.e. the tariff structure actually provides negative protection for domestically produced goods.

To limit underinvoicing, the preshipment inspection scheme implemented by the Société Générale de Surveillance was operating well until recently when the government could not find the funds to pay for the service. It was originally to be paid from the import permit which charged all importers 1.5% of the invoice value, which is still being collected by the National Bank of Liberia.

Export Regulations

In March 1986, as a measure to repatriate more foreign exchange, the government decreed the 25% Foreign Exchange Surrender Act that required all exporters to surrender 25% of their export earnings in foreign exchange to the National Bank of Liberia. This system has not worked well in recovering foreign exchange because many exemptions have been formally given, implementation is lax, the government has not always had the local money with which to buy it, and customs, considered a weak link in the system, is ultimately responsible for enforcement.

An export earnings declaration form is required of all exporters. The bureaucracy involved in getting this form is extremely heavy and requires the signature of the Minister of Commerce and authorizations from the National Bank of Liberia, the commercial banks and customs. For timber exports, besides the Forestry Development Authority's authentification, the Ministry of Justice and the Vice President's Office are involved. The more profitable the activity, the more layers of bureaucracy are created which can give rise to additional rent seeking activities.

In January 1989, an executive decree instituted a compulsory scheme in which all exports should be paid using letters of credit supposedly to improve the enforcement of the 25% surrender. The measure has passed the legislature, but has not yet been enforced. Because this measure will create added costs to the export process and will disfavor many exporters who do not have firm links with importers, it will disproportionally affect the smaller exporters. There has been a large outcry from the whole business community against the measure. An export license is required for some commodities and there are export duties on timber, minerals and rubber.

5.1.2 The Nature of Policy Making

Economic policy making is presently the domain of the executive branch of the government. Since 1988-1989, only two bills have been passed by the legislature and one was the budget. On the other hand, most of the decrees have been issued by the executive branch. Ministers have the authority to dictate policy as well as the Executive Mansion. These are immediately undermined because the government on the one hand grants formal exemptions and, on the other hand, cannot implement many of the measures it decrees because of weak administrative controls and lack of manpower. This has been the case with the SGS import inspection scheme, the 25% foreign exchange surrender scheme and other policies.

Many policies are not official, but are applied in an ad hoc manner to particular companies. For example, the Ministry of Finance has recently required that some companies pay their taxes in foreign exchange. In some cases it is requiring companies to surrender more than 25% of its foreign exchange earnings.

The Liberianization scheme was another example of rash policymaking. In the name of helping indigenous small businesses, the policy, which is still on the books of the Ministry of Commerce and dates back to 1979, announced that in certain industries in Monrovia all foreign businesses of less than a certain level of inventory were to be relinquished. They were given very short notice and many were evacuated forcibly. The policy was partially implemented and businesses were turned over to Liberians, but it was abandoned after the coup of 1980.

Similar abrupt policies have affected small enterprises in Monrovia. A system of zoning in Monrovia has now forcibly relocated many small businesses, mainly Liberian, from their original place of work to other designated areas of the city. Although zoning can be a very positive policy, the people were given no warning and had no previous knowledge of this policy. Without more than 24 hours' notice, small businesses have been vacated from certain sections of the city and their temporary structures razed to the ground in the name of keeping the city clean. Many informal enterprises' original capital, inventory and stocks, have been lost due to this policy of the Monrovia City Corporation.

5.1.3 Rent Seeking Activities

The need to expend unproductive time and money to compete for either exemptions from regulations or for access to lucrative business opportunities inflates the cost of doing business and biases the outcomes in favor of those businesses which are willing and able to pay for favors. Rent seeking occurs systematically throughout the government because public sector wages are low, are subject to periodic pay cuts and deductions for special events and are often paid after more than a month's delay. Hence, government officials compensate their incomes by other means while remaining on the job. Others have occupations on the side which take time away from their public duty. The system is perpetuated as new officials see others use their positions for personal gain.

This aspect of the economic environment increases the cost of doing business for enterprises that are affected by the government; that is, all enterprises in Liberia. For example, the unregistered small businesses can face constant harassment from inspectors and revenue agents. Large companies bidding for lucrative contracts and very favorable tax free status feel compelled to expend large amounts of money to government officials. The cost of rent seeking to private enterprises can be approximated according to the size of firm. Starting a new, large enterprise used to cost an estimated $15,000 to $20,000 in unofficial payments before 1980. Now it is estimated to require at least $100,000 to begin a new investment program where investment incentives are being sought.

In conclusion, the regulatory system increases the cost and risk of doing business. These must be either absorbed or reduced by private business. The profitable businesses can absorb these costs and risks and the organized and politically powerful businesses can reduce them. The effect on the small and medium enterprise is negative since it is neither profitable enough or powerful enough to absorb or reduce the effects of government taxation and regulation.

5.2 THE OPEN DOOR POLICY

The second important characteristic that defines the rules of the game in Liberia's private sector is its long-standing open door policy which began in 1926, when the Firestone Tire and Rubber Company agreement was signed. Previously, policy was designed to protect indigenous businesses from external control. Since then, many foreign nationals have moved to Liberia to reap the benefits of the country's rich resources.

The open door policy is characterized by the support the government has given to foreign investment in the form of: 1) providing generous investment incentives; 2) opening up all private industries to foreigners; 3) providing concessions of land for mining, timber and rubber to any business willing to pay for them; 4) putting no restrictions on the hiring of foreign technical and managerial employees; 5) allowing full repatriation of profits and employees' savings; and 6) allowing a free flow of foreign exchange.

This policy has attracted many foreign nationals in both the concession sector, timber, rubber, and mining, and other parts of the economy. The Lebanese are the largest group of foreign investors who have settled in Liberia. There are many investors from

Europe, the United States, India, China and other West African nations who have now settled in Liberia. Many large ventures have not worked out. The few large ventures that have done very well are in rubber and timber. Those firms that have gotten involved in smaller businesses such as those of the Lebanese community and Indian community have also thrived.

Investment incentives are given for any major investment for the five initial years of the investment through an investment incentive contract. The contract will give 90% duty free privileges and a 50% exemption from income tax. The contract is negotiated with the National Investment Commission, a semi-autonomous body. Normally, the Commission will have the authority to negotiate a contract and approve it without the approval of any Ministry for all investments of less than two million dollars. Larger investments seeking incentives must have the authority of the Minister of Finance and must be presented to the National Planning Council.

In reality, however, there are many problems with the investment incentives contracts. At times, the Ministry of Finance will not honor the benefits it provides. In 1987, the duty free exemptions were revoked in an ad hoc manner. The investors were not warned that they would have to pay the whole duty until they picked up their goods at the customs. They were expecting to have a 90% exemption. This was changed, later in 1987, to a 50% exemption and stands as such to date even though the investment incentive code and the contracts in force stipulate a 90% exemption.

While investment incentives are not conditional on any minimum size of investment, a conscious policy is being implemented to avoid granting tax breaks to local enterprises. This is the result of a general tightening of the budget which has affected all enterprises. The government can no longer afford to give up much needed revenue and is squeezing all possible avenues for extra funds. The enterprises which can afford to pressure politicians, primarily the large foreign firms, have done so and have enjoyed privileges which would otherwise be rescinded. The Liberian Marketers Association and the Federal Transport Union have also obtained tax free privileges for their constituents due to their political strength.

Large investments in the concession sector, i.e. timber, mining and rubber, have been able to receive even more interesting incentives. For five years they do not pay income or excise tax and can import their machinery and equipment 100% duty free. They, however, must pay royalties on the value of their production.

The tax law of general application, the investment incentive contracts and the concession contracts stipulate that losses can be carried forward over a period of five years. Notwithstanding the investment incentives, this law has caused much loss in revenues for the government. Many large businesses understate their incomes and use depreciation to create losses which are used to shelter incomes of future years. For the last two years, the large iron ore mining operations, which produce the country's most important export product, have paid no taxes under this arrangement.

The overly generous incentives that have been allowed to foreign firms have deprived the government of much needed revenues. In consequence, the government has had to default on many of its obligations--its employees, its local governments, its

suppliers, and its creditors. This is a shift of the tax burden directly from the large foreign firms to the Liberian public and government employee. This has affected the internal demand for goods and services and the Liberian small and medium enterprises which cater principally to this market.

A second aspect of the open door policy is that all industries are open for participation by private foreign businesses except certain ones now monopolized by state-run enterprises: the marketing of cocoa and coffee, the production and distribution of electricity and water and palm oil products, among others. The Liberianization policy of 1979, aimed at the smaller foreign businesses, was dismantled after the coup of 1980, and there is little interest in the government for reinstituting it although it remains on the books as a policy goal.

The open door policy allows free entry of expatriate employees. The Lebanese and Indian communities have made very heavy use of this privilege, bringing in their families to settle in Liberia. They are now well established in many businesses, but mainly dominate retail and wholesale commerce. As a result of this aspect of the policy, almost 5,500 foreigners were legally registered with work permits in 1985 and the ILO estimates that the actual number of expatriates working in Liberia was close to 40,000. The Indians and Lebanese have created a strong support system which has greatly helped the newly arrived family members with capital and training.

Another aspect of the open door policy is the complete repatriation of profits. It is now encroached only by the 25% foreign exchange surrender scheme which does not really restrict repatriation of profits since the proceeds can be used to pay for local costs: the government pays the enterprise for the foreign exchange at the official exchange rate. There have been problems in the government's ability to pay local money for the foreign exchange being repatriated, so companies have been allowed to deduct some of their foreign exchange requirements from their quota or to assign their foreign exchange to other firms in need of foreign exchange, at the official exchange rate.

Due to the coining of Liberian five dollar denomination and its devaluation relative to the US dollar (since 1985), the open door policy which has allowed the free flow of foreign exchange has allowed capital and profits to leave Liberia. The difficulty and cost of getting foreign exchange is now being felt only by those firms that have no access to the export sector, no good relationship with the formal banks and little political influence with the people in government who have the power to provide foreign exchange at the official rate. That is, the Liberian small and medium enterprise, among others.

While the open door policy has attracted many foreign investors and is inherently a positive policy instrument for growth, coupled with the uncertain environment caused by other factors, it has had negative repercussions for the small and medium enterprises.

5.3 THE LEGAL SYSTEM AND BUSINESS RISK TAKING

The Liberian judicial system is dysfunctional with respect to commercial law. Businesses operating in Liberia seldom resort to the legal system in case of contractual or extra- contractual offenses. This has added risk of damage and injury to the conduct of business in Liberia and has ultimately hurt the small and medium size businesses.

When property rights, contracts or extracontractual agreements cannot be supported by a functioning legal system, the economic system can no longer make use of conventions that facilitate business but involve a certain level of uncertainty such as a checking system, credit and higher levels of financial intermediation including capital markets; and risk-sharing conventions such as joint ownership of property, partnerships and specialization of employment. When the legal system cannot address that uncertainty, these conventions are no longer used or their cost becomes exceedingly high. The cost of credit has become much higher than the expected economic return from the projects and the legal interest rate ceilings. Banks have stopped providing credit to enterprises, especially the small and medium enterprise which tends to be more costly and risky. Credit to suppliers has also increased in price. Suppliers have resorted to the use of the Limited Power of Attorney system of payment that ensures payment by giving the supplier the right to tap the purchaser's paycheck until the good has been paid for. The price of using this credit scheme has reached more than 100%, that is, the price of goods purchased under this scheme can be double the cash price.

To reduce the risks caused by a lack of enforcement of economic rules, the use of intermediaries to get official protection has increased. The need for unofficial payments has increased, hence the inflation in rent seeking activities. This method of compensating for the lack of security is therefore becoming less affordable by small enterprises.

To a certain extent some small enterprises have been able to reduce risks through the formation of unions which have been able to gain political acceptance and thereby increase their bargaining power. Small businesses have also limited themselves to hiring family members and relatives as a less risky alternative rather than hire more experienced or specialized outside labor which could have been more efficient.

The small enterprise, in need of loan capital and with no political negotiating power, has suffered the most from the legal system. The greatest effect to the economy, however, is the negative effect it has on investment, both domestic and foreign.

5.4 COMPETITIVE GROUPS AND THEIR STRATEGIES

The economic system of Liberia is extremely complicated. The government has created many rules and has allowed the private sector to get around them by using many different strategies and competitive strategies. One reason is to see how the constraints posed by the rules of the game have been used to benefit particular competitive groups and how that has affected Liberian small and medium enterprises. The second reason is to find out what are the factors that have helped certain groups of firms to succeed in that environment.

To understand competition in the Liberian private sector, one needs to look at competitive groups defined by their origin and their industry. Within a competitive group, strategies tend to be the same. Foreigners have tended to create strong ties within their own communities which have served their business needs as well as their social relationships. They tend to get into similar lines of businesses as well in order to create a strong support system. Levels of education and the level of physical capital they will accumulate and invest in their business also tends to be the same within competitive groups. This has a

direct relation on the size of the firms in each industry. Therefore, to understand competition in each sector one must look at the makeup of each sector of the economy in terms of the size of the firm, the nationality of the ownership and finally the size distribution of firms of each nationality. If Liberians compete on the same grounds as some of the other groups, they tend to be driven out of business, so they have concentrated in the smaller market risks and markets not dominated by Lebanese.

In so doing, we find that the majority of small businesses are run by the Liberians and other West Africans and that these businesses concentrate on market selling; small scale manufacturing, construction, services such as cookshops, bars, clinics and transport. The larger firms are dominated by Indians and Lebanese and concentrate on construction, large scale manufacturing and commerce. Medium scale businesses are run by a mixture of African, Lebanese and Indian entrepreneurs in all of the different sectors listed above. The giant enterprises, the large wholesalers and concession holders, are predominantly Europeans and Americans.

There are many different reasons behind these patterns which, in the long run, are the natural outcome of the human and physical capital that each group has brought to bear on its competitive environment. Lebanese and Mandingo Liberians have a history and tendency toward commerce; many Ghanaians, with fishing backgrounds, came to Liberia for better fishing grounds; Americans and Europeans that have great amounts of capital to invest have come for the natural resources to supply to their home countries.

5.5 CONSTRAINTS AND SUCCESS FACTORS IN THE PRIVATE SECTOR

When the ILO surveyed the small and medium enterprises in Liberia in August 1987, they asked the entrepreneurs to explain their difficulties. "The majority of the enterprises indicate that they could even double their current levels of employment if some effort was made to alleviate or minimize these constraints:"[1]

1. Access to credit
2. Problems in marketing--competition
3. Lack of suitable premises
4. High taxes
5. Irregular supply of raw materials
6. Inability to import equipment and other inputs

All competitive groups in the private sector in Liberia have been faced by the same constraints and many have managed to succeed using different strategies to surmount these and transform them into challenges. Why are the Liberians crippled by these constraints? These constraints may hide deeper roots of the problem: the lack of education and training, the lack of organization and the lack of innovation and entrepreneurial skills.

[1] ILO pp. 69-74

All of the strategies discussed above for succeeding in the different sectors of the Liberian economy involve the use of technical and managerial skill, the formation of economic organization that support the individual in his business activity and the ability to seize economic opportunities to improve the business and make it grow.

5.5.1 Education and Training

Some figures on the quality of education will explain why Liberians have not been able to compete with foreigners in their own business environment: "In 1984 a total of 8,082 students sat for the 12th grade national exam and 7,066 sat in 1985. Those who passed in 1984 were 1481 and in '85 1275."[2] That is, only 18.3% passed in 1984 and 18.04% passed in 1985. In 1986 59.4% of the 6,839 students that took the test passed and in 1987, only 34.85% of 7398 students passed.

As for vocational training, at the Booker Washington Institute in Kakata, the results of 1987 exams were as follows: "Of 29 who sat for the exam, 2 passed mathematics, 1 passed science, 2 passed social studies, and 3 passed language arts." The results of vocational training have been mixed, better in the private religious institutions, except for the Liberian Assembly of God Mission in Maryland County where none of the fourteen students passed a single subject.

For a population of close to 2.5 million people, these numbers present a telling story. The ILO survey shows that the general level of education of the small scale entrepreneurs is 3-4 years of schooling. Nearly 35% of them have not attended formal schools and out of those, 95% could not read or write. This has manifested itself in the inability of Liberian entrepreneurs to financially manage their businesses. Many Liberian businesses do not reinvest the profits they have made and quickly go out of business for lack of working capital. As a corollary, they do not inherently understand the meaning of credit and the difference between capital and debt. Banks in Liberia may have suffered high default rates as a consequence.

Banks are not lending to the small entrepreneur because they cannot charge an interest rate high enough to compensate them for this risk. Hence, it is impossible to expect that a credit scheme will help those entrepreneurs who do not know how to use debt to leverage their own money and to make it work for them without assuming possession of it. Some credit schemes to small entrepreneurs have failed because the education has not been effectively imparted to the borrower.

Small entrepreneurs who understand and use this concept are more trustworthy in the eyes of their neighbors and friends and are able to form informal credit schemes much as have done the Lebanese and other expatriate groups who lacked initial capital when first starting a business. Informal credit schemes are already available through revolving funds

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[2]Flemister, pp. 33-35

called Susu. Similarly, salaried employees in particular companies have grouped and organized informal credit unions. The small businesses have not yet followed that example.

Without a basic level of education, in particular business education, Liberian businessmen cannot be effective in any environment let alone competing with those expatriates who have higher levels of education.

5.5.2 Organization

A very important factor of success used by successful competitive groups is organization. They have created marketing networks and financial networks. Business organizations have been created that improve efficiency of production by dividing responsibilities according to specialization. Organizations have formed to make common use of physical capital and to pool financial resources to buy in bulk, thus, having access to lower prices and better quality inputs.

The only formal organizations that have been formed by Liberian businesses are the three unions which provide the smallest and least profitable occupations (for example, the market sellers and taxi cab owners) with protection, reduction of risks and the spreading tax payments over a longer period of time. This has been very beneficial to the market sellers, the tailors and the taxi and bus drivers. Other Liberian businesses have not organized to provide support to their business activities. In part, this may be due to mutual distrust and competition that comes from a lack of education.

Another important reason why few working organizations have not been formed is that most small entrepreneurs have a very short term economic outlook. Their internal rate of discount is so high that the notions of building long term institutions and similar investments of time and money hold little value for them. That is, due to a lack of a steady cash flow, cash holds a premium that can reach very high levels for the small entrepreneurs. They will be willing to give up substantial revenue flows in the future for a small amount of cash today. They do not place enough value on the earning of future cash flows. This can only be dispelled slowly and with good business management training, education, evidence of results, and good role models.

Private organizations are slowly forming as more small entrepreneurs begin to understand the value of support groups and working together. Privately, the Liberia Community Health Care Association (LCHC) is forming to support private clinics and hospitals throughout the country. A few educated businessmen in the woodworking, ready-made garment and metalworking industries are being helped by UNIDO to group themselves into associations. It is interesting to note that these associations are being spurred by educated Liberians, with the longer term in mind.

Groups such as these can be very instrumental in providing skills, mutual financing and common use of expensive equipment such as a kiln for the woodworkers and a showroom to display their products. They can pool their resources to buy in bulk and reduce the price of their inputs. And they can provide much needed moral support and motivation to individual entrepreneurs, especially those that are just starting out.

5.5.3 Entrepreneurship and Innovation

Many successful competitive groups have shown that they have the ability to make their businesses a success by aggressively marketing their products, entering new product areas and taking other measures to seize business opportunities. Liberian small entrepreneurs tend to enter business activities that are already crowded and extremely competitive. Even in very competitive industries such as market selling and woodworking, there is little effort to use new approaches to marketing.

In great measure, this lack of entrepreneurial skills can be improved with education and support groups which will provide them with security and self assurance. Improvement in their business endeavors will be the greatest source of motivation for the Liberian small and medium enterprise.

SECTION 6

GOVERNMENT AGENCY ROLES

The private sector in Liberia consists of various sub-sectors or categories of business activities in the country: formal vs. informal, commerce vs. industry, large-scale vs. small and medium scale, import vs. export-oriented, food, animal and forestry production vs. importation and urban vs. rural-based. Any category can be interchanged with other categories to modify or specifically define the characteristics of an operating business. (ie. a small-scale, export-oriented industry which is rural-based and operating in the informal sector.)

The Government primarily views an SME in Liberia in terms of monetary size (amount of turnover or level of investment). Size is followed by type of activity, ownership and location (urban or rural-based). The type of business techniques such as management and record-keeping skills, type of equipment used and production methods employed further distinguishes SMEs for the government. The private business sector in Liberia is dynamic and is thriving within the context of Government promotion and regulation of business activities within diverse categories.

6.1 MAJOR PROBLEMS FACING THE SMEs

Although the above characteristics present the framework for agency relationships to SMEs, Government has been handicapped in taking on an active and positive role. The following major problems confront SMEs and hamper their growth:

- Lack of financing: Money for loans may be available, but SMEs may not meet the stringent collateral or guarantee requirements imposed upon them by financing institutions in the formal system.

- Poor management: Inadequate planning, poor record-keeping and maintenance of stock and improper use of resources has lead to business failures.

- Debt payment and collections: Difficulty of collecting debts and meeting debt payments.

- Competition: In terms of ability to sell products and services, competition can be described in terms of large vs. small, foreign vs. indigenous-owned, imported vs. locally-made products and quality. There is also a proliferation of enterprises in the same line of business and serving the same small markets.

These problems have been identified by Government, international agencies and groups within the SME. Government has cooperated with other interest groups to sponsor training workshops, host conferences and provide other such forums to address these problems. Root causes of these problems lie in the very nature of the Liberian economy and still persist. These include: the general lack of linkages, small markets and dependence on imports for consumption goods. Government, as the biggest consumer of goods and

services, can affect SMEs through increased use of their goods and services.

6.2 TRADITIONAL ROLE OF GOVERNMENT

Government has other specific roles to fulfill in addition to promoting and regulating businesses. In developing SMEs, Government has to lay the proper foundation for the private business sector in general. Businesses, large and small, generally feel that Government should concentrate its efforts in the following areas:

- Consistent and well-implemented policies to promote confidence and thus reduce the elements of uncertainty and risk;
- Infrastructural development such as increased road networks and improved utilities for commercial use; and
- Educational and training facilities to improve the current levels of skilled manpower resources which may later be absorbed in the private sector.

For specifically developing the SME sector, Government can also focus on an assistance policy with suitable programs for:

- Identifying priority sectors for development;
- Offering incentives for people to go into these sectors;
- Pursuing policies of credit and taxation to encourage SMEs;
- Providing technical training; and
- Actively using SMEs for government contracts.

6.3 SELECTED MINISTRIES AND AGENCIES

The key agencies that are involved in SME development and that affect SMEs are the following:

- Ministry of Commerce and Industry
- Ministry of Finance
- Ministry of Planning and Economic Affairs
- Ministry of Agriculture
- National Investment Commission/Small and Medium
- Enterprise Department
- Liberia Industrial Free Zone Authority

To analyze the nature and extent of influence of these key Government agencies on SMEs, reviews of each are presented below.

6.3.1 MINISTRY OF COMMERCE AND INDUSTRY (MCI)

The MCI is responsible for promoting, developing and regulating all commercial and industrial activities in the country. The Minister is the chief administrative officer and is assisted by a Deputy Minister for Commerce and Industry and a Deputy Minister for Administration. The two deputies are assisted by three Assistant Ministers who administer the affairs of the following three major bureaus:

- Bureau of Commerce: Monitors, controls and regulates all commercial activities in the country. The Bureau consists of four divisions: Domestic Trade, Foreign Trade, Price Analysis & Marketing and the National Commercial Inspectorate.

- Bureau of Industry: Formulates and administers industrial development policies. It consists of the Industrial Development and the Industrial Administration & Supervision Divisions.

- Bureau of Central Administration: Coordinates the administrative operations of the Ministry in the divisions of finance, personnel and information services.

Current Activities

The Division of Domestic Trade registers and maintains records of all existing businesses operating in the country. Statistics for 1988, reveal the number of business registrations at 3,536 with 72% of the total accounting for sole proprietorships, 81% being located in Montserrado County (which includes the capital city of Monrovia) and 49% as Liberian-owned. The total number of registrations represents a 30% increase over the total in 1987.

The Ministry has been monitoring the business activities with respect to fair quality and adequate quantity of all commercial imports, issuance of export permits and analysis of exports and exporting locations, analysis of import documents to determine the fair prices of goods before reaching the consumer, enforcement of price control regulations and inspection of new and existing businesses to ensure compliance with the regulations governing commercial activities.

In the past year, the Ministry has conducted studies in: the distribution and sale of frozen fish and meat, the price structure for used vehicles and the allocation of foreign exchange for the purchase of imported essential commodities.

On the industrial side, MCI has been visiting local manufacturing industries to assess their problems so as to institute measures to assist them. The Ministry is working on a comprehensive industrial sector policy for Government's attention.

A tariff review on manufacturing inputs is being conducted by a specially-appointed Cabinet Committee. The intent of the review is to decrease the tariffs on these inputs to help decrease the costs to industries.

Issues

The Ministry is currently monitoring the activities of almost 4,000 businesses in and outside of Monrovia with a skeleton staff of only 230 persons and inadequate logistical support for surveying the market and for reaching all businesses to properly monitor, promote and regulate their activities.

The level of activity in the industrial sector is very low since the domestic market is small and there is competition from imported goods. The tariff structure does not support Liberian manufacturing and there are problems of timely access to foreign exchange. There is a lack of a clear, coordinated industrial development policy to benefit SMEs.

Industries have brought the issue of what they term "double taxation" to the Ministry's attention. Manufacturers pay a duty on the importation of raw materials and then are requested to pay an excise tax on their inventories. Moreover, a manufacturer who is also an exporter pays the 25% export surrender to the Government.

The Ministry does not have the capacity to classify its registrations and other information pertinent to the creation of updated and accurate statistics. For example, there is no classification and thus no exact information on the current number of SMEs in the country.

The trade information services within the Ministry have declined due to the discontinued sponsorship of the United Nations Development Programme and the International Trade Center. The information services formed an important link in promoting Liberia's trade with the outside world.

Developing the SME Sector

The issues facing private sector development and industrial policy development strategies require the Ministry's immediate attention. As an incentive for small businesses to register, MCI has lessened the annual registration fees from $200 to $100 for the small entrepreneur.

As yet, the Ministry has no other specific policies for developing the SME sector. Consultations have been held with an advisory mission of the United Nations Industrial Development Organization to assist in developing a program for expansion of this sector.

MCI has requested reexamination of the Investment Incentive Code to accelerate industrial growth and development as well as to encourage the promotion of SMEs. The Ministry calls for collaboration with the National Investment Commission and the Liberia Industrial Free Zone Authority to:

a) provide industrial information to potential investors;

b) protect against too much foreign competition;

c) give preference to local industries through a Government purchase program; and

d) promote entrepreneurship development.

6.3.2 MINISTRY OF FINANCE (MOF)

The primary function of the MOF is the fiscal operation of Government. This entails revenue collection, budget expenditure and debt management. The chief executive officer is the Minister of Finance who is assisted by the Deputy Minister of Administration, the Deputy Minister of Revenue and the Deputy Minister of Expenditure. The Deputy Minister of Administration serves as Acting Minister in the absence of the Minister. The Deputies of Revenue and Expenditure are assisted by Assistant Ministers in their divisions. The Revenue Department of the MOF consists of three bureaus: Internal Revenue, Customs & Excise and Income Tax.

The Economic and Financial Management Committee (EFMC) is an arm of Government which is responsible for coordinating the economic and financial policies of Government and advising the President on all matters relating to the management of the economy. The Minister of Finance and the Minister of Planning and Economic Affairs serve as Chairman and Co-chairman respectively of the EFMC. Other members of the EFMC include the Ministers of Presidential Affairs, of Agriculture, of Justice and of Lands, Mines and Energy. The Minister of Commerce and Industry and the Director-General of the Civil Service Agency are co-opted as permanent members.

The fiscal performance of Government affects its financial and monetary operations and developments as well as the successful implementation of its Economic Recovery Program. The Recovery Program includes the performance of the Concession Sector, State Enterprises and Government's relations on bilateral and multilateral levels. The fiscal operations of the MOF influence the economic and financial activities of the private and public sectors.

Current Activities

Through the various divisions of the Revenue Department, the MOF collects revenues from the private sector in the areas of real estate and realty leasing, national identification cards, motor vehicles, income tax, corporation and partnership, national reconstruction, health, development & progress revenue, customs duties, transhipments, special releases & bonds, rubber sales, royalties on the gross sales of iron ore, diamond & gold, dividend and profit sharing revenue and miscellaneous taxes.

Miscellaneous taxes consist of business trade levy, business registration, business occupation license, general alcoholic beverages, immigration fees and labor permits. This category of taxes affects a wider proportion of the private sector than any of the other categories.

In addition to its administrative and monitoring functions in many areas, the EFMC prepares quarterly reports on the status of the economy. It monitors, evaluates and prepares project proposals. The proposals are primarily for infrastructural development projects in the country. Through its Secretariat, the EFMC also coordinates the activities of the Commodity Import Program (CIP), a grant agreement instituted in late 1987, between Liberia and the United States. Over a three-year period, $16M is being made available to

finance imports from the United States. Counterpart funds generated under the program will be used for development activities.

The MOF monitors the activities of Concessions in the Mining, Agricultural and Light Industry Sectors. Trends in production, prices and exports for Liberia's natural resources of iron ore, rubber, forestry and oil palm are studied in the mining and agricultural sectors. Exemption from customs duties serve as the investment incentives for selected light industries which are importing machinery, equipment and related spare parts, raw and auxiliary materials, excise tax on production and corporate income tax.

Issues

The private business sector is affected by access to foreign exchange (FX). Liberian coin in circulation is in excess of L$130M in 5-dollar coins and U.S. notes are not in circulation. The demand for FX at the previous parity rate by both the public and private sectors exceeds the supply. Business enterprises resort to the parallel market to purchase FX at exchange rates above the official rate of one Liberian dollar to one US dollar. As a result of the FX supply situation and the expansion in external debt obligations, Government has found it necessary to prioritize the use of its low off-shore receipts and resort to other measures.

In order to obtain FX, all exporters are required to surrender 25% of their FX earnings to the National Bank of Liberia. Government feels that this scheme is needed to control the allocation of FX. However, this surrender scheme continues to experience several difficulties as the exporters feel that the 25% surrender is not contained in their original concession agreements and that it serves as an additional tax on their earnings. In addition, all timber exporters are required to pay their fees, taxes, land rental and reforestation to the Forestry Development Authority (FDA) in FX. The MOF has no control over FDA and thus cannot fully substantiate how much FX is generated and could be made available as revenues.

These problems have caused a marked decline in the amount of surrender funds from the export sector.

The MOF is noting a decline in total amounts of salaries, wages and benefits to Liberian employees in the iron ore mining industry. The sluggish economic situation of the world iron ore market in recent years has resulted in a reduced labor force in this industry. The recent upturn in world iron ore prices may not overcome the realized decline in employment

The increased demand for rubber coupled with higher world market prices in the rubber industry has resulted in an increase in rubber production. This increase is due to a reactivation of previously dormant rubber farms.

The MOF is looking at privatization with the objective of reducing the present size of the basically unviable State Enterprises sector. It is the view of the MOF that privatization should improve the operational efficiency and financial health of the enterprises through fiscal, financial and private managerial reforms. Government would then limit its function to monitoring performance according to agreed and specific criteria.

Developing the SME Sector

The MOF has reviewed the policy decision by Government to lift the import restrictions on commodities which are already made available by local industries. The MOF is conducting a study to determine the potential impact of this policy measure on the national economy. The objective is to determine protective tariff rates that would be applied on raw materials and inputs as well as finished industrial imports to ensure fair competition between the imported and domestic goods while at the same time levying adequate customs duties and fees that would compensate for the value added contribution which would be relinquished from domestic production.

Measures are being taken by the MOF to protect government revenues and to serve as a deterrent against alleged harassment of business. All employees in the revenue service of Government are required to post a cash bond equal to three times the amount of funds normally handled in that division. Moreover, the MOF has recommended that all revenue collectors be paid a monthly salary of at least $300 and that an incentive program be developed to encourage dutiful and honest revenue collectors.

The MOF has proposed eight projects for financing to the Economic Recovery Program of the Economic Community of West African States (ECOWAS). The following projects have been submitted for consideration by donor agencies:

1. Kle-Mano River Road
2. Rice Seeds Productions for Small Farmers
3. Improvement of Telecommunications in Rural Areas
4. Rural Water Supply
5. Feeder Roads Construction
6. Promotion of Small Scale and Medium Enterprises
7. Rehabilitation of Rubber Plantations

Two of the projects have been selected by ECOWAS for direct financing by the African Development Bank (ADB) and the African Development Fund (ADF). Due to the high level of debt owed to the ADB/ADF by Liberia, the status of these projects are not yet known.

6.3.3 MINISTRY OF PLANNING AND ECONOMIC AFFAIRS (MPEA)

The MPEA is the overall monitor for the various Government Ministries. The Minister is assisted by the Deputy Minister for Administration and the Deputy Minister for Planning and Policy. Assistant Ministers head the three bureaus of Sectoral Planning Rural Regional Planning, and Economic Affairs. The activities of the MPEA are in the basic areas of research and statistics, monitoring of agreements and specific projects, and overseeing budget allotments for the various Ministries of Government.

The MPEA is responsible for drawing up and implementing the 3-year and 5-year economic development plans for the country. The policies and plans contained in annual and projected reports from each Ministry are approved by the National Legislature and subsequently turned over to the MPEA for coordination. It is the responsibility of the

MPEA to monitor the development projects set by each Ministry, to approve their quarterly allotments and to ensure that their quarterly achievements are within the overall national development plans.

Bilateral and Multilateral Agencies interact with the MPEA as the representative of the Government of Liberia. The MPEA also is the administrator for the PL-480 program, an agreement with the United States for the subsidized import of rice from the U.S. and its sale within the country.

Current Activities

MPEA has participated in a series of local seminars to discuss Government's macro-economic policies and how best they can be changed to enhance the environment for the development of the private sector. The Ministry has provided planning assistance to many self-help groups at the regional and county levels. An update and distribution of the Planning and Development Atlas was undertaken to standardize all county maps for effective socio-economic development planning. County profiles were prepared to discern the socio-economic conditions of the county and to assist in the planning of regional surveys. An attempt was made to encourage regional development by concentrating the limited resources at a particular service center. Saclepea, Nimba County was chosen as the pilot for the Service Center concept.

Personnel support from the MPEA and the Ministry of Rural Development (MRD) was provided to donor assisted projects in the rural water programs which encompassed the digging of wells and experimental latrines, installation of hand pumps and animation and pump repair. The MPEA worked through the appropriate Ministries and agencies in establishing cooperative development agencies, land resource assessment and monitoring and evaluating all educational and training projects.

In 1988, MPEA collaborated with the National Investment Commission (NIC) in the collection of economic and technical data and the assessment of ten investment project proposals, monitoring of existing industrial enterprises such as mining, manufacturing, construction, commerce and services. The Ministry also recommended that a portion of the Monrovia Industrial Park be allocated for small-scale enterprise development.

Issues

The MPEA has identified the following obstacles which need to be tackled in order to bring about needed structural adjustment changes: an inadequate development budget, the fiscal/foreign exchange systems, insufficient physical facilities and an inadequate agricultural revenue base.

In 1988, projects were below expectations due to:

- low foreign disbursements due to Liberia's inability to service its debts;
- most lending institutions freezing loan disbursements;
- no policy governing revenue distribution between the recurrent and development budgets; and

- monitoring and evaluation exercises hampered by lack of skilled manpower.

Role of MPEA in Developing SMEs

MPEA needs to establish certain mechanisms to improve the environment for private sector development. MPEA plans to strengthen the activities of a monitoring and evaluation unit within the Ministry to:

- compare the expended resources against attained development objectives;
- determine both the economic and social impact of any development program; and
- discover the possible organizational obstacles.

MPEA will help establish policies to make a portion of the annual estimated revenue available for development. Support for priority projects will be solicited by MPEA in the areas of agriculture, rural development, education, health and population.

MPEA should assist in implementing the primary objectives of the Liberia's Fourth Country Program: improving management of the public sector; developing agriculture and the rural sector and supporting private sector initiatives.

6.3.4 MINISTRY OF AGRICULTURE (MOA)

The agricultural sector has the potential to accelerate the economy of Liberia. Approximately 70% of the country's population reside in the rural areas and more than two-thirds of the country's population depends on agriculture and related activities for their livelihood. Given the national objective for agricultural development, the dependency upon agriculture in the rural areas and the contribution agriculture can make to the Liberian economy, the role of the MOA is important, directly and indirectly to the development of SMEs.

The MOA is responsible for implementing policies and guidelines, as well as offer technical assistance in support of the National development objectives of the Green Revolution for agricultural development throughout the country. The immediate objectives are to improve the socio-economic conditions for Liberia's farmers to earn adequate incomes through cooperatives and integrated development which will also help to reverse the high rate of rural to urban migration of certain counties of Liberia, to make more productive use of Liberia's agricultural resources while being conscious of conservation practices and to increase the agricultural output thereby contributing to self- sufficiency in food production. Various agricultural institutions such as the Agricultural Cooperative and Development Bank (ACDB), the Rubber Corporation of Liberia and the Liberia Produce Marketing Corporation (LPMC) are instruments through which the MOA implements Government's agricultural policies and strategies.

The Minister of Agriculture is supported by an Assistant Minister/Special Assistant who conducts the office management affairs of the office. The following four departments,

each headed by a Deputy Minister, comprise the activities of the MOA: Administration, Technical Affairs, Planning and Development and Regional Development, Research and Extension.

Current Activities

The MOA has proposed the implementation of several preconditions to satisfy the Green Revolution Program: provide more credit to rural farmers; strengthen the marketing aspects of the Liberian Marketing Corporation (LPMC); establish market facilities throughout the country for agricultural produce other than rubber and those handled by LPMC; and provide initial capital investment for the establishment of at least two central agricultural estates.

The MOA currently monitors agricultural development projects in the counties which are assisted by donor countries. These include the Agricultural and Rural Development Projects in Bong County (BCADP), Lofa County (LCADP) and Nimba County (NCRDP). All projects focus on increasing smallholder production of rice and tree crops as well as providing infrastructural and social services and are supported by donor agencies.

Issues

The many development projects in the country cannot be adequately monitored by the MOA due to its financial and manpower constraints. MOA cannot focus considerable and sorely needed attention to soil suitability, dietary habits and socio-cultural practices of people in the various parts of the country.

There is a critical need for effective local level organizations which can perform production and marketing functions. Presently, the various projects have taken on these tasks themselves. Support systems for agricultural sectors of input supply, marketing of output, extension and credit have not been adequate.

Role of MOA in Developing SMEs

The agricultural research and development projects in the counties could promote the target agricultural sectors of inland, marine and artisanal (small scale) fisheries; livestock and food crop multiplication; and rice seed production. SME activities such as the following could spin off of these central projects: advisory services, making of farm implements, building of small fishing vessels and the supplying of fishing gear. SMEs in agriculture would increase income levels and encourage persons to remain in the rural areas to develop their areas. Assistance to farmers would improve food production levels for national self-sufficiency in selected crops.

In order to ensure maximum participation of rural dwellers, the following incentives for production could be provided: credit and marketing facilities, acquisition of land for productive use, extension services and the provision of improved farm inputs. Advisory and training services could curb the problems of food preservation and storage.

MOA is situated to serve as a catalyst for the private sector and research institutions,

like the Central Agricultural Research Institute (CARI) and the University of Liberia College of Agriculture and Forestry, to provide services to farmers and cooperatives and rural enterprises. MOA could also provide incentives to producers to export crops in order to maximize their returns from the world market prices for themselves and for the economy as a whole.

6.3.5 NATIONAL INVESTMENT COMMISSION (NIC)

The NIC was created by an Act of the Legislature in September, 1979, to coordinate the investment policies of Liberia and to efficiently promote a more effective conclusion of investment agreements related to all sectors of the economy. The Commission receives, evaluates and processes all investment agreements in collaboration with relevant Ministries and Agencies of Government. The NIC is a semi-autonomous agency which reports to a Board of Directors from the Ministries of Commerce, Finance, Planning & Economic Affairs and from any other Ministry or Agency related to the particular sector of investment (i.e., Agriculture, Mining and Forestry). It is the only agency of Government to guide and monitor investment proposals.

The structure of the NIC is comprised of the departments of Research, Project Appraisal, Monitoring, Administration and Small & Medium-Scale Enterprises Development (SME Department). The main office of the NIC is in Monrovia. Branch offices of the SME Department of the NIC are located in Gbarnga, Bong County and Zwedru, Grand Gedeh County.

Current Activities

The SME Department of the NIC was instituted by Government approximately 6 years ago to help develop the SME sector. Currently, this department is catering to those who have requested project assistance in the areas of woodworking, carpentry, blacksmithing, animal husbandry and restaurants.

NIC/SME activities are primarily in the areas of Industrial Extension Service and Training and Product Marketing. Investment proposals are screened and appraised in accordance with the Investment Incentive of Liberia. Evaluation reports are prepared for the review of NIC's Board of Directors and technical committee.

The NIC is focusing more attention to provide managerial and technical assistance in an effort to promote indigenous businesses. For the period covering 1988, the NIC headquarters in Monrovia reported that out of 36 applications submitted, 14 projects were evaluated and approved. Six out of the 14 projects were implemented to a total investment of $6.4 million. The projects implemented provided total employment of approximately 130 persons, 90% of whom were Liberians.

Issues

There is a current freeze of 50% on the level of incentives to enterprises. This freeze was imposed by the Ministry of Finance when it was reviewing the concession agreements of all of its current investors in the various sectors. It has been in effect since

the mid-eighties. The partial freeze has rendered the National Investment Commission powerless in the eyes of any potential investors.

Since the halt on the World Bank Loan Scheme (1987/1988), there has been a very low number of SME applicants.

The NIC/SME branch in Gbarnga reported that 80% of their clients previous applicants are now frustrated since NIC can no longer help secure their loan requirements. Other issues hindering the effectiveness of NIC are as follows:

- o budgetary constraints do not enable NIC to aggressively pursue its objectives and promotional activities;
- o the foreign exchange problem, caused a decline in the U.S. dollar value and the drop in world prices for Liberia's primary foreign exchange earners; and
- o the revised Investment Incentive Code has not yet been approved by the National Legislature. The new investment code varies in incentives and length of period depending on size of enterprise, geographical location, amount of domestic inputs it uses, for expansion programs of existing companies, and for enterprises undertaking common service facilities.

Role of NIC in Developing SMEs

NIC/SME is continuing in its efforts to:

a) redirect its investment promotion activities to encourage and develop small and medium industries;

b) provide managerial and technical assistance to existing Liberian entrepreneurs;

c) involve itself in Government's initiatives to push agro-based industries in view of Government's objectives of the "Green Revolution";

d) advise Government to create policies that would improve the investment climate of the economy;

e) target the areas to promote industries which would:
   - utilize a substantial percentage of local available resources,
   - increase employment of Liberia,
   - decentralize from the urban center of Monrovia, and
   - move to the rural areas for infrastructual development; and

f) cooperate with all Ministries and Agencies of Government in implementing investment agreements.

The Research Division of the NIC continues to collect and disseminate technical information for the work of the Commission and for potential investors and entrepreneurs. Information is developed in the areas of: identifying products that have potential development possibilities; analyzing industrial trends in the Liberian economy for domestic transactions as well as against the backdrop of other economies; reviewing the Investment

Incentive Code with a view to advise Government about revising those aspects of the Code that need to reflect the changing business climate of Liberia; and preparing brochures and other literature to reflect the business promotional activities of the Commission.

6.3.6 LIBERIAN INDUSTRIAL FREE ZONE AUTHORITY (LIFZA)

LIFZA was established in 1975, to induce foreign investment, promote exports, increase employment and improve industrial technology through the usage of local raw materials. LIFZA is a semi-autonomous agency headed by a Chairman, General Manager and directors who collectively are accountable to a Board of Directors. The rules and regulations governing the admission of industries are drawn up by LIFZA in consultation with the Ministries of Commerce and Industry and Finance. The Administration of LIFZA acts on behalf of various government agencies in handling matters with the Free Zone.

Current Activities

LIFZA has the authority to plan, construct and maintain all installations and facilities as well as to control all revenues derived from operations within its Zone. LIFZA provides exemptions from import and export duties on machinery and equipment; raw materials and semi-finished products; real-estate tax on buildings acquired by the Authority; and corporate income tax for five years which payment thereafter would not exceed 25%. Buildings, complete with electrical and running water facilities, are maintained within the Zone as ready-made conveniences for potential investors.

Issues

In its 14 years of operation, LIFZA has a meager portfolio of investors operating within its Zone. The projected goals set at its inception for attracting investment capital, generating export sales and creating job opportunities were severely hampered by political occurrences which interfered with an otherwise stable investment climate.

The revenue generated from the low number of industries within the Zone is not sufficient for its administrative operations. Building rentals have increased to an average of $30,000 annually, yet the level of facilities and services has dropped.

As a result of the high annual rents, Government mandate on the 25% surrender for exports and a decreasing level of incentives implemented, LIFZA is finding it difficult to attract and even maintain investments with its Zone. One investor who had been initially attracted to the Zone for its incentives and export-orientation, recently moved because of his inability to reconcile the relatively few benefits received against his costs to maintain himself within the Zone.

The 1987, statistics on LIFZA show that after more than 10 years in operation, LIFZA reached only a portion of its targeted goals: investment capital of $3.5M against $12M targeted; export sales of $137,000 against $24M, and; total employment opportunities of 465 against 6,000 targeted.

Role of LIFZA in Developing the SME Sector

LIFZA currently does not have specific plans for developing the SME sector. LIFZA could consider the changed conditions which prohibit the competitive survival of most large-scale industries within the Zone. Given the nature of SMEs, the Authority can re-examine its admission requirements with a view to encouraging the SMEs to set up their operations within its Zone. It could perhaps serve as a linkage for SMEs in one industry to serve another sector. Compared to large-scale industries, the SMEs have low investment costs, invest in local currency, use local raw materials and can survive better within the prevailing difficult circumstances. SMEs may benefit from a LIFZA program of attracting those enterprises that can meet a revised admissions criteria and along with incentives packages to encourage an SME sector within the Zone.

SECTION 7

FINDINGS AND CONCLUSIONS

The following presents key findings and conclusions. This compilation of factors affecting SME development provides the basis for the program and project oriented recommendations of Section 8.

7.1 ECONOMY

The Liberian economy has been affected greatly by the "open door" policy of encouraging foreign investment and private sector activities. Liberia has a rich natural resource base, an expanding population and opportunities for new economic activities for small, medium and large enterprises.

- The Liberian economy has three major components: concession activities in mining, timber, rubber, the urban economy of Monrovia and the agriculturally-oriented economy of the rural areas. Linkages between these components exist and are weak.
- The Monrovia labor force is growing rapidly as is the number of unemployed and underemployed.
- The domestic market for consumer goods and services is segmented (enclave, rural and urban) and is small.
- Apart from export production, the economy is oriented to trade rather than to the production or processing of goods.
- A short-term outlook dominates government and business planning.
- Business statistics on numbers of establishments and size of firms are not reliable/

7.2 FINANCE

Government deficit financing has affected the conduct of business through financial institutions. Checks are discounted and often not accepted for business transactions. Deposits are not encouraged and even large businesses have difficulty in arranging business loans. Savings and credit are important to the economy and alternatives to traditional financial institutions are being established.

- Credit is not provided to SMEs and many larger firms by the commercial banking and development agencies. Approval for loans to SMEs from Development Finance Institutions can take up to six months or longer. The major drawback is the lack of funds available to these lending agencies, although commercial banks are generally reluctant to make loans to other than their established customers.

- There are overhead costs and risks of default in providing credit to SMEs.
- The GOL credit guarantee program was not successful.
- The parallel market in U.S. notes and Liberian coin is not *per se* a problem.
- Interest rates at commercial banks vary according to customer classifications and ranges up to 24% per annum. Interest rates are higher in other less formal markets.
- Foreign exchange is not readily available for SMEs without large resources and established bank relations.

7.3 CONSTRAINTS

All businesses, even concession ventures, face an adverse business environment and the risk of failure. Programs can support the development of SMEs through addressing factors that can affect success.

- Access to credit and the cost of credit are considered constraints by SMEs.
- There is a shortage of skilled workers and managers and a low demand for their services.
- The size of business payments, authorized and unauthorized, to Government agencies, varies according to size of firm and other factors and can constitute an element of uncertainty in business planning. The overall size of these payments is generally not considered onerous.
- The legal system is not responsive to creditors seeking payment on loans or possession of collateral and has been cited as one of the causes for the low level of lending to businesses.
- Training or technical services in business planning, management and related entrepreneurial skills are not generally available for persons seeking to start businesses.
- SMEs face strong competition in many domestic markets from larger expatriate firms and other SMEs.
- Liberian SMEs often encounter discrimination when marketing their goods and services.
- Transport (vehicles and roads) is a major constraint to economic activity in the rural areas.
- Technology *per se* is not a major constraint. Training is the main component in productivity, technology upgrading and adoption of new technologies.

7.4 GOVERNMENT AND OTHER INSTITUTIONS

Government is committed to an open door policy, actively involved in the development of concession activities and has been, at best, ineffective in stimulating and supporting SME development. Few other institutions are engaged in SME development.

- Government policy to stimulate SME development exists and is generally not being implemented.
- Each Ministry has specific objectives, activities and problems in its daily operations. Each attempts to deal with business development from a single perspective and there is little coordination between Ministries and agencies.
- Rent seeking and rent giving exists at all levels of government and business.
- Private associations of enterprises and individuals are important for SME development for the exchange of business information in pursuit of common interests and potential for political recognition of requirements.
- PfP and SEFO can play important roles for SME development.

7.5 PROGRAM STRATEGY

New ventures at all scales of business activity are being undertaken in Liberia. SME Programs entail some degree of risk in supporting certain firms and types of business activity. Successes and failures are characteristic of businesses of any size and category.

- Opportunities exist for linkages of SMEs in agriculture, labor-intensive manufacturing and export goods.
- SMEs with fixed and public locations are registered with the Ministry of Commerce or through government recognized associations. Informal SMEs, if defined as unregistered businesses, are not a major consideration for program strategy.
- There are relevant distinctions for the methods of production and marketing practices in the urban, rural and concession components of the economy.
- A few rural counties experiencing economic decline contribute to the high population growth rate in Monrovia. Rural outmigration is not spread throughout the country and is not a serious problem.

SECTION 8

SME PROGRAM AND PROJECT RECOMMENDATIONS

USAID/Liberia faces the challenge of developing and implementing a program in a complex economic, cultural and political environment that is somewhat hostile to Liberian SME development. Such a program will entail a degree of risk-taking as is the situation facing the entrepreneurs who venture forth each day into the business world. While program risks cannot, and perhaps should not, be eliminated, a strategy can be developed to increase the probability of successes.

The following recommendations are derived from the analysis of the collected data compiled by the SME study team. Experiences of the team members in other SME settings assisted in the sorting out of program options and directions for specific projects. Recommendations are presented in two categories: program and project. Program recommendations include key considerations for the overall SME strategy and design of specific projects, policy positions vis-vis the government of Liberia and related activities for ongoing SME oriented USAID projects. Project recommendations identify SME supporting activities and suggested organizational approaches.

8.1 PROGRAM RECOMMENDATIONS

Definitions of SMEs should be adopted that are operational and that recognize the diversity of SME economic activities and the appropriate scale and size of firms according to industry types and other factors. Financial definitions of SMEs should recognize the inflation and devaluation effects on the Liberian dollar. We recommend an initial investment of $50,000 or lower as defining a small enterprise and $50,000 to $100,000 as defining a medium enterprise.

Small enterprises, other things being equal, should be given priority in SME programs. Other key considerations, however, are viability of the enterprise and number of jobs created. While it is generally desirable to assist firms with a low investment required per job created, no figures or targets are recommended. Loans in excess of the $100,000 level should be considered for enterprises that meet other SME program objectives. Hard and fast rules should be avoided.

It is recommended that priority consideration be given to Liberians and residents from other African nations. Other foreign nationals, however, should not be excluded from consideration. Depending upon the nature of the organizational structure and project or loan proposal, SME programs may find some merit in exercising flexibility in the support of SMEs owned by other foreign nationals.

Separate SME strategies for urban, rural and concession components of the economy should be developed. The urban economy in Monrovia should be given the highest priority for SME program development. The PfP effort should be expanded into

Bong and Lofa Counties to support the rural SME program effort. Concession oriented SME development will require special studies to determine opportunities and feasibility of SME activities.

8.1.1 Credit

Programs should be supported that facilitate timely access to or denial of credit. Business loans should be structured to recognize working capital needs in addition to start-up costs.

Operations and follow-up support costs are associated with SME lending programs and should be explicitly recognized. Long term goals can be for increased reliance on meeting costs of lending. The short-term ality should include provision for repayment rates of 80 to 90% and additional costs for technical assistance and follow-up services.

SME lending programs should lend at interest rates tied to the market. Subsidized rates encourage abuses including relending, distortion of business decisions and selection of non-viable projects.

8.1.2 Technical Assistance, Technology Transfer and Training

Selected marketing and feasibility studies should be conducted on primarily export-oriented products that incorporate the following:

- Use of available manpower in labor-intensive industries;
- Processing of agricultural produce;and
- Utilization of semi-skilled or unskilled labor.

Young Liberian business leaders should be selected and trained with intern/counterpart training programs in the United States.

Entrepreneurship development programming should be utilized to identify potential entrepreneurs and provide them with training and other technical assistance.

Personnel in key PVOs and other organizations should be trained in proven SME approaches in third countries.

Intensive outreach is recommended to inform the extensive SME community of opportunities for loans, technical assistance and training.

8.1.3 Institutional Development

The continued organizing and development of associations of SMEs including trade, processing and service industries should be encouraged.

Selected NGO/PVO organizations should be supported to provide credit, technical assistance, and training for SMEs. Key organizations are PfP, SEFO, Arthur Barclay Institute and the Liberian Opportunities Industrialization Center (LOIC).

The basic charter and objectives of business organizations such as the Chamber of Commerce should be recognized and their participation in SME programming should be encouraged.

The USAID Mission should cooperate with other programs that support SMEs such as the National Investment Commission (NIC), the College of Business and Public Administration of the University of Liberia and others.

SME programs should support the use of local consulting groups. PVOs involved in SME development can use such consultants as subcontractors. Consulting firms can also be used for specialized SME studies and to conduct local training workshops.

8.1.4 Policy

Mission discussions on SME development should be targeted with selected Liberian Ministries, especially the Ministries of Commerce and Industry; Finance; and Planning and Economic Affairs. The following topics are recommended for these discussions:

- Development of a long term plan that recognizes SME development requirements;
- Publication of statistics that affect business planning;
- Active support of SMEs in Government contracting including set asides for SMEs and subcontracting arrangements through prime contractors;
- Review effects of tariffs on SMEs requiring imported inputs and make appropriate changes; and
- Support NIC efforts and incentive programs for SME development.

The Mission should continue its health, education and basic infrastructure (road construction and maintenance) programming as supportive to SMEs in the long run. Use of SMEs should be encouraged in all local US contracting, including USAID Mission programs, U.S. Embassy activities and military assistance.

The Mission should be alert to other opportunities to encourage SME development. Public information programs can be undertaken to identify sources of information and assistance in starting new businesses. School programs can include student internships with established businesses and Junior Achievement Programs.

8.2 PROJECT RECOMMENDATIONS

The following project recommendations are based on SME findings and program recommendations. Projects can be classified according to separate strategies for the urban, rural and concession components of the Liberian economy. There is overlap across these components for many of the recommended projects. Projects in Monrovia should be given the highest priority due to the opportunities for SME development and urban demand for SME technical assistance. SME development in Monrovia would also address the issue of urban underemployment and unemployment.

8.2.1 SME Training

The Liberian private sector, overall, is strong and thriving. Many competitive firms have succeeded in the present economic system. Their success has been enhanced through education and training and through the application of entrepreneurship/innovation. Liberian entrepreneurs are in need of education and training which is basically at the root of their problems, even at the root of the lack of entrepreneurship.

Entrepreneurship Development

The promotion and development of medium and small industries depends on the entrepreneurial resource in the community. The experience in many developing countries indicates that entrepreneurs do not respond spontaneously to business ventures despite availability of opportunities and various incentives. Entrepreneurship development programs (EDP) are an effort to enlarge the pool of new and potential entrepreneurs who will then develop new ventures. It is also essential that new entrepreneurs come from non-traditional groups, thereby breaking the monopoly of the dominant and established business groups and communities to diversify the entrepreneurial resource base in the country. The EDP activities can be seen as an aspect of the human resources development to tap the human potential not only through the creation of small and medium enterprises, but through self-employment projects both in the urban and rural areas.

Liberia can benefit from the experiences of other countries that have successfully implemented entrepreneurship development programs, including India, the Philippines and Thailand. In one of the states in India, over 10,000 new entrepreneurs have been trained over the last eighteen years. Out of these, over 6,000 entrepreneurs have set up their enterprises. The EDP activities are implemented in close cooperation with the commercial banks, industrial development and promotion agencies, private sector firms and consultants and cater to a wide variety of young graduates, unemployed technicians and engineers, women and traders. New and innovative financing schemes were introduced to remove the financial constraints experienced by the new aspiring competent individuals who could not secure loan assistance from the banks. Loans up to 100% of the project cost on attractive terms were offered without stringent collateral security or third-party guarantees. These unconventional financing schemes relied more upon the competence of the entrepreneur's than on financial background or strength. The impact of these programs cannot merely be measured in terms of the number of projects. What is more important is the revelation of vast entrepreneurial potential among traditionally nonbusiness communities and groups,

particularly from the middle and lower income levels The discovery of such a rich entrepreneurial resource which had remained almost unknown and untapped is the real contribution of these programs. The three main components of the EDP activity are:

- Pre-training: identification, selection and initial motivation of potential entrepreneurs;
- Training of potential entrepreneurs; and
- Post-training: support and follow-up services.

The Liberian private sector, overall is strong and thriving. Many competitive firms have succeeded in the present economic system. Their success has been enhanced through education and training and through the application of entrepreneurship/innovation. Liberian entrepreneurs are in need of education and training which is basically at the root of their problems, even at the root of the lack of entrepreneurship.

The basic institutional and program infrastructure to implement the entrepreneurship development program in Liberia is present. What is required is a coordinated effort and common program. SEFO and PfP provide financial assistance and some technical assistance to potential entrepreneurs. Certain faculty members of the Business College at the University of Liberia are interested and trained in entrepreneurship development. Agencies such as Arthur Barclay and LOIC provide technical training. A consortium of agencies and organizations can undertake the entrepreneurship development program with assistance from USAID.

We propose that USAID undertake a study to determine the feasibility for setting up the entrepreneurship development program in conjunction with its project assistance to the institutions mentioned above. As a preparation for this study and as a part of an institutional development effort, we propose a study visit by the staff from these institutions India and Bangladesh. The programs in these two countries seem to be relevant to the situation in Liberia. The feasibility study may be undertaken with the help of organizations such as Management Systems International (MSI), a US based consulting firm and the Entrepreneurial Development Institute (EDI) in India. EDP activities should include programs for young graduates, engineers, traders, women, trained technicians, craftsmen, artisans, technical and non-technical employees. The study can also examine the feasibility of establishing "incubators" and common service facilities for small entrepreneurs, provision of equity or venture capital and other innovative financial packages.

Entrepreneurs International

This is an AID/W operated program under which young business managers, owners and CEOs from developing countries are selected and offered an opportunity to work with their counterparts in the US for four to six weeks to gain first-hand exposure in a small business environment. It is a very valuable experience for young managers/owners. We recommend that at least four young Liberian managers/owners may be offered such an opportunity every year.

Training and Development

The opportunities for management training and development projects for Liberian managers are extremely limited and few. Given below are some possible SME training topics based on discussions with managers and professionals in business.

- Export Marketing Workshops: These workshops can provide a hands-on introduction to export marketing for representatives of companies operating in high priority industry sectors. The purpose is to provide firms with practical guidelines for identifying areas of market and product demand.

- Financial Analysis of Investments: Business people, bankers, venture capitalists and others responsible for investment projects are often called upon to analyze the financial and economic viability of particular enterprises and projects. The analytical process entails assessment of sources and uses of funds, factor use, return on investment and cash flow. At least as important, it involves determining the sensitivity or vulnerability of the project to various assumptions about sales, prices, exchange rates and efficiency. Two problems have limited the ability of analysts and business people to perform high quality financial assessments. First, the mechanical task of analyzing the data is extremely time consuming and prone to error and, where sensitivity analysis is involved, this difficulty is compounded. Second, the individuals called upon to perform these analyses often have only limited skills and experience in conducting financial analyses.

- Uses of Technical Information: Access to relevant technical information has been repeatedly established as one of the major assets of successful firms. Inability to gain access to such information is one of the principal factors limiting the productivity and competitive position of industries in developing countries. Frequently, enterprises in developing countries are forced to operate with outmoded technology and inefficient solutions, or hire high-priced consultants to reinvent the wheel in order to meet their technological needs. The information revolution is a fact of life. Information is generated at incredible speed by companies, governments, research centers, inventors and universities all around the world. The information concerns the production processes, new product and product improvements, machinery, markets and other aspects of business. In many ways, a business' success will be determined by its ability to find and use the information it needs. Thus, there is a pressing need to train key individuals working in the private sector in how to gain access to, and make use of, foreign technical information.

8.2.2 Export Oriented Enterprises And Market Identification

The domestic market in Liberia is small and limited and enterprises based on import substitution are largely uneconomic. Some manufacturing units depend on imported raw materials, equipment, machinery and spares. The major raw material resources of Liberia are iron ore, rubber and timber. In view of the small size of the domestic market, another option is to identify international markets based on product analysis and market research. A series of market feasibility studies should be undertaken to establish viable export-based manufacturing units. These studies can identify the constraints and comparative advantages of locating such units in Liberia and the types of manufacturing activities that are best suited taking into consideration the following elements:

- Labor-intensive production processes;
- Production processes based on simple technologies;
- Low capital investment;
- Subassemblies and intermediate goods; and
- Raw material intensive products (for agro-industry and certain types of light manufacturing).

Considering the basic factor endowments of Liberia the following industries are likely to be best suited for the country:

- Apparel manufacture;
- Timber based manufacture, furniture;
- Rubber/latex-based products;
- Agro-industry: flowers, fruit and vegetable processing; and
- Light manufacturing: jewelry, toys, and footwear.

We recommend that market studies be undertaken by a US consulting firm in cooperation with local consulting firms. The US consulting firm should have experience in working with industrial free zones as several studies may be closely linked with the operations of the Liberia Industrial Free Zone, industrial estates and private sector firms. The Liberia Chamber of Commerce should be associated with these studies. The market and feasibility studies will be the first step. Project action will require the development of the project implementation strategy and plans, manpower development and training and institutional support systems.

Market and Feasibility Studies

International market studies can identify and study principal markets for the product groups in North America and Europe through desk and field research. Importers, potential partners and level of interest can be determined. Technology sources and infrastructure requirements should be identified. Policy, finance and investment factors should be considered.

Potential investors in Liberia and potential overseas partners, buyers, importers and joint venture promotion possibilities should be identified.. Orientation workshops can be conducted for Liberian and other investors.

Liberia Industrial Free Zone Authority (LIFZA)

LIFZA was established in 1975. Although the GOL policy favors export oriented foreign investments and promotion of exports, the Free zone has been a failure and remains greatly underutilized. An export oriented manufacturing strategy will depend on the revitalization of LIFZA. It is recommended that USAID undertake a study aimed to improve the performance of the Free Zone Authority. The study should examine various aspects of marketing and promotion, private sector participation in management and various other constraints.

Self-employment for Technically Qualified Young Persons

Many of the unemployed in Monrovia are young and educated at least to the high school level. Some of them are technically qualified and trained from private and government technical institutions. There are graduate engineers without jobs or in jobs where engineering training is not needed. The public or private sector has not absorbed these persons and they can serve as a valuable resource to the industrial and public sectors that may need trained technicians. The following approaches are recommended.

- Support technical training institutions to strengthen training facilities in those areas where there are shortages. Assist these agencies to develop liaison with industry. Provide assistance in training of instructors and provide training materials and equipment.

- Assist selected training institutions to create common service facilities which can be used by technician entrepreneurs as "incubators" for undertaking self-employment projects. A small entrepreneur does not need some facilities on a full time basis and an incubator/common service facility is a cost-effective solution. The facility can be used by several entrepreneurs on a cost sharing basis.

- Provide seed capital to young technical entrepreneurs to start new businesses. This activity can be managed by an institution or coordinated through SEFO.

Arthur Barclay Institute and Liberia Opportunities Industrialization Center should be considered to implement such programs. Arthur Barclay Institute's woodwork shop acts as a common service facility. The Institute has provided a $25,000 loan for trained technicians to set up a woodwork shop. The Institute feels strongly that this approach is the appropriate in the present situation and would welcome support to extend the scope of its activities.

LOIC has been functioning over the last ten years and has trained over 1,000 semiskilled technicians and almost 60% have been placed in jobs. The Center has a vigorous placement program. While Arthur Barclay Institute focuses on post-high school technical training, LOIC concentrates on school drop outs in the eighth standard and up. LOIC has also set up a common service facility and feels that a self-employment type of program support will complement its activities.

Technical Assistance Strategy

The studies proposed above are viewed as coordinated technical assistance efforts to private sector firms and potential investors. The studies are institution building efforts for strengthening Chamber of Commerce, trade associations and private sector consulting firms in Liberia. Each study may require a minimum period of two years. US technical assistance personnel need not be located in Liberia to undertake studies and provide technical assistance, backstopping and logistic support during the entire two year period.

8.2.3 Lending to SMEs

The World Bank's experience in developing countries shows that commercial banks in general perform better than any other type of finance institution when participating as credit intermediaries in connection with SME programs. In Liberia, however, the commercial banks have not participated in the IDA line of credit. In their opinion, too much risk was involved and small loans were costly to administer.

To get the commercial banks interested in the SME sector, it will be necessary to introduce certain credit guarantee schemes and a cost sharing of administration. This could be arranged as a direct cash contribution or as an increased interest spread to the banks on their SME lending. A 10% spread (very high as compared to other countries) on IDA credit was not attractive enough for commercial banks to get involved in the IDA credit scheme. The NBL for some time will have no influence to shift the flow of commercial credit away from traditional bank financing and towards appropriate economic development projects. Premiums and other operating incomes should be carefully balanced against risk and operating costs. Payment by NBL on defaulted loans should be promptly executed. Investigations, if needed, should be carried out afterwards. There seems to be little success in encouraging commercial links to lend to SMEs, even with credit guarantees by NBL.

Development Finance Institutions

Since SEFO and PFP are doing most of the lending to SMEs, strengthening these organizations is the only short-term viable alternative. In bringing assistance to those two organizations one should, however, keep in mind the nature of the risk involved in dealing with the lower end of the loan market. A program of assistance should be committed to take certain risks in its lending to the SME Sector and to be prepared to lose some money and write-off loans to a certain extent. In this context, a 100% loan recovery rate would be a failure, indicating that the program has been too restrictive in its lending. Loan recoveries of 80 to 90% due to risk willingness should be an aim. These considerations, if kept in mind, would permit a more realistic assessment of SEFO and PfP performances.

Composition of a Financial Package for SME Development

A comprehensive financial package for SME development in Liberia would be comprised of the following: credit for investment and working capital, venture capital and leasing/hire purchase arrangements. A short description of these and related issues is given below:

- Investment Credit and Working Capital: Given the very little credit available in the financial system for investment and working capital for indigenous enterprises, it is recommended that USAID makes this type of credit available to the Liberian entrepreneur through SEFO and PFP. The NIC backlog of loan proposals indicates there is a substantial demand for SME loans. Investment credit comprises medium and long-term loans for purchase/lease of land, buildings, machinery, tools, equipment and vehicles. Working capital credit can be extended as an overdraft (line of credit). The credit will be balanced against the needs and the financial ability of the entrepreneur in question.

- Venture Capital/Leasing: Venture capital or equity participation is a tool of financial support to viable projects lacking collateral and equity. It ensures the sponsor some control over the enterprise. Considering the weakness of the judiciary system in Liberia, the venture capital formula is one way for financial institutions to protect their funds and loanable capital. In the venture model, the partners' agreement can ensure the venture partner's right to take over the enterprise or part of it, if the entrepreneur defaults. The entrepreneur shall be given, however, the right to take over, i.e. purchase the share of the venture partner after a period within which the ability to run the business and pay on the loan has been proven. This type of financial arrangement exists in Liberia in the transport (taxi) business and is known as "work and pay back system". For the venture to be successful, certain rules should be kept in mind at the time of the withdrawal. The withdrawing normally creates liquidity problems for the entrepreneurs and valuation problems concerning the worth of the company. In order not to destroy the success of the enterprise promoted, it is necessary to view the venture participation as a long-term engagement and to consider the possibility, at a certain stage, of transforming the equity capital into long-term debt.

- Leasing/Hire Purchase Arrangement: A leasing or hire-purchase system is another means to protect the funds extended to an enterprise. In a leasing arrangement, the ownership of the items continues to be with the leaser until the last payment on the lease has been made. Thus, if the entrepreneur defaults, it is relatively simple to reclaim the assets. Venture capital and leasing would be more relevant for SEFO rather than for PfP. With some capital investment they constitute important means of financial support. Prior to introducing the arrangement on a broader scale, it is recommended to test it on a pilot basis in selected projects of different sizes and nature. PfP clients have had little demand for capital investment loans. On the other hand, they normally need working capital. In many cases, financing has been based on a group membership in an association which provides a solidarity concerning the repayment of loans.

- Size of Loans: The size of loans should be tailored to the financial needs of the entrepreneurs and properly balanced by equity and credit. It is extremely important that a sufficient overdraft privilege be provided for working capital. It is recommended that the overdraft level gradually be increased and in accordance with the growing need, and to avoid over-financing. The aim is to establish a long-term relationship between the financial institution and the entrepreneur by starting slowly, so that the entrepreneur becomes accustomed to loan servicing and other banking requirements before a larger loan is extended.

- Pay Back Period: The pay back period of a loan for investment should in general reflect the average lifetime of the asset financed. The general practice of Liberian commercial banks is short-term loans of 90 days and less. A short grace period could be considered for the pay-back of principal, but not for interest payments. It is important for loan recovery discipline that the borrowers start to pay back small amounts immediately after the loan has been attained. For the same reason, it is important that the payment frequency be rather high, if possible once a month.

- Interest Rates: It is recommended that interest rates tied to the market interest rates for commercial loans be followed. Concessional loans should be avoided. The recommendation is based on the following considerations:

  - SMEs, particularly micro entrepreneurs, pay an exorbitant price on credit from suppliers or money lenders. These entrepreneurs would find institutional credit at cost recovery rates to be a great improvement in their position. Their real problem is not so much the interest rate, but the timely and adequate supply of funds.

  - Cheap money would be subject to abuse as there would be temptations to on-lend for profit.

Subsidized credit would distort business decisions in favor of capital-intensive methods of operations and might result in the selection of non-viable projects or sub-optimal operation of the enterprises.

- Collateral and Equity: We recommended that the collateral and equity requirements follow the present practice of development finance institutions in Liberia. Collateral is normally 100% of the total lending and for equity it ranges between one-third and fifty percent of the total capital needed. At a first glance. 100% collateral seems very high, but the assets for which the investment loan is extended are normally included in the total collateral package. A viable enterprise should be considered for support irrespective of its ability to present collateral or equity. In case of no collateral or equity, it is recommended to utilize venture capital and/or a leasing arrangement.

- Foreign Exchange: Because of the shortage of foreign reserves described earlier, accessibility to foreign exchange is one of the constraints SMEs are facing. This situation is troublesome for the enterprises dependent on import of capital goods and raw materials for their production. The foreign exchange risk for the period between placement of purchase orders and the actual payment is difficult for the small entrepreneurs. Presently, the Commodity Import Program (CIP) is assuming a portion of this risk by making foreign exchange available at a one to one rate. A mechanism should be set to insure him against such risk to SMEs.

8.2.4 Institution Development

In the early 1980's there was a concerted effort on the part of Government Ministries, the World Bank, the International Monetary Fund and other development agencies to assist the SME sector. The Small and Medium Scale Enterprises Development (SME department) of the National Investment Commission was started in 1983. While many feasibility studies and business proposals have been completed by the SME Department, the lack of loan funds has hampered many of the SME projects. NIC is presently primarily engaged in evaluating large scale investment proposals. The 14 projects implemented through NIC in 1988, averaged an investment of nearly $500,000. The Government of Liberia, for several reasons, is largely uninvolved in SME development. SEFO, PfP, Liberian Opportunities Industrialization Center and the Arthur Barclay Institute are conducting viable programs for SME development.

It is recommended that the existing foundation of agencies and organizations in Liberia be supported in their SME development efforts. Other local resources such as the Chamber of Commerce, the University of Liberia, and consulting firms should be encouraged to participate in USAID projects. SME development should have the objective of encouraging Liberian resources to deal with the issues and challenges of SME development. Services of international firms and organizations located outside of Liberia should be utilized only if their services are not currently available. Such expatriate services, if provided beyond short-term studies or consulting assignments, should be in a technical advisory capacity to support project management by Liberian professionals.

Strategy and Coordination

To capitalize on the potential interest in SME development, a consistent vision for an appropriate time period is necessary. The USAID Mission in its selection, monitoring and coordination of funded projects, can play a major role for Liberian SME development. For the next four to eight years, a USAID sponsored SME Project could serve to provide research/development and coordinating services. Such a project would provide USAID officials with resources to assure attention on the following areas of need identified by the SME Sector Assessment:

- Technical Assistance and Outreach;
- Feasibility and Marketing Studies; and
- Training/Workshops.

The SME Project design can utilize information and analysis provided by the Sector Assessment. A feasibility study can address the following opportunities and issues:

- U.S. contractor to initiate project and develop a Liberian-based, non-profit, private organization for SME Project implementation;
- Use of Liberian counterparts and minimum number of U.S. advisors;
- Development of a governing Board of Directors representative of key organizations and interests in SME development; and
- Establishment of three operating divisions: technical assistance, training, and research and development.

Small Enterprises Financing Organization

SEFO has gone through very difficult times organizationally and financially. The affairs of the agency appear to be stabilizing. The loan portfolio is becoming reliable, application appraisal systems are more sound and the repayment rate is improving. SEFO has a small and dedicated field staff. Their activities are limited to client investigation, loan appraisal approval, follow-up and some technical assistance.

If SEFO continues to function primarily as a financing agency to provide loans to small businesses, it will have a hard time meeting its costs out of income. Servicing small loans is time consuming and costly. SEFO does not have its own source of new funds nor does it have a diversified and flexible loan portfolio. SEFO is meeting, in most cases, the need of the clients who could have access to credit from other sources but at a higher cost. The SEFO loan in spite of the process involved is a better option. There are a few genuine venture type loans. Small industry development, investment promotion, new business development, entrepreneurship promotion and development are not SEFO's primary objectives. The question before USAID in supporting SEFO is to decide SEFO's purpose, method of working and accountability. A major challenge in Liberia is small industry development and promotion as well as new investor identification and development and not just providing credit. Another issue is the focus of SEFO on the urban requirement of

Monrovia SMEs. Presently, SEFO finances chicken farms and piggeries located at some distance form Monrovia.

It is recommended that USAID review the small industry development strategy in Monrovia and determine what role SEFO may play. The following tasks need to be undertaken to integrate both the development work and credit delivery:

- New investor/entrepreneur identification, selection and development.
- New venture promotion, technology identification and selection and marketing to potential new investors.
- Taking equity positions, if necessary, in ventures and provide assistance for pre-feasibility studies and market research through utilizing local private consultants wherever possible.

If SEFO has two distinct objectives (development and promotion of SMEs and credit delivery), separate criteria need to be established for evaluating SEFO's performance. Cost recovery or self-sufficiency should not be expected for the development task. Cost recovery as a part of project preparation or implementation costs can be part of the loan.

Partnership for Productivity/Liberia

PfP has been working in the Nimba County for more than a decade and focuses on providing rural credit and generating savings. The loan portfolio includes loans for agricultural operations, retail operations undertaken by market women and a variety of establishments such as pharmacies. Some productive and manufacturing units are also recipients of loans It is not clear what is the total demand for credit in the county and who meets this demand and what is PfP's share in it. The same applies to savings and deposit mobilization.

PfP is doing very useful work and has an extremely dedicated complement of headquarters and field staff. After a decade of pioneering work and in view of the proposed plan to extend operations to new counties, PfP and USAID need to re-examine the PFP role and future tasks. Is its objective to generate more jobs and if so, how does its credit delivery program contribute in job creation? Which are new areas where new jobs are likely to emerge? How is the regional/rural economy functioning and what is its potential to contribute in new job creation? Where and how does credit fit in this environment? PfP is well situated to fill an expanded role for rural SME development.

If PfP continues in the same mode as in the past, its impact on the economic development of the region, while needed, will be limited to the successes of the past in Nimba County. PfP can develop a rural farm and non-farm enterprise development strategy with a clear focus in its future program planning. Current programs meet a certain need in the region and the opportunity exists to expand into new areas. PfP can seek opportunities for setting up enterprises with linkages in agro-processing, wood processing, small scale rubber processing, small holder rubber plantations and small scale palm oil technology. The scope may be somewhat limited, but some effort needs to be directed to explore these opportunities, identify potential entrepreneurs from the rural region, identify sources of technology and market such opportunities. Some of it will be risky business,

but well worth the effort. A mechanism for this development could be a PfP Technology and Rural Enterprise Development Fund to undertake such activities over the next five years. These funds can be used to provide loans and technical assistance, training and specialized services from local consultants.

Commodity Import Program

The Commodity Import Program (CIP) provides foreign exchange to private and public sector agencies through a designated bank on a one to one basis to import machinery, equipment and raw materials from the United States for producing units.

Certain features of the CIP could be modified to make it much more relevant to the needs of the SMEs. SMEs have great difficulty in procuring foreign exchange in appropriate amounts for machinery, equipment and raw materials even though they may be able to pay the parallel market rate.

CIP foreign exchange could be provided to SMEs directly or through intermediary agencies such as LBDI, SEFO and PfP. These agencies may procure imported items for SMEs as per client requirements and supply the same to them at current market prices on lease, hire-purchase or raw materials on hypothecation. The client could pay a portion, say 50% of the cost, up front and the balance in installments. The exchange rate could vary and surpluses for the intermediary agency could meet its overhead, technical assistance costs, or similar SME development activities.

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Ibrahima Seydi

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Leo T. Surla, Jr.

ANNEX I

LIST OF INTERVIEWS

List of Individuals/Organizations Visited by
the SME Consultancy Team
April 12 - May 23, 1989

International Organizations

	Name	Firm/Organization	Contact
*	John Hicks, Mission Director	USAID/Liberia	262023
*	Edward Ploch, Deputy Mission Director	"	262043
*	Ms.Susan Merrill, Division Chief, SPPD	"	262875
*	Ms. Alfreda Brewer, Project Officer, SPPD and SEFO	"	"
*	Timothy Born, Project Officer, CIP	"	"
*	Mrs. Maria Beebe, Project Officer, PVO/NGO and PfP	"	"
*	Fred Witthans, Economist	"	"
*	Stanley Handleman	"	"
*	Jenkins Cooper	"	"
*	Edward Stanley, Economist	"	"
*	John Howard	"	"
*	Mrs. Juliet E.G. Born	"	"
*	Dr. David Hughes, Consultant on Agricultural Marketing	"	"
*	Boima Rogers, Consultant on Agricultural Marketing	"	"
*	Ms. Shirley Erves, Economist	"	
*	Tony Daza, Investment Promotion Officer	UNIDO/Liberia	262500

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*	Ms. Ritu Kumar, Project Officer	UNDP/Liberia	
*	J.J. Healy, Mgt. Consultancy Advisor	ILO/Liberia	"
*	Dr. S. M. Pillai, Chief Technical Advisor, Mgt.	ILO/Liberia	"
*	Ms. Iria D'Aquino, West African Regional Officer	African Dev. Foundation (based in Wash. D.C.)	
*	Mrs. Annette Henries, Liaison Officer for Liberia	African Dev. Foundation (based In Monrovia)	
*	Coker A.J. George, Jr., Assoc. Dir. for Agri. & Rural Dev.	Peace Corps/Liberia Monrovia	
*	Ms. Leslie Abplanalp, Volunteer, dev. & fisheries projects	Peace Corps/Liberia Baziwehn Village	Voinjama Lofa County
*	Christopher Cunningham, Volunteer, fisheries	Peace Corps/Liberia Gbelahun	Lofa
*	Steve Jones, Volunteer, fisheries	Peace Corps/Liberia Yekepa	Nimba
*	Dr. Peter-Boris Schiele, Rural Dev. Field Coordinator	Nimba Cnty. Rural Dev. Program	Saclepea, Nimba
*	Peter Mah, Div. Asst., Self-Help Prom. & Mkt. Section	NRCD	Saclepea, Nimba
*	MacArthur Pay-Bayee, Agri. Econ.	USAID	
*	Michael Barford, Econ./Advisor	EEC	262278
*	Jean Pierre Filippi, Comm. Cllr.	French Trade Comm	262030

Government & Parastatals

	NAME	Ministry/Agency	Contact
*	Henry Jones, Asst. Min. for Commerce	Min. Of Commerce (MCI)	224585
*	Mrs. Joetta Dennis, Asst.	MCI	222117
*	Johnny Lincoln, Dir. of Industrial Adm. and Supv.	MCI	222081

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*	Ms. Gloria Strothers, Dir. Of Domestic Trade	MCI	"
*	Galimah Baysah, Dir. Of Price Analysis & Marketing	MCI	"
*	Mrs. Josephine Weefur, Dir. of of Foreign Trade	MCI	"
*	Daniel Zor, Inspector General	MCI	222081
*	Francis Kesseh	MCI	"
*	Charles Collins, Dep. Min. for Plan. & Policy	Min. of Plan. & Econ. Aff. (MPEA)	222064
*	Edward Liberty , Asst. Min. for Statistics	MPEA	222622
*	S. N. Goswani, UNDP Advisor	MPEA	221971
*	Matthew ZarZar, Dep. Min. for Revenues	Min. of Finance (MOF)	222477
*	Baldwin Banks, Dir. of Econ. & Fin. Mgt. Committee (EFMC)	MOF	221078
*	Cecelia Cooper, Asst. Sec./EFMC	MOF	"
*	Drayton Hinneh, Dir., Tech. Svc.	MOF	222115
*	David Walsh, Deputy, Tech. Svc.	MOF	"
*	John Walker, Mineral Economist, Bur. of Tech. Svc.	MOF	"
*	Nicholas Diggs, Revenue Collector	MOF	Zorzor Lofa County
*	L. Kwia Johnson, Mayor, Monrovia City Corporation (MCC)	MCC	261022
*	John Caranda,Court Administrator	Temple of Justice	223464
*	K. Khosla, Chief Tech. Advisor of UNIDO	Nat. Invest. Comm. (NIC)	222528 224224 224228
*	Leny Van Oyen, Dep. Tech. Adv. of UNIDO	NIC	"
*	B.P. de Silva, Industrial Econ.	NIC	"

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*	Joseph Stokes, Blacksmithing Consultant of UNIDO	NIC	"
*	Pete Norman, Dir. of SME Dept.	NIC/SME	"
*	Charles Cyrus, Dir. of Proj. Appr.	NIC/SME	"
*	Hanafee Massaquoi, Dir. of Liberian Business Development	NIC/SME	"
*	Daniel Tipayson, Asst. Dir. for Extension Services	NIC/SME	"
*	Steven Y. Konah, Asst. Dir. for Project Preparation	NIC/SME	"
*	Alfred Tamba, Regional Industrial Extension Officer	NIC/SME	Gbarnga Bong
*	Asst. to the Chairman	Free Zone (LIFZA)	224030
*	Cllr. Eugene Cooper, Dep. Min. for Codification, Dev. & Plan.	Min. Of Justice (MOJ)	224445
*	Ms. Annette Murray, Atty. at Law & Legal Counsel	(MOJ)	222511
*	William Bazzie, Sr. Chiefdom of Bondi-Wuobormai Upper Workor District	Paramount Chief	Voinjama Upper Workor Lofa
*	Jorgbor Dorbor	Clan Chief	"
*	Massaboi Jargbah	Sectional Clan Chief	"
*	Kormah Wonnie	Sectional Clan Chief	"
*	G. Bannah Morris, Clerk/Sec. to the Paramount Chief		"
*	Fleming Huskins, Dir. of Reg. Cooperatives & Credit Unions	Coop. Devel. Agency Min. of Agriculture	261322
*	Joseph T. Mayah, Dep. Mgr. for Operations	Liberia Elect. Corp.	224418
*	Samuel Doe, Operations Mgr.	Liberia Telecom. Corp.	224096
*	Abu Kamara, Estate Manager	Lib. Prod. Mkt. Corp. (LPMC)	Gbarnga Bong

*	Albert Bass, General Manager	Rubber Corp. of Liberia (RCL)	Gbarnga Bong County
*	Dr. Walter Wiles, Gen. Mgr.	Cent. Agric. Research Institute (CARI)	Suakoko Bong County
*	Patrick Kiadii, Extension Liaison Officer	CARI	"
*	Dr. Charles Campbell, Tech. Adv.	CARI	Suakoko Bong County
*	Prince Allen Tamaklo, Gen. Mgr. Voinjama Coffee mill	LPMC	Voinjama Lofa County

Private Businesses

	Businesspeople	Firm/Organization	Contact
*	Ibrahim Kamara, Owner	Tailorshop	Randall St
*	Mrs. Katurah Cooper, Gen, Mgr.	Terravilla Gardens (1st Exhibition)	Tubman/10th Streets
*	James Peters, Gen. Mgr.	PETICO (Peters Tile Co.)	Paynesville
*	James Saah, Organizer	Susu Club (informal banking system)	Waterside
*	David Vinton, President	Magus Invest. Corp. Pan African Plaza	261918
*	Ms. Tennema Sirleaf Deline,Mgr.	Villancy Realty	Mamba Point
*	Ramses Bright, Mang. Dir.	Atlantic Marketing	223433
*	Roger G. Ashi	Ashi Supermarket	222458
*	Rune Osterlund, Mang. Dir.	Lib. Agric. & Fish. Ent. (LAFE)	Bushrod Isl
*	Stephen P. Dunbar, Atty.	LAFE	based in US
*	Samuel T. Wallace	Wallace Furniture	Tubman/9th St
*	TeeTee Weisel	Dev. Consultant	based in Kenya
*	Hosea Bright Arthur and	Patience Good	Fanti Fishers
*	James Arthur, Shareholders	Fishing Group	Hotel Africa

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*	James K. Holder, President	Lib. Steel Prod.	271090
*	Andrew Jardoe, Mang. Dir.	Lib. Appoliabo Arts & Crafts Coop. Soc.	Tubman
*	Ismail Farag, Mgr.	Africof	222325
*	Eugene H. Cooper, Pres.	Denco Shipping Lines	221905
*	Roland Barnes, Jr., Mang. Dir.	Lone Star Insurance	222257
*	Subhash Sibal, Director	Mezbau	222471
*	Ms. Fatu Dolley, Mgr.	Fabrotco Imp./Exp.	271474
*	James Howard, Mgr.	Howard Woodworking	Tubman
*	Klaus Hoffer, Exec. V. P.	Rainbow Industries	221380
*	Riad Ali Jawad, Mang. Dir. &	Jawad & Kaba Diamond Brokers	225539
*	Kaba Noumouke, Partner		
*	William Smith, Pres.	Vista Group	262031
*	Eugene Peabody, V. P.	Pan African Plaza	
*	Mrs. Eudora Gardiner,Gen. Mgr.	Centrem	Sinkor
*	Yao Kudayah, Pres.	Yao Kudayah & Assoc.	262478
*	H. Q. Taylor, Pres.	Ecocon	261718
*	Dr. Christian Baker, Pres.	Baker Homegrown Poul. Farms & Rooster Rest.	261125
*	Nimely E. Bestman, Mang. Dir.	West Afr, Stationary Manufacturing Corp.	Broad/ Johnson
*	Joseph Nehme, Pres.	Tropical Farms Corp. (Timber)	Monrovia (Offices)
*	Michel Khoury	Private Businessman	Hotel Afr.
*	Chief Kofi Markwa	Fisherman, Fanti Fishing Village	Bangor Beach Hotel Africa
*	Charles S. Sethi, Comptroller	Sethi Brothers	223924
*	John Dimarcopoulos, Gen. Mgr.	Electromotors	221950
*	T.T. Senah	Small Mechanical Workshop	Gardners-ville

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*	Ms. Elaine L. Grimson	Private Contractor	Monrovia
*	Marketers	Red Light Market East Waterside Mrkt.	Monrovia
*	Dr. A. Amechi, Director	Island Clinic	Bushrod Isl
*	Robert Bright, Director * Charles Bright, Deputy Dir.	Bright Poultry & Pig Operations	Kakata Margibi, Cnty
*	Ashok Kumar, Engineering Mgr.	Lamco Mines	Yekepa Nimba County
*	Carney Johnson, Superin. for Industrial Engineering	Lamco	Yekepa Nimba County
*	George Nyuma, Proprietor	Uncle George Disco/ Movie House	Ganta Nimba County
*	Woodworking Shop	(PfP-funded proj.)	Yekepa,Nimba
*	Pharmacy	"	"
*	General Farngalo, President	Buy Bread Corp. (check cashing)	Sanniquellie Nimba
*	Amara Konneh, Owner & Blacksmth.	Amara Blacksmithing	Saclepea Nimba
*	Azea Barbar, Owner	General Store	Gbarnga Bong
*	Garter Cooper, Owner	Cookshop	"
*	Ms. Jartu Cooper, Proprietor	"U-Think" Cookshop	"
*	Hikmat Saad, Owner/Proprietor	Zorzor Center Store	Zorzor Lofa
*	William Appleton, Chairman	Architecture & Town Planning Consultants	Congotown, Monrovia
*	Robin Parker, Representative in West Africa	Margurette Pinson Research Institute	
*	Nelson Kartee, President Peter Gaye, Advisor Peter Wantee, Member	United Brothers (informal savings and loan Assoc.)	Carey and Nelson Sts Monrovia

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Acamdemic and Vocational Training Institutions

Name	Institution	Contact
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* Mrs. Ophelia Johnson Instructor	Internat'l School Lamco-Camp 4	Yekepa Nimba Cnty
* Johnathan L. Harmon Director	Lib. Opp. Ind. Ctr. (LOIC)	Sinkor 262351 262353
* James Woods Machinist Instructor	Monrovia Vocational Training Center	221792
* Cllr. Thomas Rasmusson Fulbright Visiting Prof.	Univ. of Liberia Law School	222515
* William Belleh, Dean	Univ. of Liberia Business College	222515
* Mrs. Effuah Wariebi-Harris Actg. Chairperson, Dept. of Public Admin.	"	"
* A. B. Johnson,Jr. Asst. Prof. Dept. of Pub. Admin.	"	"

Associations

Name	Association	Contact
* Counsellor Seward Cooper President * Mrs. Evangeline Smith Asst. Sec. Gen.	Liberia Chamber of Commerce	222218 223738
* Johannes Mulder, Chairman * Arthur Williams, Sec. Gen.	Lib. Manufact. Assoc.	262372
* Robert Stewart, President	Woodworking & Carpentry Industry Assoc. (c/o Best Wood Industry)	Paynes- ville
* Riccardo Sembiante, Pres.	Lib. Bankers' Assoc. c/o Tradevco Bank	221800 221077

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* James Q. David, Spec. Asst. to the Pres. * Edison Kromah, Accountant	Fed. of Transport Unions of Liberia	Gbarnga Bong
* Jerry Wowah, Chairman * Yah Yah, Sesay, Oper. Superin.	Liberia Marketers' Assoc. #2 Branch	Waterside Monrovia
* Ms. Alpha Brownell, Pres.	Liberian Business-women's Assoc.	271302 271366
* Mamadee Kromah, Manager	Quardu-Gboni Farmers' Cooperative Society	Voinjama Lofa
* Ms. Martha Saye, President * G. Henry Gweh, Asst. to the President * George Saye, Sec. Gen. * Ms. Sennie Suah, Cnty. Tres. * Ms. Nou Wrotto, Ganta Superin. * Ms. Mary Musa, Sanniquellie Superin. * Jonas Zorbah, Sec. to Camp 4 (Lamco) Superin. * Mr. Jienji Biahmun, Sec. to Area P (Lamco) Superin.	Lib. Marketers' Assoc.-Nimba Branch	Gompa City (Ganta) Box 1010 Nimba
* Mr. Deleissa V. Sanoe, Deputy * Winston Mensah, Sec. Gen.	Fed. of Transport Unions of Liberia	Monrovia Headqtrs.

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* Leonard Maestre, V.P. * Samuel Thompson, Manager * Robert Annibale, Reg. Tres. for Africa	Citibank	221289 224486 (based in Kenya)
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* Alvin Eastman, V.P. for Credit & Marketing	Nat. Housing & Savings Bank (NHSB)	222402 224459
* Raymond Abou-Samra, General Manager	International Trust Co. of Liberia (ITC)	225946
* William Flah, Mgr. of Dev. & Finance for SMEs	Nat. Bank of Lib. (NBL)	222580

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* Thakor Desai, Advisor to the Governor	NBL	222580
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LIBERIA: SMALL AND MEDIUM ENTERPRISE ASSESSMENT

Final Report
Annexes

Bureau for Private Enterprise
U.S. Agency for International Development

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USAID / Liberia

Sponsored by: *Private Enterprise Development Support Project II*
Project Number 940-2028.03
Prime Contractor: Ernst & Young

November 1989

Ernst & Young

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ANNEX I

LIST OF INTERVIEWS

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List of Individuals/Organizations Visited by
the SME Consultancy Team
April 12 - May 23, 1989

International Organizations

	Name	Firm/Organization	Contact
*	John Hicks, Mission Director	USAID/Liberia	262023
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*	Timothy Born, Project Officer, CIP	"	"
*	Mrs. Maria Beebe, Project Officer, PVO/NGO and PfP	"	"
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*	Stanley Handleman	"	"
*	Jenkins Cooper	"	"
*	Edward Stanley, Economist	"	"
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*	Dr. David Hughes, Consultant on Agricultural Marketing	"	"
*	Boima Rogers, Consultant on Agricultural Marketing	"	"
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*	B.P. de Silva, Industrial Econ.	NIC	"

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*	Joseph Stokes, Blacksmithing Consultant of UNIDO	NIC	"
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*	Kormah Wonnie	Sectional Clan Chief	"
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*	Albert Bass, General Manager	Rubber Corp. of Liberia (RCL)	Gbarnga Bong County
*	Dr. Walter Wiles, Gen. Mgr.	Cent. Agric. Research Institute (CARI)	Suakoko Bong County
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*	James Howard, Mgr.	Howard Woodworking	Tubman
*	Klaus Hoffer, Exec. V. P.	Rainbow Industries	221380
*	Riad Ali Jawad, Mang. Dir. &	Jawad & Kaba Diamond	225539
*	Kaba Noumouke, Partner	Brokers	
*	William Smith, Pres.	Vista Group	262031
*	Eugene Peabody, V. P.	Pan African Plaza	
*	Mrs. Eudora Gardiner,Gen. Mgr.	Centrem	Sinkor
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*	H. Q. Taylor, Pres.	Ecocon	261718
*	Dr. Christian Baker, Pres.	Baker Homegrown Poul. Farms & Rooster Rest.	261125
*	Nimely E. Bestman, Mang. Dir.	West Afr, Stationary Manufacturing Corp.	Broad/ Johnson
*	Joseph Nehme, Pres.	Tropical Farms Corp. (Timber)	Monrovia (Offices)
*	Michel Khoury	Private Businessman	Hotel Afr.
*	Chief Kofi Markwa	Fisherman, Fanti Fishing Village	Bangor Beach Hotel Africa
*	Charles S. Sethi, Comptroller	Sethi Brothers	223924
*	John Dimarcopoulos, Gen. Mgr.	Electromotors	221950
*	T.T. Senah	Small Mechanical Workshop	Gardners-ville

*	Ms. Elaine L. Grimson	Private Contractor	Monrovia
*	Marketers	Red Light Market East Waterside Mrkt.	Monrovia
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* Paul Yangbay, Sr. Branch Mgr. * Joseph Karmo, Jr. Clerk	ACDB Branch Office "	Voinjama Lofa Cnty

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ANNEX III

THE LIBERIAN ECONOMY: IMPLICATIONS FOR SME DEVELOPMENT

by Bapu R. Deolalikar

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THE LIBERIAN ECONOMY: IMPLICATIONS FOR SME DEVELOPMENT

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A. SUMMARY

1. The Liberian economy is in decline. There is slight improvement in recent years due to increases in the international price of rubber.

2. The linkages between the formal modern sector and the traditional agricultural sector are weak.

3. The labor force is growing rapidly. About 35,000 additional persons are added to the labor force every year. Unemployment is said to be at 25 percent. In Monrovia it is estimated at 50 percent of the labor force.

4. The manufacturing sector contributes 7.5 percent to the total GNP. The share of SME and informal sector enterprises in manufacturing, services and trade is estimated at 5.5 percent.

5. The Liberian economic scene could be described as a "traders' economy rather than an "entrepreneurial economy." Lack of credit is a main constraint for SMEs in the manufacturing and service sectors. The commercial banks consider SME lending as a risky and unprofitable business. SEFO and PFP/L play a small but significant role in this area.The trade sector does have access to credit. Access to credit seems to be more in favor of expatriate businesses. Of total bank credit in 1988, about 1.7 percent was allocated to the manufacturing sector and 18.87 percent financed the trade sector.

6. Reliable and accurate statistics for employment in the SME sector are not available. The same is true for the number of enterprises in the SME sector. Some data from the 1985 survey are available. The employment in these sectors is limited. It is reported the service sector employment grew rapidly.

7. The manufacturing sector is small and stagnant with very low capacity utilization (36 percent). The domestic market is small and faces strong competition from imported goods. Most of the large firms are owned by expatriates. The Liberians play a role in medium, small and informal sector enterprises.

8. The SME sector has withstood the strains in the economy better than the large enterprise sector. The informal sector plays an important role in providing services and goods to middle income and low income groups and acts as a buffer by providing opportunities to young persons and women.

9. Roads, communications, power and related infrastructure services are weak, and provide infrequent and erratic service.

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10. SME definitions need to be revised for investment and technical assistance purposes.

11. There is a shortage of skilled workers and experienced middle management professionals. However, the demand for them is rather small.

12. Technology is not the main constraint. Training is the main component in technology upgrading, productivity and adoption. The consultancy and technical assistance capability is limited and rather unrelevant to the needs of SME sector.

B. THE ECONOMIC SITUATION

Liberia is fairly well endowed with a natural resource base consisting of iron ore, diamonds, gold, rubber, wood, cocoa, coffee and fish. The agricultural land reserves are extensive. The economy is dependent on primary commodity production. Much of the rural population is engaged in subsistence agriculture. The linkages between different sectors of the economy and between urban and rural areas are weak.

Government revenues come mainly from taxation of the rubber and mining companies, rubber and iron ore exports, shipping fees and foreign assistance. The level of government recurrent and development expenditures is thus vulnerable to the external economic and political situation.

The Liberian economy has been in continuous decline since 1980. GDP is estimated to have declined by about 4 percent during 1986. Revenue collection has gone down. Capital flight has become a serious problem. There is a shortage of US dollar bills, and with the reluctance of traders to accept Liberian coins, there is a serious liquidity shortage in the economy. There has been a slight recovery from since 1987 in the commodity producing sector with increases in the international price of rubber. With the growing outflow of company remittances and increased debt servicing, the balance of payments situation is serious.

Under pressure from the donors, the Government formulated a comprehensive Economic Recovery Program in 1986. The Recovery Program seeks to reduce government expenditure by 5 percent, reduce the budget deficit, increase the efficiency of revenue collection, control government expenditure and establish audited accounts for the major public companies. The revitalization of the economy and its restructuring are major tasks. The implementation of this program has been far from satisfactory.

The Liberian economic structure consists mainly of a modern sector and a traditional sector with few linkages between the two. The

modern sector generates 70 percent of export earnings and 50 percent of real GDP; it includes iron ore, rubber, forest products and a few nonagricultural activities. The traditional sector which engages about 70 percent of the population depends mainly on primary agricultural technology.

C. DEMOGRAPHIC PROFILE

The population of Liberia is currently estimated at 2.5 million. It is estimated that the percentage of people living in urban settlements increased from 30 percent in 1974 to 40 percent in 1984. The population of Monrovia is estimated at 550,000. Roughly 22 percent of the country's population is in Monrovia. The nation's urban population growth rate is estimated at 6.4 percent; Monrovia's growth rate is estimated at 7.5 percent.

The Liberian labor force was estimated at about 1.15 million in 1985. According to an ILO estimate, the labor force increased at an annual rate of 3.3 percent between 1974 and 1984. At this rate of growth, it is estimated that an additional 35,000 persons entered the labor force annually. The projected growth rates of the labor force indicate that the number of persons entering the labor market will increase to 40,000 in 1990 and to 48,000 by the year 2000.

About 75 to 80 percent of the adult population is illiterate.

D. GROSS DOMESTIC PRODUCT AND SECTORAL ORIGINS

According to the Government's preliminary estimates, GDP at current factor cost, was $972.8 million in 1987. GDP increased 1.8 percent in 1987.

The percentage distribution of GDP by selected sectoral origins is given below:

	At current factor cost	
Prices	1987 prelim. est.	At 1981
Agriculture	33.1	31.2
Forestry	4.9	8.1
Mining	10.8	8.8
Manufacturing	7.5	7.2
Trade, Hotels, etc.	6.2	5.6
Transportation	7.7	7.5

From the above, it is clear that the contribution of the manufacturing sector to GDP and the national economy is rather insignificant. The contribution of SMEs to the manufacturing

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sector is difficult to ascertain. Per one estimate it may be between 20 to 30 percent. Data on the manufacturing sector are scarce, however, and not always reliable. Based on this estimate, the contribution of SMEs to total GDP may be around 2 percent or even less.

E. MONEY, BANKING AND CREDIT

There is no organized money market in Liberia. Financial sector activity is mainly concentrated in Monrovia. The National Bank of Liberia (NBL) is the central bank of the country. The US dollar along with the Liberian dollar are the legal tenders. The use of US dollar creates a serious liquidity problem. The US dollar notes in circulation are in short supply relative to their demand as a medium of exchange and as a store for value. The NBL as a central bank cannot control and de facto has no control over money supply. It does not even know the actual money supply at a given time because no one knows the volume of US dollar notes in circulation.

The banking system suffers from lack of cash liquidity. In spite of inter bank agreements, NBL is unable to repay in cash excess balances of commercial banks. The NBL 1988 report on its operations states that "Apart from the increase in net claims of the banking system, the practice of the government borrowing from the commercial banks, and assigning credit balances in some of the tax revenue accounts for the purpose of repayment, had the effect of increasing the excess reserves of the banks with the NBL until such borrowings were liquidated. Consequently, the excess reserves of the banks with the NBL which were frozen and allowed to be reduced gradually on pro rata basis, could not be held in check." The net result is that these excess balances become involuntary loans to the government through the NBL operated clearing house. This has resulted in non-acceptability of checks in settlement of commercial or private transactions. Most business and private transactions are in cash.

Besides the NBL, there are nine banks in the country of which six are foreign-owned banks and three are local banks (National Housing and Savings Bank, Liberia Bank for Development and Investment and Agricultural & Cooperative Development Bank). Except ACDB, no other bank has taken an interest in spreading banking habits in rural areas. Besides LBDI, three other financial institutions operate as non-banking financial institutions. These are the Small Enterprises Financing Organization (SEFO), Liberia Finance & Trust Company and the District Trust Corporation. The foreign banks control about 82 percent of the total deposits of commercial banks and Liberian banks only about 18 percent per the 1984 UNIDO report. It is estimated that the population serviced per bank branch in Liberia excluding Monrovia is roughly 200,000 per bank branch and in Monrovia about 40,000 per bank branch. The UNIDO report states, "High level of illiteracy, subsistence level of economic activities

in rural areas, lack of infrastructure and lack of concern/interest on the part of commercial banks are some of the main reasons that inhibit branch expansion. This also explains the low level of monetization of the economy."

The commercial banks depend on the customer deposits as the single largest source of funds. The following table gives the bank deposit trend and composition between 1986-88:

(In L$ '000)

Type of deposit	Dec. 1986	Dec. 1987	Dec. 1988
Demand	81,681 (60.91%)	92,732 (62.52%)	86,454 (57.05%)
Time	10,894 (8.08%)	8,192 (5.52%)	8,985 (5.93%)
Savings	41,639 (30.98%)	47,391 (31.95%)	56,111 (37.02%)
Total	134,401 (100%)	148,315 (100%)	151,550 (100%)

An examination of bank deposits over the last nine years indicates that savings deposits have remained steady; time deposits went down steeply from 22 percent in 1979 to 5.93 percent in 1988; and demand deposits registered steady growth between 1979 to 1987 but slipped in 1988. Based on the observations of a development credit and banking expert, the reasons for this are:

a. Interest rates on time deposits are related to and are often less than prevailing deposit rates in New York and London. The deposit rates are not attractive enough to discourage outflow of funds.

b. Time deposits created by the deposit of checks are not attractive to the banks because of the perceived inability of banks to provide cash to depositors on due dates.

c. High reserve requirements coupled with the high balances in excess of reserve requirements account for immobilization of almost 40 to 50 percent of bank deposits acting as involuntary lending to the Government of Liberia. This acts as a disincentive to commercial banks in deposit mobilization.

d. Higher mobilization of deposits means higher deployment of funds either through increased lending and/or through increased immobilization of funds with the NBL. There is hardly any other alternative because of the absence of dynamic money markets or other investment securities.

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e. The requirement of high minimum balances and service charges by some banks hinder growth of savings.

f. The potential for freezing of bank accounts or interference by authorities and other fears inhibit deposits by high income groups.

g. The interest rate on savings deposits is relatively high and this accounts for stable savings deposits.

Commercial bank lending, by and large, is short-term and for trade finance. Both the banking and trade sectors are dominated by expatriate interests; this explains bank lending to businesses owned and controlled by expatriates. There is no policy framework at the national level with respect to "priority sector lending or credit" or using the central bank as an instrument to direct and work with the commercial banks to advance credit to the productive sectors of the economy. In the absence of such a framework, the commercial banks advance lienable funds to the sector which perpetuates a "trader economy" as opposed to an "entrepreneurial economy". The NBL 1988 annual report makes this amply clear. Of total commercial bank credit a mere 1.7 percent was allocated to the manufacturing sector and 3.86 percent to agriculture excluding rubber, forestry and fishing. 18.87 percent of the total bank credit went to finance private sector trading. In 1986 and 1987, the credit allocated to these sectors was: manufacturing - 0.46 and 0.45 percent; other agriculture - 1.77 and 3.90 percent and trading 16.25 and 18.61 percent.

The NBL administers the Credit Guarantee Scheme initiated in 1979. The objective of the scheme is "to protect and encourage credit institutions to provide credit to small and medium enterprises. The scheme provides a coverage of risk-sharing of 2/3 for NBL and 1/3 percent for credit institutions. Under the IDA arrangements these ratios vary. The risk-sharing ratios are 90 percent and 10 percent for small scale enterprises and 80 percent and 20 percent for medium scale enterprises. By September 1988, the total credit extended to small businesses reached about L$2.9 million benefitting over 80 projects and generating employment for at least 200 persons. NBL's program was severely curtailed by lack of resources. The scheme was far from successful. Neither the NBL nor the commercial banks feel the compelling need to provide credit to the private sector LSE or SME manufacturing sector. The major source for credit for the LSE sector is LBDI.

The SME sector credit needs are met by the Small Enterprises Financing Organization (SEFO) which was created in 1981. As of April 30, 1988, SEFO had committed 250 loans and disbursed L$2,024,702. Loans averaged about L$8,100. Through this window, credits are advanced to small businesses. The maximum loan limit is L$50,000. SEFO needs new funds to expand its loan portfolio.

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Partnership for Productivity, Liberia (PFP/L) is another agency which provides credit to micro/small rural enterprises in Nimba County. During 1988, the amount of loans disbursed was L$811,220 to 900 borrowers. The loan amounts ranged from the micro (less than L$300) to the small:

SBO	- L$ 50 - L$ 10,000
FDA/CMA	- L$ 10,000 - L$50,000
FDA	- L$ 50 - L$ 10,000
MWA (groups of 10)	- L$5,000
MWA (individual)	- L$ 50 - L$500

PFP/L is also seeking new funds to expand its loan portfolio. Both SEFO and PFP/L depend on external assistance to meet their operating expenses.

In summary, the commercial banks do not actively participate in advancing credits to SME sector manufacturing, poultry, piggery or service type of borrowers. The banks consider SME lending an unprofitable business. This is confirmed by the high operational costs incurred by SEFO and PFP/L. What these agencies consider technical and management assistance to borrowers may in fact be the effort directed to loan monitoring and recovery. In many cases the borrower has to pay various charges and commissions (up to 20 percent in the first year); this forces the borrower to default on the loan for which he/she has to pay a penalty and legal charges in addition to regular interest and principal repayment.

Very little, if any, new investment in the manufacturing sector, whether large or medium, is being planned or reported by existing or new investors. There seems to be some activity in the service type of enterprises and much more in trading, retailing and related fields. The credit needs in such cases are for working capital, start-up business credits by way of goods and some machinery and equipment for expansion and diversification. These are being met through various sources such as the individual's own funds, friends, suppliers' short term credit or lease type of arrangements. The banks may be playing some role in this by financing the supplier. There is reason to believe that some of the unaccounted "black" money flows into the system via this route and hence there is considerable activity in the market place.

One of the UNIDO reports states that 85 percent of SMEs in the greater Monrovia have no access to credit facilities. This is true both for existing and potential SME entrepreneurs. It is also true that viable and bankable SME projects are also few in number due to various factors: the small size of the domestic market; a large import component for equipment and machinery, raw materials and intermediaries; inadequate linkages with local resources and their conversion into finished products. Some SME projects may appear viable on paper but when the servicing and operational costs of the credit providers are added in the same projects become costly. A

financial institution exclusively for the small sector will always have problems in balancing its books. At best it may become relatively self-sustaining at a certain level. Credit in a less developed economy is a part of the development banking process and call for an integrated planning effort involving government, central banks and commercial banks in which the state and private institutions generate surpluses in some sectors and cross-subsidize activities in less profitable sectors.

F. THE EMPLOYMENT SITUATION

According to the official estimates reported in an ILO report, the unemployment rate in Liberia rose from 12.8 percent in 1980 to 17.9 percent in 1984. On the basis of these estimates, the number of unemployed may be about 224,000 in 1987. With retrenchment in the government sector and private establishments in many sectors such as mining, rubber and manufacturing, it is estimated that the rate of unemployment in 1987 may be higher than the current estimate of 25 percent. The ILO report also indicates that unemployment in Monrovia may be as high as 50 percent of the labor force in the city. These estimates do not take into account the problem of underemployment in rural areas and most small-scale urban activities. The problem of open unemployment will be mainly in Monrovia and will be acute for the youth in the age group 15 to 24 as they constitute a high percentage of the total population. It is presumed that the a majority of them are educated up to at least the high school level. A large number of educational and vocational institutions train their students mainly for formal and modern sector employment which is in decline. Most graduates of vocational training institutes remain unemployed after their courses.

Using the ILO study figures, the level of unemployment in Monrovia is estimated and outlined below:

Total estimated population (1989)	550,000
Labor Force 50% of the above	275,000
Unemployment 50% of the labor force	137,500

This is just the backlog. There is a new addition to the labor force every year. At this level, currently one in every four persons in Monrovia is looking for work. If these estimates are true, there may be serious political ramifications to the high level of unemployment. There are safety valves in the system. The dependency ratio is rather high, the extended family system and the ability to fall back on one's rural relations may act as buffers.

The numbers may be inaccurate but there are lot of persons looking for jobs and both the private and public systems are unable to generate enough jobs through the formal sectors to engage that many

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persons. This is where the informal sector takes over. There are no statistic available on the informal sector employment or establishments.

According to a survey undertaken by the GOL in 1985 and quoted by ILO, it is reported that combined total employment in enterprises was as high as 120,718. In all 11,291 enterprises were enumerated. Of these 76.5 percent were in the less than five employee category. There were 8587 establishments in this category which employed 19,375 persons or 16% of the total employment. These are, by and large, informal sector establishments. Deducting these from the total it is observed that the remaining 2704 establishments employed 101,343 persons. Those remaining include large, medium and small enterprises.

In the absence of any reliable data, it is very difficult to estimate total employment in the organized formal and informal sectors. However, it is safe to assume, that the SME sector is a major provider of jobs in the service sector. The SME manufacturing sector has also done relatively well in comparison to the large enterprise sector in the face of the serious economic conditions in the country. There has also been significant activity in the informal sector area which includes market women, vegetable, fruit and food vendors by the roadside, cigarette and drinking water sellers, taxi drivers, handicraft sellers, car watchers and washers, journey men in the transport sector and so on.

G. THE MANUFACTURING SECTOR

Import substitution was the main stimulus for THE GOL initiative to support manufacturing. The sector grew rapidly during the 1960's and the 1970's. The average annual growth rate during the 1970's was 7 percent according to a UNIDO report. During the 1980s there has been steady decline. A UNIDO study, "Management Diagnosis and Industrial Rehabilitation", 1985, found that the average capacity utilization rate was 36 percent. A number of units had closed. The study covered 44 units which included both large and medium industrial units. Some of the reasons for the low capacity utilization were:

* Shrinking domestic market and competition from imported goods
* Frequent power cuts during the dry season
* Shortage of raw materials due to lack of foreign exchange
* Non-availability of bank credit and overdraft facilities
* Poor management

About 80 percent of manufacturing enterprises in Liberia employ less than 10 workers each. The large enterprises are concentrated in beverages, breweries, roofing materials, cement, furniture,

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paints, chemicals, toiletries and cosmetics. Most of the large firms are owned by expatriates, primarily Lebanese. The Liberian Manufacturers Association represents many of these firms. The Association lists 52 firms on its roster. These firms have an investment ranging between $0.5 million to $7 million. Small and medium size establishments cover slaughtering, dairy products, vegetable and animal oils and fats, grain milling, rice milling, industrial chemicals, soaps, perfumes, bakeries, poultry, clothing, tobacco, sawmills, furniture and fixtures, printing, publishing, basic industrial chemicals, plastic and chemical products.

The GOL has established an Industrial Free Zone, the performance of which is not satisfactory.

Over 50 percent of imports in Liberia are composed of manufactured goods. The imports include such goods as chemicals, basic manufactures, machines, transport equipment, petroleum products, veneers, plywood, improved wood, wood manufactures, paper and paper board, articles of pulp and paper, synthetic and regenerated fabrics, textile yarn and thread, woven cotton fabrics, ready made garments, travel bags, clothing, artificial leather, leather manufactures, glassware, iron and steel bars, rods and shapes, hand tools, television and radio sets, poultry feed, rice, wheat, fruits, one-day old chicks, broiler chicken, intermediates, spares and a range of other finished goods or raw materials to make finished goods.

Recent data on imports are not available. But the past and current import structure points out that the Liberian manufacturing sector depends heavily on imports. There are virtually no linkages between the domestic natural resource commodities and their conversion into finished products. The commodities are exported mostly in raw unfinished form. It is reported by UNIDO that in 1984, manufactured exports accounted for a mere 3.1 percent of the total export value.

H. MEDIUM, SMALL AND MICROENTERPRISES

The Government's interest in this sector dates back to 1981. In 1981, the GOL obtained an IDA credit line worth SDR 3.2 million for institutional credit and technical assistance to the SME sector. A UNIDO/UNDP project started in 1981 provides technical assistance and institution building. The nodal agency for SME promotion and development is the National Investment Commission, (NIC), an autonomous agency under the GOL. USAID has been involved in the SME sector activity in providing assistance to PFP/L and SEFO. NIC has a specialized SME department with a staff of about 35 and has two regional offices. The SME department has two divisions, project preparation and industrial extension services. With the drying up of the IDA credit line, the activities of the SME department NIC are minimal.

SEFO was started to provide a lending window to small enterprises with the initiative from LBDI, FMO, ACDB, PFP and other agencies. PFP/L is a small private agency providing credit to small rural farm and non-farm enterprises. Its current activities are restricted to Nimba County. It seems to be the only agency active in the rural non-farm credit area.

Complete data on SMEs is difficult to get. A national survey in 1985 indicates that SMEs are mainly working in garments, woodworking and metal-based industries. The SME Development Plan, 1987 - 1991, states that there are 560 SMEs in Monrovia and 360 in the rest of the country. The Ministry of Planning and Economic Affairs in 1981 estimated that 54.4 percent of all jobs in manufacturing establishments in the greater Monrovia were provided by Liberian owned firms.

The results of a manpower survey conducted by the Ministry of Planning and Economic Affairs in 1985 covering establishments employing five or more persons are given below:

Industry	Number of Establishments	Employment	Non-Liberians
Agriculture, Fishing, Forestry	58	22,011	399
Mining	13	5,546	418
Services	854	13,066	1,602
Trade	497	6,721	1,082
Tailors	194	1,584	660
Manufacturing	192	4,359	207
Construction	21	1,039	118
Transport	43	1,047	58
Total Private Sector	1,872	55,372	4,544
Public Sector	832	45,971	928
Total	2,704	101,343	5,472

Source: UNIDO report

The details by manufacturing activities are given below:

Manufacture Industries	Employment	Establishments
Tailoring	1,583	194
Wood/Furniture/Mattresses	1,402	74
Chemicals/Paint/Soap/Drugs	741	18
Metal Manufacture Batteries	401	20
Paper Cartons	13	1
Blocks/Tiles/Glass	223	17
Bakery/Beverages/Food/Flour	1,143	33
Plastics/Rubber	35	3
Jewelry/Ivory	53	8
Cigarettes	61	1
Matches	48	1
Printing/Publishing	225	14
Miscellaneous Recordings	9	1
Sandals	5	1
Total	5,942	386

Source: UNIDO report

The same survey identified 8587 establishments employing five or less persons. These employed 19,375 persons. By and large these could be termed as informal sector enterprises. The ILO report states that based on the 1985 establishment census, it was found that informal sector activities employ as much as 22% of the number of persons engaged in all economic activities and 15% of the labor force. The ILO report also states that between 1986 and 1987, employment in this sector increased by 2.7 percent. On this basis, it is assumed that the urban informal sector may absorb less than 10% of the increase in the labor force entering the labor market every year. The same report also states that the informal sector contributes about 3.5 percent of the GDP.

The urban informal sector enterprises are privately owned, mainly by Liberians and cover eight broad categories: food processing, milling, shoe-making and repairs, textile, tie dye, tailoring, wood-working and carpentry, metal fabrication, garages, repair services for watches, radio, tv, video, etc, and general services such as restaurants and hair dressing. 82 percent of these are owned by sole proprietors, 16 percent are partnerships and 2 percent cooperatives. 78 percent of the enterprises are less than five years old and the average age is 3 years. It is presumed that the attrition rate among these is rather high.

The report also brings out that 37 percent of these enterprises are in permanent structures, 65 percent are home-based and 20 percent operated from an open space without rights to premises. About 63 percent face continual threat of eviction from local municipalities. Monrovia City Corporation tends to restrict the operations of many informal sector activities from certain

locations in the city. The average number of employees is 3 people. About 20 percent of employees are paid workers, 24 percent are unpaid family workers and about 40 percent proprietors. In fact, through these activities the owners or operators are creating jobs for themselves. The average monthly earnings are about $140. The survey report also notes that the workforce is engaged in other activities to supplement their wages and salaries. To this extent, some of these activities can be described as income supplemental.

It is reported that all establishments are expected to pay 3 types of taxes and dues: a flat registration fee of $100 to the Ministry of Commerce and Industries; a monthly license fee to the city corporation; and an annual flat fee of $300 to the Ministry of Finance. Registration with the Ministry of Industries and Commerce is a prerequisite for an application for financial assistance. This survey was undertaken by the ILO in August 1987, in four major towns: Monrovia, Kakata, Tubmanburg, and Buchanan.

In summary, it is difficult to give data on the number of SME and informal sector enterprises beyond the approximations referred to in this section. Most of the large enterprises and some of the medium size manufacturing enterprises are owned by expatriates. The Liberians dominate in medium and small enterprise sectors. The presence of expatriates is significant in large and medium enterprises in the trade and services sector. The Liberian presence is significant in small and informal sector trade and service enterprises. The SME and informal sectors contribute up to 5 to 6 per cent of GDP. This includes manufacturing, trade and service sectors. Most of the manufacturing and trade in the country depends on imports. As a result, foreign exchange is a major issue for SMEs as well as informal sector enterprises. Employment in the SME manufacturing, trade and service sectors is limited whereas the informal sector may employ large numbers for which no data exists.

I. PHYSICAL INFRASTRUCTURE, POWER AND COMMUNICATIONS

The domestic infrastructure has deteriorated significantly since 1980. The country has over 6000 miles of roads, of which roughly 400 miles are paved. Rural road are unpaved and many are unpassable during rainy season.

The Liberia Electricity Corporation (LEC), a parastatal, is the main provider of electricity. The electricity supply is rather erratic and infrequent particularly during the dry season. The effective power demand in the country is around 50 to 55 MW. The mining companies have their own generating capacity for captive use. During the dry season Bong Mining Company provides power to LEC. During the rainy season LEC provides power to the Bong Mines. The main power source during rainy season is the hydro power station with 64 KW installed capacity. Four gas turbines have 64

KW installed capacity which are used as back up as the cost of power from this source is high due to the costly fuel supplies. Additional 40KW capacity is available through slow speed diesel generators. Japan has provided 2 generators with 10KW capacity which are under installation. Due to the cost of fuel, the foreign exchange shortage for spare parts and other operational difficulties, the power supply position is always precarious. The power losses due to energy stealing and technical problems go up to 30 to 35 percent. 70 percent of the power is used for residential, office and government uses, 18 percent for industrial uses and 14 percent for commercial uses. Against billings of $4.5 million per month, the collections are $2.5 million. The main defaulters are Government agencies and parastatals.

Communications facilities include domestic and international telephone, telex and facsimile links. The quality of service is intermittent and many firms and offices have installed radio nets for local communications.

Most of Liberia's imports and exports pass through the port of Monrovia. The port's physical infrastructure is in poor condition and management and security are weak.

J. SME DEFINITIONS

A clear definition of SME's is required to determine investment, capital and credit needs of an enterprise. It is also needed to determine the nature and size of training, technical assistance and other inputs. The criteria for definitions will vary with the type of enterprise. For investment purposes the criteria for a manufacturing enterprise will include investment in fixed assets plant, land, machinery and working capital but for a trading business the key criterion may be the turnover of the business. The number of employees is the appropriate criterion to assess technical assistance and training needs.

The term SME is an omnibus concept. Considering the range of enterprises the USAID funded projects assist and finance, the following list identifies the type of activities.

Household or Cottage Enterprises: These include handicrafts, tailoring, weaving, knitting, vendors and similar income supplemental activities requiring investment ranging from $25 to $500.

Micro Enterprises: These include a small shop, cycle hiring and repair unit, tailor shop, carpenter, electrician, mechanic, shoe-making and leather repairs and so on requiring investment ranging from $500 to $10,000.

Small Enterprises: These may cover manufacturing, retailing and

services and will include a workshop, a production unit, retail store, servicing and repair garage, garment making unit, woodworking shop and so on requiring investment ranging between $10,000 to $100,000.

Medium Enterprises: These include mainly manufacturing and trading/service enterprises, processing units, large poultry units and so on requiring investment ranging between $100,000 to $500,000.

Currently the GOL and the NIC define small enterprises as those with investment of less than $25,000 and medium enterprises as those with investment of less than $50,000.

In view of the de facto devaluation of Liberian dollar in the market, it is recommended that the current limits be scaled up. The limits outlined above allow for potential growth. This investment definition also allows the financial institution to broaden and diversify its loan portfolio, cover its overheads adequately, offer clients differential interest and service charges, and possibly cross subsidize its operations. This is necessary because USAID is working through financial institutions such as SEFO and PFP/L dedicated only to specific borrowers and not to the larger market.

The definitions for SMEs should be treated as indicative and should not become binding on lending institutions. SMEs operate in a dynamic market place and under diverse operating conditions. A lending institution must be sensitive to these factors and must exercise flexibility in considering project proposals.

K. HUMAN RESOURCES

Overall, the quality of the Liberian work force is poor. Most of the trained and skilled workers are expatriates from neighboring countries. Local labor is by and large unskilled, illiterate and lacks discipline. Productivity is low and absenteeism is high.

There are a large number of persons looking for jobs. They include unskilled and in most cases illiterate, as well as graduates from schools and colleges, engineers and technicians. In contrast, there is a shortage of skilled technicians, managers and other professionals. There is a mismatch between the manpower needs and training and education programs. The quality of instruction is low. The USAID Education and Human Resources Sector Assessment (1988) report observes that, of every 100 children, only 14 will complete primary school in six years and only 2 will complete secondary school in twelve years.

Vocational and technical education is provided by over 48 schools and vocational training centers run by the government and private

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agencies. It is reported that enrollment is available for about 7,000 students, and between 1500 to 1800 students graduate every year. There are no teacher training programs for vocational and technical education. The teachers and instructors are inadequate to deal with the subject matter and practical training. The programs cover a wide range of subjects. The largest number of programs is in the secretarial, clerical and bookkeeping areas and in the building manufacturing and repair trades. Two private institutions, the Arthur Barclay Institute and the Liberia Opportunities Industrialization Center, have been innovative and entrepreneurial in linking training with self-employment and private sector placements.

Higher education is provided through the University of Liberia, the William V.S. Tubman Technical College, Cuttington University College and three other institutions. There are approximately 4,900 students enrolled in degree programs and another 300 in continuing education. There are at least 47 separate degree training programs offered at these institutions. Approximately 3,000 students are enrolled in science and business programs. Courses are also offered in law and engineering.

By and large, university graduates find jobs in the government and public sector organizations. With retrenchment in these sectors, however, there are relatively few opportunities. The private manufacturing sector is small and offers very little scope for employment; there is a need for certain kinds of personnel but there are few qualified and experienced mid-level supervisory and managerial personnel. Positions in public sector corporations remain vacant because the working conditions are unsatisfactory and salaries are low.

Most of the skilled jobs in enterprises are filled by expatriate workers. The commercial and trading establishments are dominated by expatriates and very few opportunities, if any, are available for local nationals. As a result, every educated person seeks the opportunity to migrate to the U.S. or neighboring countries in search of better opportunities.

L. AVAILABILITY OF TECHNOLOGY AND SUPPORT SERVICES

Large enterprises in the manufacturing sector in Liberia utilize fairly modern technology. The technology comes as a package through engineering and machinery purchases. Smaller enterprises are, by and large, labor-intensive and use outmoded technologies; productivity in these small units tends to be low.

The problem in Liberia is not the availability of technology. The restricted and small size of the market, lack of institutional finance, competition from imported goods, non-availability of technical support services and other factors inhibit the use of

better technology. Technology introduction and dissemination in the early stages of industrialization takes place through machinery manufacturers and their technical sales representatives. As the demand for such products is low in Liberia, there are few technical sales representatives from machinery firms. The promotion of appropriate and relevant technology is an important area for development. But the agencies to promote technology development do not exist.

Some efforts in the area of technology development and promotion have been undertaken by the SME Department of the National Investment Commission. The demand for such services is very low, however, and the quality of service is poor due to lack of experienced staff. Another route for technology transfer and dissemination is through technically trained professionals: engineers, technicians and skilled workers. As many of the activities are in the small and microenterprise sectors in Liberia, it is through them that improved technology can be disseminated. For this, they need to be trained. A few institutions such as the Arthur Barclay Institute and the Liberia Opportunities Industrialization Center are doing this to some extent and will benefit if technical and financial support is available. There are also possibilities in agricultural tools, small-scale oil expelling, fruit and vegetable processing, construction materials and so on. Training in productivity and quality improvement is also needed.

There is a sizable chartered and certified accounting infrastructure in the country. Many international firms are represented in the country. Their services are required for statutory corporation audits and most importantly for securing governmental incentive and financial benefits. They provide assistance in preparing project and feasibility reports. Apart from accountancy firms, a few other consultancy firms and individual operators exist. Some of these firms are Vista, Sugarvi and CENTREM. Some of these firms are better staffed with professionals, and their services are used by international agencies rather than local businesses.

The demand for business, management and financial services from private businesses is extremely limited. Most of the businesses are small; even the large ones are small by international standards and do not see the need for such services. Most of these firms do not have professionals in management roles as many of them are owner-managed. The SME department of the National Investment Commission is a resource for SMEs to draw upon for business and technical assistance. Some business and technical assistance is provided by the staff of SEFO and PFP/L, but these services are available to their clients only.

In summary, the demand for business support and consultancy does not exist beyond what is required by procedure and law by various

Ministries and the NIC. The need is there but the ability and willingness to pay for such services is doubtful. The quality of services where they exist is spotty and poor.

The potential clients for such services are private and public sector corporations an businesses and government ministries. The best way to begin will be by offering short term training workshops in specialized fields relevant to the jobs.

M. RECOMMENDATIONS

The most critical need in Liberia is job creation on a massive scale. The unemployment situation is serious and the work force is growing at a fast rate. The economy is not growing to accommodate the increasing numbers of unemployed. The role of SME development needs to be viewed in this context. In addition, there are many other constraints. The domestic market is small; bank credit is scarce; import competition is severe; the import substitution strategy has not paid off; foreign exchange shortage is hitting the domestic industry; local entrepreneurship and investment potential is meager; and the labor force is unskilled.

Against this bleak background, the options for SME development are limited. The public sector has failed to cope with the situation thus far. The only short range option for USAID under these circumstances is to work through private and NGO organizations involved in enterprise development to strengthen and support them in undertaking limited but significant programs. Such activities will influence the governmental policy framework and make it more responsive to the needs.

Our program recommendations fall in several categories:

- Support to private/NGO type organizations such as SEFO and PFP to undertake credit delivery, technology development and enterprise development, entrepreneurship training and related activities.

- Assist Arthur Barclay and LOIC type agencies involved in the training of skilled and semi-skilled technicians for industry and self-employment; provide seed capital.

- Strengthen the local consulting capacity.

- Undertake export-oriented market potential studies in specific product areas and labor intensive industries.

- Provide entrepreneurship training for young Liberian business leaders.

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1. SMALL ENTERPRISES FINANCING ORGANIZATION (SEFO)

This agency has gone through very difficult times organizationally and financially. The affairs of the agency seem to be stabilizing. Its loan portfolio is becoming more reliable, appraisal systems are more sound, and recoveries are improving.

The agency is working under various constraints. Its capital base is small. There is very little new lienable capital infusion. Its loan portfolio is small and consists of mainly many very small loans which results in very heavy overhead. Many of the loans seem to be for working capital of the existing companies. Some loans are for new machinery and equipment. There are relatively few new enterprise loans. SEFO seems to be rather conservative and cautious in considering new and innovative proposals. Much of its effort is directed to loan scrutiny and monitoring. Investment promotion and potential business development efforts are minimal. The venture capital concept is absent.

SEFO has a small but dedicated field staff. Their activities are limited to client investigation, loan appraisal, approval, follow-up and technical assistance.

If SEFO is to continue functioning merely as a financing agency, it will have a very limited life expectancy. It will have a hard time meeting its costs out of its income. Servicing small borrower loans is a time consuming and costly business. SEFO does not have its own source of new funds, nor does it have a diversified and flexible loan portfolio. It almost appears that SEFO is meeting, in most cases, the need of the clients who could have access to credit from other sources but at a higher cost. In a way, the SEFO loan in spite of the process involved is a better option. There are few genuine venture type loans but these instances are few. Small industry development, investment promotion, new business development, entrepreneurship promotion and development do not seem to be SEFO's primary objectives.

The question before USAID, if it is to continue to support SEFO, will be to decide what kind of agency it wishes to support: what will be its purpose, method of working and accountability. The major challenge in Liberia is small industry development and promotion, new investor identification and development -- and not just providing credit. The SME department of NIC was expected to perform this role. Its performance has been rather poor however and it has become a part of large bureaucracy.

We recommend that USAID undertake a serious review of the small industry development strategy in Liberia and determine what role SEFO can play in promoting and implementing it. Are we suggesting duplicating NIC's SME department? No. But some of the following tasks need to be undertaken by an agency which can integrate both development work and credit delivery:

- new investor/entrepreneur identification, selection and development.

- new venture promotion, technology identification and selection and marketing the same to potential new investors and if necessary take equity in such ventures.

- provide assistance for pre-feasibility studies, market research through utilizing local private consultants wherever possible.

In short, SEFO should have two distinct objectives: development and promotion of SMEs; and credit delivery. Separate criteria need to be established for evaluating SEFO's performance against these two distinct tasks. There should not be insistence on cost recovery or self-sufficiency as far as the development task is concerned. However, there should be insistence on cost efficiency, and if possible, cost recovery wherever possible as a part of project preparation or implementation costs which can be part of the loan. The credit delivery task which will involve appraisal of the projects, monitoring and follow-up will be viewed as cost self-sufficient.

We recommend USAID provide support for SEFO over the next five years. The financial support will include:

- US$ 3 million revolving loan fund.

- US$ 0.5 million to cover the cost of development tasks for five years.

- Technical assistance to strengthen SEFO institutional capacity and local private consulting capacity through expatriate consultants, US and third country training. A provision of US$ 0.5 million to cover these costs over the five year period.

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2. PARTNERSHIP FOR PRODUCTIVITY/LIBERIA (PFP/L)

PFP/L has been working in the Nimba County for the last decade or so. Its major activity is to provide rural credit and generate savings. The loan portfolio includes loans for agricultural operations, consumption, retail operations undertaken by market women and a variety of establishments such as pharmacies. A few productive and manufacturing units are also recipients of loans. It is not clear what the total demand for credit is in the county, who meets this demand and what PFP/L's share is in the total demand. The savings effort is mainly directed to potential borrowers. The purpose of savings deposit mobilization is to cultivate the savings habit and mobilize resources so that funds can be used to provide loans and free PFP from its dependance on donor agencies. It is not clear whether households in the county have disposable incomes which can be turned into savings or what the source of such income by types of households might be.

These questions are not raised as criticisms of PFP's work. PFP is doing very useful work and has an extremely dedicated complement of headquarter and field staff. After a decade of pioneering work and interview of the proposed plan to extend operations to new counties, PFP and USAID need to reexamine the role of PFP and its future tasks in a searching manner. Is it a welfare development type of agency using credit as a welfare tool? Is its objective to generate more jobs, and if so, how does its credit delivery program contribute to job creation? What are the new areas where jobs are likely to come up? How is the regional economy functioning and what is its potential to contribute in new job creation? Where and how does credit fits in this environment?

PFP seems to be filling a void, but it also appears to be functioning in a void. If agriculture and other economic activities in the region are stagnating, what is the rational for expansion and financing of the retail trade activity? If the market size remains the same, horizontal expansion of the retail trade does not seem to make much sense in terms of increased demand or new job generation. Of course, there will be demand for new types of service establishments.

If PFP/L continues in the same mode as in the past, its impact on the economic development of the region will be rather limited. Currently, it is not functioning as an enterprise development agency nor as a financial agency. PFP needs to bring in the rural farm and non-farm enterprise development strategy with a clear focus in its future program planning effort. It can continue its current types of programs as long as they meet a certain need in the region, but it needs to do something more. PFP could seek opportunities for setting up enterprises with backward linkages in agro-processing, wood processing, small scale rubber processing, small holder rubber plantations support, small scale palm oil technology, and so on. The scope is limited, but some effort needs

to be directed to explore these opportunities.

We recommend that USAID provide PFP a Technology and Rural Enterprise Development Fund to undertake such activities over the next five years. Part of the fund will be used to provide loans and part will be used for technical assistance, training and local consultants. In addition, USAID should consider providing technical support from the U.S. and developing countries such as Malaysia, Thailand, India and Philippines. We propose a TREDF of US$ 1 million and a TA component of US$ 100,000. In addition, PFP should continue to receive assistance for its current activities to expand its loan portfolio.

3. SELF-EMPLOYMENT FOR TECHNICALLY QUALIFIED YOUNG PERSONS

It is estimated that there are over 137,000 unemployed persons in Monrovia alone; the number is increasing every year. Many of them are young and educated at least at high school level. Some of them are technically qualified trained from private and government technical training institutions. There are graduate engineers as well without jobs or in jobs where engineering training is not needed. It is virtually impossible for the public or private sector to absorb these persons on their roles. At the same time, the industry and public sector does need adequately trained technicians.

We recommend a two pronged approach:

a. To support technical training institutions in areas where there are shortages. To assist these agencies in developing liaison with industry. To provide assistance in training of instructors, training materials and equipment.

b. To assist selected training institutions to create common service facilities which can be used by technician entrepreneurs as "incubators" for undertaking self-employment projects. A small entrepreneur does not need some facilities on a full time basis and an incubator/common service facility is a cost-effective solution. The facility can be used by several entrepreneurs on cost sharing basis.

c. To provide seed capital to young technical entrepreneurs to start new businesses. This activity can be managed by the institution or coordinated through SEFO.

We recommend that Arthur Barclay Institute and Liberia Opportunities Industrialization Center be considered to implement such a program. Arthur Barclay Institute has already started an experimental project of this type where the institute's woodwork shop acts as a common service facility; the Institute has provided a $25,000 loan for trained technicians to set up a woodwork shop.

The Institute feels strongly that this approach is the right approach in the present situation and would welcome support to extend the scope of its activities.

LOIC has been functioning for the past ten years and has trained over 1,000 semiskilled technicians. Out of these, almost 60 per cent have been placed in jobs. The Center has a vigorous placement program. While Arthur Barclay Institute focuses on post-high school technical training, LOIC concentrates on school drop outs eighth standard and up. LOIC has also set up a common service facility and strongly feels that self-employment types of programs will complement its activities. There seems to be some reservation about LOIC management and overhead structure but everybody acknowledges the value of the LOIC program and its achievements.

We recommend a provision of US$ 3 million for these activities over the next three years to these two institutions.

4. EXPORT-ORIENTED ENTERPRISES AND MARKET POTENTIAL STUDIES

The domestic market in Liberia is limited. As such, enterprises based totally on import-substitution have a limited market for their products. Most of these enterprises function at marginal capacity and also have to depend heavily on imports of raw materials and intermediates. Enterprises based on local raw materials have also limited scope due to the nature of resources such as iron ore, rubber and wood. Industries based on processing are capital intensive and do not have a local market; they will face tough competition in the international market.

One of the options is to identify opportunities for starting enterprises which can produce wholly or mainly for export. At the current level of skills and potential, garments, furniture or timber seasoned and cut to size appear to have some potential. Most of these require unskilled or semiskilled labor. In case of garments, textiles will have to be imported and exported after processing. Timber is available locally. There is the possibility of exporting vegetables, flowers and even goat meat. None of these are grown at present either for local or export market. One local company has initiated a project to grow flowers commercially and is negotiating with a Dutch company for exports to Holland.

It is proposed that USAID sponsor two or three studies to determine the export marketing potential and feasibility of some of these products. Such a study will involve identifying the overseas markets, potential buyers, feasibility of manufacture in Liberia, potential investors, financing required, comparative advantages or disadvantages, policy issues and other factors.

USAID has supported such studies in various countries in Latin America, Caribbean, Asia and Africa. Utilizing these studies,

workshops can be organized for potential investors and buyers and policy makers. The capacity to undertake such studies does not exist in Liberia. These can be sponsored through centrally funded projects by USAID.

During the course of this mission, we met with a few young Liberian entrepreneurs who have gone into business and are showing promise. Some of them have expressed interest in seeking new opportunities. They do not have access to market intelligence information or possess marketing skills. Some of these young entrepreneurs can be involved in these studies by helping undertake market exploration in overseas markets under the guidance of experienced business experts.

We recommend a provision of US$ 200,000 for two or three export market feasibility studies, workshops and study tours for six to eight investors. It is also suggested that agencies such as LBDI, SEFO and Chamber of Commerce be fully involved in this activity. Local consulting agencies or individuals such as VISTA can be involved as well to work with experts from US.

5. LIBERIAN YOUNG BUSINESS LEADERS: TRAINING AND DEVELOPMENT

The profile of a young businessman in Liberia suggests that he often comes from a rather "better-off" family; or he may be the son of a government officer; or he himself has worked in the Government or a public sector organization or in some cases private bank or firm. He is committed to his work, but lacks the necessary business acumen and background necessary to undertake business risks and new ventures. He will raise capital through family contacts and may even have a partnership with expatriates either as a front or as a sleeping partner. He will by and large choose less risky investments such as transport, real estate, farming, and in same cases import-export trade, but he will enter rather cautiously in manufacturing ventures. There are few women in business.

We recommend working with those who have at least entry-level experience and build on that foundation. A few program suggestions are outlined below:

Entrepreneurs' International Program:

This is a centrally-funded project under which young business managers, owners, CEOs are selected and offered an opportunity to work with their counterparts in the U.S. for four to six weeks in duration. It is primarily for small businesses. We suggest that at least four young Liberians be offered such an opportunity every year.

Management Development:

Most of the Liberian business executives, managers and owners do not have the necessary professional management background and would benefit greatly from an opportunity to attend management programs offered by experts. Some of the program ideas: financial analysis of projects; financial management and controls for small businesses; productivity and quality improvement; sales and export marketing.

These training workshops may be offered in Liberia with the help of consulting groups in the U.S. who have developed several unique programs suitable for developing country situations. It should be possible to send some of the managers for short term training to third world country institutions such as Indian Institute of Management or the Asian Institute of Management.

6. COMMODITY IMPORT PROGRAM (CIP)

USAID operates a CIP activity in Liberia under which foreign exchange is provided to private and public sector agencies through a designated bank on 1:1 basis to import machinery, equipment and raw materials for producing units.

USAID might consider the possibility of modifying certain features of the CIP to make it more relevant to the needs of the SMEs. SMEs have great difficulty in procuring foreign exchange for machinery, equipment and raw materials even though they may be able to pay the going price for it.

We suggest provision of foreign exchange to SMEs using intermediary agencies such as LBDI, SEFO, and PFP/L. These agencies may procure imported items for SMEs per client requirements and supply the same to them at current market price on lease or hire-purchase. The client will be expected to pay 50 per cent of the cost up front and the balance in installments. Any surpluses the intermediary agency generates will go to meet its overhead, technical assistance or may be rechanneled into similar activities.

If this is technically feasible, we suggest a separate CIP Fund for SMEs needs at US$ 3 million per year for the next three years.

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7. SMALL-HOLDER RUBBER FARMS

Over the past years many small land holders producing rubber have gone out of business because the operations were uneconomic and they experienced difficulty in getting financing and credit. Rubber prices have picked up, however, and rubber production is again profitable. The availability of credit, finance, technical support and input services are not available for small farmers.

We have come across a few enterprising businesses who are entering the field to provide finance, technical assistance and input services to farmers on produce buy-back arrangements and cost recovery. Apparently, there is good scope for these ventures. These farm custom service providers experience difficulties in procuring bank finance and credit so they extend the scope of services to a larger group of farmers.

We recommend that USAID consider the possibility of creating a $5 million fund for supporting such a program through LBDI and PFP/L and private sector intermediary business agencies. This is proposed as a program to promote farm business enterprises to provide finance, input and custom services to small farm holders.

N. DETAILED RECOMMENDATIONS FOR KEY PROGRAM AREAS

As requested by the Chief, SPPD, USAID/L, this note provides additional details on two key program areas recommended by the consultant. These are:

- Export-Oriented Enterprises and Market Identification Studies
- Entrepreneurship and Human Resources Development

1. EXPORT-ORIENTED ENTERPRISES AND MARKET IDENTIFICATION

The domestic market in Liberia is small and limited. Enterprises based on import substitution are uneconomic due to the small size of the market. Most of these manufacturing units depend on imported raw materials, equipment, machinery and spares. The major raw material resources of the country are iron ore, rubber and timber. In view of the small size of the domestic market, the only other option the country can explore is to identify international markets for its manufactures. This will have to be based on proper product identification based on market research.

We are proposing a series of market feasibility studies to be undertaken to establish export-based manufacturing units. These studies will identify the constraints and comparative advantages of locating such units in Liberia and the types of manufacturing activities that are best suited taking into consideration the following elements:

* labor-intensive production processes
* production processes based on simple technologies
* low capital investment
* subassemblies and intermediate goods
* products with high dutiable value
* raw material intensive products (for agro-industry and
* certain types of light manufacturing)

Considering the basic factor endowments of Liberia the following industries are likely to be best suited for the country:

* apparel manufacture
* timber based manufacture- furniture
* rubber/latex based products
* agro-industry: flowers, fruit and vegetable processing
* light manufacturing: jewelry, toys, footwear, etc.

a. Scope of Work for Market and Technical Feasibility Studies

We recommend five market studies be undertaken by a U.S. consulting firm in cooperation with local consulting agencies. The US consulting firm should have experience in working with industrial free zones as these studies should be closely linked with the operations of the Liberia Industrial Free Zone, Industrial Estates and private sector firms. The Liberia Chamber of Commerce should be associated with these studies. The market and feasibility studies will be one component of the project. The other component will be the project implementation strategy and plans, manpower development and training and institutional support systems.

The scope of work will involve following tasks and activities:

Component I: Market and Technical Feasibility Studies

International Market Studies: identify and study principal markets for the product groups in North America and Europe through desk and field research; locate importers, potential partners and level of interest.

Technology sourcing and infrastructure requirements.

Policy, Finance and Investment Considerations.

Identification of potential investors in Liberia and potential overseas partners, buyers, importers and joint venture promotion.

Orientation workshops for Liberian investors.

Component II: Manpower Development and Institutional Support

Labor force analysis: composition, skills levels, training needs.

Management Development: needs assessment and programs.

Industry and Trade Associations: institutional development, orientation, liaison activities.

Investment and Export Promotion Activities.

b. Liberia Industrieal Free Zone Authority (LIFZA)

LIFZA was established in 1975. Although the GOL policy favors export-oriented foreign investments, the Free Zone has been a dismal failure and remains greatly underutilized. The export oriented manufacturing strategy will depend on the revitalization of LIFZA. It is recommended that USAID undertake a study aimed to improve the performance of the Free Zone Authority. The study should look into various aspects of marketing and promotion, private sector participation in the management and examine various constraints.

c. Technical Assistance Strategy

All the studies proposed above are viewed as coordinated technical assistance to private sector firms, potential investors, private sector support institutions, trade associations and private sector consulting firms in Liberia. As such, the effort will be undertaken over a period of at least of two years. It is not

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visualized that the US consulting group be located in Liberia for two years but that it would undertake market studies and provide technical assistance and backstopping and logistic support from the U.S.

2. ENTREPRENEURSHIP AND HUMAN RESOURCES DEVELOPMENT

a. Entrepreneurship Development

The promotion and development of medium and small industries depends on entrepreneurial resources in the community. The experience in many developing countries indicates that entrepreneurs do not respond spontaneously to business ventures despite availability of opportunities and various incentives. Entrepreneurship development programs are an effort to enlarge the pool of new and potential entrepreneurs who can be helped and trained to face the risks and uncertainties of establishing new ventures. It is also essential that the new entrepreneurs come from non-traditional groups, thereby breaking the monopoly of the dominant and established business groups and communities and diversifying the entrepreneurial resource base in the country. The EDP activities can be seen as one aspect of human resource development through the creation of small and medium enterprises, as well as self-employment projects both in the urban and rural areas.

Liberia can benefit from the experiences of other countries who have successfully implemented entrepreneurship development programs. Some of these countries are India, Philippines and Thailand. In one of the states in India, over 10,000 new entrepreneurs have been trained over the last eighteen years. Out of these, over 6,000 entrepreneurs have set up their enterprises. The EDP activities are implemented in close cooperation with the commercial banks, industrial development and promotion agencies, private sector firms, consultants. They cater to a wide variety of potential entrepreneurs: technical and non-technical employees, artisans, craftsmen, young graduates, unemployed technicians and engineers, women, traders.

New and innovative financing schemes were introduced to remove the financial constraints experienced by the new aspiring competent individuals who could not secure loan assistance from the banks. Loans up to 100 per cent of the project cost on attractive terms were offered without stringent collateral security of third-party guarantees under these schemes. These unconventional financing schemes relied more upon the competence of the person and the viability of the project than on the entrepreneur's financial background or strength. The impact of these programs cannot merely be measured in terms of the number of projects but what is more important is the revelation of vast entrepreneurial potential among traditionally non-business communities and groups, particularly in

the middle and lower-income groups. The discovery of such a rich entrepreneurial resource which remained almost unknown and untapped is the real contribution of these Indian programs.

The three main components of the EDP activity are:

1. Pre-training: identification, selection and initial motivation of potential entrepreneurs

2. Training of potential entrepreneurs

3. Post-training: support and follow-up services

The basic institutional and program infrastructure to implement the entrepreneurship development program in Liberia is there. What is required is the need for coordinated effort and common program. SEFO and PFP provide financial assistance and some technical assistance to potential entrepreneurs. Agencies such as Arthur Barclay and LOIC provide technical training. A consortium of these four agencies can undertake entrepreneurship development programs with assistance from USAID.

We propose that USAID undertake a study to determine the feasibility of setting up an entrepreneurship development program in conjunction with its project assistance to the four institutions mentioned above. In preparation for this study and as a part of institutional development effort, we propose a study visit by the staff from these institutions to India and Bangladesh. The programs in these two countries seem to be much more relevant to the situation in Liberia. The feasibility study may be undertaken with the help of an agency such as MSI in US and EDI in India. The scope of work for the EDP activities should include programs for young graduates, engineers, traders, women, trained technicians, craftsmen, artisans, technical and non-technical employees.

The study should also examine the feasibility of establishing "incubators" and common service facilities for small entrepreneurs, provision of equity or venture capital and other innovative financial packages.

b. Entrepreneurs International

This is a USAID/W operated program under which young business managers and owners from developing countries are offered an opportunity to work with their counterparts in the U.S. for a 4 to 6 week period to gain first hand exposure to the small business environment. It is a very valuable experience for young managers/owners. We recommend that at least four young Liberian managers/owners be offered such an opportunity every year.

c. Training and Development Programs

The opportunities for management training and development programs for Liberian managers are extremely limited and few. Based on discussions with managers and professionals in business, some of the most relevant training topics would be the following:

Export Marketing Workshops: These workshops are targeted at providing a hands-on introduction to export marketing for representatives of companies operating in high priority industry sectors. The purpose is to provide firms with access to practical guidelines for identifying areas of market and product demand which might be targeted by their firms. Information on U.S. import regulations and on methods and strategies for selling successfully in export markets is also included in the program. In addition, industry-specific information is provided to the participants. These workshops will also include industry-specific information generated through the market studies as proposed in this note. International Technology Investment, Ltd., a firm in US has been offering such programs in various countries.

Financial Analysis of Investments: Business people, bankers, venture capitalists, and others responsible for investment projects are often called upon to analyze the financial and economic viability of particular enterprises and projects. The analytical process entails assessment of sources and uses of funds, factor use, return on investment, and cash flow. At least as important, it involves determining the sensitivity or vulnerability of the project to various assumptions about sales, prices, exchange rates, and efficiency.

Two problems have limited the ability of analysts and business people to perform high quality financial assessments. First, the mechanical task of analyzing the data is extremely time consuming and prone to error, and where sensitivity analysis is involved, this difficulty is compounded. Secondly, the individuals called upon to perform these analyses often have only limited skills and experience in conducting financial analyses of this sort.

MSI, a management consulting firm in US has designed a training program in cooperation with USAID and IFC which uses inexpensive computer user-friendly software package and a related training program for investment analysis. The system is called IPES, the Investment Project Evaluation System. It is designed for operation on the IBM/PC and TRS-80. It requires no prior knowledge of computers. The training program employs a case study methodology and offers an introduction to the use of the software and instruction on how to interpret the printouts provided. The program addresses the needs of large, medium and small enterprises. The printouts automatically provided by the computer are in a format acceptable to commercial and development banks and include following reports: production reports; income statements; balance

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sheets; uses and sources of fund reports; internal rate of return and other profitability assessments; cash flow projections; list of project assumptions. The training program is followed by work with participants on the analysis of pending projects or investments. The course is suitable for financial analysts, project designers, lenders, and business people.

Uses of Technical Information: Access to relevant technical information has been repeatedly established as one of the major assets of successful firms. Inability to gain access to such information is one of the principal factors limiting the productivity and competitive position of industries in developing countries. Frequently, enterprises in developing counties are forced to operate with outmoded technology and inefficient solutions, or are forced to hire high priced consultants to reinvent the wheel in order to meet their technological needs.

The information revolution is a fact of life. Information is generated at incredible speed by companies, governments, research centers, inventors and universities all around the world. The information concerns the production processes, new product and product improvements, machinery, markets, and every other aspect of business. In many ways, a business's success will be determined by its ability to find and use the information it needs. There is thus a pressing need to train key individuals working in the private sector in how to gain access to, and make use of, foreign technical information.

This training program is designed by MSI, a US consulting firm and it trains users in the identification of sources, exactly what each source includes, and how to acquire the information at minimum cost and in the shortest possible time.

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ANNEX IV

ROLE OF THE LIBERIAN GOVERNMENT

by Luesette S. Howell

ANNEX IV
THE ROLE OF THE LIBERIAN GOVERNMENT

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I. INTRODUCTION

A. BACKGROUND

Small and medium-scale enterprises (SMEs) fall within a business category that has no single or universal definition. This category of the business sector has been defined as a function of its limited financial input and turnover, number of workers, market share, and/or level of activity.

SMEs form a substantial part of Liberia's private sector, which supports the economy through its perpetual activities of trade and industry. Nonetheless, the SME sector in Liberia has not received the attention it needs to transcend its current level of growth.

In mid-April, 1989, USAID/Liberia commissioned a 6-week study of the SME business sector to discern the nature of SMEs in Liberia and to seek recommendations on how USAID can assist this sector. During the 6-week assessment period, scores of visits and interviews were undertaken with individuals,enterprises, associations and Ministries in the private and public sectors to ascertain the business climate and activities within Monrovia and its environs, as well as in some of the outlying counties.

Attention was paid to what characterizes the SME sector in Liberia and how these characteristics relate to a general definition of the SME sector. The study also included an identification of the prevailing problems encountered by SMEs and recommended courses of action to be instituted by the Government of Liberia and/or USAID to effect the necessary changes for the growth of this Sector.

B. PURPOSE AND ORGANIZATION OF THIS PAPER

Throughout the study of the SME sector, the role of relevant Government Ministries and Agencies of Liberia was examined to assess their involvement in the development of the SME business sector. A specific assignment as part of the six-week study originally called for an examination of the roles of the Ministry of Commerce & Industry, the Ministry of Planning and Economic Affairs, and the National Investment Commission in SME development. However, it soon became apparent that the Ministries of Finance and Agriculture, The Liberian Free Zone Authority and the Legal System in Liberia vis-a-vis the Debt Courts were also pertinent to this study.

The purpose of this paper is to examine the role of each Government Ministry and Agency under review as perceived by the private business sector and by Government itself. It intends to distinguish and clarify their scopes of activity as well as

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summarize some of the issues facing each Ministry in dealing with the business sector.

A summary of the findings is provided at the beginning of this paper to brief the reader on the salient points contained in this report. The findings give rise to the recommendations interlaced within the summary. These recommendations suggest changes the Government of Liberia should consider if it is to take a more participatory role in the development of the private business sector in general and the SME sector in particular.

The next section on how Government perceives the SME sector will give insight on the characteristics ascribed to small and medium-scale enterprises, the relationship between the formal and informal sector, and some of the major problems facing SMEs. Government's role in the development of the SME sector is also discussed in this section.

The final section examines selected Ministries and Agencies that promote or regulate business activities in some form. They have been examined in this paper with respect to their objectives and structure, their activities relating to business, the issues and/or problems they currently face, and what plans they hold in the development of small and medium-scale enterprises. Treated in this section are: the Ministries of Commerce & Industry, Finance, Planning & Economic Affairs, and Agriculture. The Government Agencies relevant to SME development include the National Investment Commission/SME Department, and the Liberian Industrial Free Zone Authority.

C. HOW THE PAPER SHOULD BE USED

This paper should be read in conjunction with the SME Consultancy Team's Sector Assessment Report for submission to USAID/Liberia. It can be used as a reference for other reports by specialists who may have addressed the subject who may have addressed in some form the subject of SME development. An understanding can be gained of the relevant Ministries and Agencies involved in SME development with respect to:

1) their defined roles as inherent in their objectives (what each is supposed to do);

2) the current activities which define their present roles;

3) their ideal roles which would include any recommended plans and/or changes to facilitate business, and;

4) the issues and constraints facing each Ministry which hinders any of the above role categories.

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II. SUMMARY OF FINDINGS AND RECOMMENDATIONS

1. From the outset, it should be noted that there is an absence of clear and consistent long-range development objectives for the national economy. Government calls for increased involvement in agro-industrial, export-oriented, and labor-intensive endeavors, yet policies are not implemented on a formal, wide-scale basis to support these calls. The Ministry of Planning & Economic Affairs, while recognizing Government's specific objectives, should coordinate with the relevant arms of the Government to create an Economic Development Plan as one of the tools to provide the needed direction for the country. The Development Plan should have objectives that can be met with the proper time, manpower, and financial resources to help boost the current upturn in the trade and investment climate.

2. Government predominantly concerns itself with the overall policies affecting existing businesses such as registration, price control, inspection, and taxation. Policies within each Ministry or Agency may be well-intended, but are not implemented to their fullest due to insufficient manpower, financial, and logistical resources. These internal needs must be attended to order to effectively carry out their objectives.

3. Government mandates affecting business are primarily handed down to serve the interests of Government. The effects or impact of these mandates on the private sector are perceived differently and reacted to according to the needs of the various sub-sectors within the private business sector. A mutual approach of tax payments and collections to Government which can be felt through improved communications and road developments to facilitate doing business will help to serve everyone's interests.

4. The Ministerial budgets are at bare minimums and focus on the operational or administrative aspects of the Ministry itself. There is no allowance for comprehensive sectoral studies and surveys on trends or specific issues which should be carried out on a more periodic basis and provide an update much of the currently outdated information. Ministries should ensure that these important needs are carried within their overall fiscal budgets.

5. Government defines small and medium-scale enterprises primarily in monetary terms for both commerce and industry. A small-scale enterprise (SSE) is considered to have an annual turnover, fixed assets, or capital investment of $50,000 or

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less and usually employs between 1 - 10 persons.A medium-scale enterprise (MSE) is considered in the area of $100,000 or less. The changing times and conditions have in many instances affected the ability of the SMEs to raise these amounts which even varies within the business sector. Government should survey the various sectors to see how they can be flexibly categorized for taxes, incentives, and other such purposes.

6. It is estimated that SMEs account for a large part of the domestic business and agricultural activity in Liberia. However, little consideration is given to promoting this sector by attending to its special needs, particularly in the rural areas. Development programs are needed to assist SMEs obtain their needed inputs (i.e., capital, tools, technical assistance, road and transport networks which would, in turn, help Government to increase employment, stimulate rural development, decentralize industry, and redistribute income.

7. Government recognizes the need for growth of the SME sector,yet on the Ministerial/Agency level, there is little evidence of specific plans for active SME development. There is a need for more definitive policies on:

a) developing short to medium-range plans to serve as stepping stones toward longer-range policies;

b) identifying the priority sectors to target for development (such as farming, fisheries, and private industry);

c) developing a program of incentives to encourage those who want to go into these sectors, and;

d) implementing and monitoring the programs to continually support these targeted sectors.

8. The development of the SME sector is not only hampered by Government's internal constraints but also by non-governmental difficulties endemic to SMEs such as: inadequate business know-how and skills; poor use of information/marketing systems, and; inaccessibility to available credit facilities. Individuals must first recognize their limitations and seek the needed assistance. Resource groups such as the Chamber of Commerce, associations in their specific field of work and businessmen could be encouraged by Government to encourage others.

9. Each Ministry has specific objectives, activities, and problems in its daily operations. Each attempts to deal with business development from a single perspective. There is a

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fundamental need for increased coordination amongst the Government Ministries and Agencies to better lay the groundwork for improved business activities and for SME development.

10. Government should focus on building a database of information which would give more exact figures and classifications on business operations and eliminate unreliable estimations. A reliable database, which is currently lacking, would facilitate better policy planning, implementation and coordination amongst Ministries and Agencies of Government and provide the basis for trade promotion activities.

11. The Ministry of Justice and the Temple of Justice should collaborate to see how best they can improve the handling of debt cases in court. A restoration of confidence, willingness to lend and thus ability to borrow will greatly serve the financial and business sectors of the economy.

12. Government, as the country's largest consumer of goods and services, is not avidly supporting Liberian entrepreneurs or even its domestic industries, irrespective of nationality. An attitude of pride and patronage should be adopted to encourage an overall fair sense of competition and entrepreneurship.

III. GOVERNMENT'S PERCEPTION OF THE SME SECTOR

The private sector in Liberia consists of various sub-sectors or categories of business activities in the country: formal vs. informal, commerce vs. industry, large-scale vs. small and medium scale, import vs. export-oriented, food, animal, and forestry production vs. importation, and urban vs. rural-based. Any category can be interchanged with other categories to modify or specifically define the characteristics of an operating business. (i.e., a small-scale, export-oriented industry which is rural-based and operating in the informal sector.) The private business sector in Liberia is dynamic and is thriving in spite of Government's defined role of promoting and regulating business activities within these contrasting categories. Reference should be made to how Government perceives the small and medium-scale enterprises (SMEs) in Liberia and conversely, how the SMEs view and react to Government's role in the development of this specific subsector.

Government primarily views an SME in Liberia in terms of monetary size (amount of turnover or level of investment). Size is followed by type of activity, ownership, and location (urban or rural-based). The type of business techniques such as management and record-keeping skills, type of equipment used and production methods employed (traditional and modern) further distinguishes this category.

A. CHARACTERISTICS ASCRIBED TO SMALL AND MEDIUM-SCALE ENTERPRISES

SMEs are usually based upon the various needs of the owner and how he perceives the needs of the limited domestic market he attempts to attract. This needs-based view differs from the large enterprises who typically base their existence upon an interplay of the country's resources and wider-scale markets on both the foreign and domestic fronts.

Indigenous small-scale enterprises (SSEs) are viewed by Government as wholly Liberian-owned enterprises with maximum fixed assets of $50,000. This amount was defined by the World Bank and IMF as the gauge to give an international standard. It should be emphasized that this amount represents a ceiling under which many SSEs fall far below when searching for start-up investment capital. Government looks upon SSEs as having the following favorable characteristics:

1) requiring relatively low investment costs which can lead to quicker break even points. They can therefore prosper in small markets without incentive agreements, protection, and/or other forms of market exclusivity

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which is often sought by large-scale enterprises;

2) investment in SSEs is largely in local currency which is more readily available than foreign capital. Given the freeze on borrowing from traditional sources, the use of local currency is more appropriate.

3) generally more intensive in the use of local raw materials which thereby reduces the need for imports and foreign exchange requirements.

4) production technologies are relatively simple. Equipment may be simple in operation and easy to maintain and repair locally.

The Medium-Scale Enterprises (MSEs) are regarded by Government to have a larger monetary size of $100,000 or less. The MSEs can be placed on a notch below the balance between small-scale and large-scale enterprises. Many of their characteristics are mixed between the two extremes of small and large, but still may not be on the "sophisticated" level of the large-scale enterprises.

B. THE FORMAL VS. INFORMAL SECTOR

A description about how the Government views the formal vs. informal sector should be made not only to further characterize SMEs, but to clarify any misconceptions about their placement within the formal vs. informal sector.

The category of formal vs. informal sector distinguishes those businesses as formal which are individually registered with the Ministry of Commerce and Industry and pay taxes to the Ministry of Finance as prescribed by the Revenue and Finance Laws of Liberia. They are directly affected by policies within the formal system set up by Government to govern business activities in the country.

The informal sector contains businesses that are small in monetary size and is usually comprised of petty traders, craftsmen, market women and the like. They arise with seemingly little effort and sustain their own existence without having to directly interact with Government. These small businesses within the informal sector conduct their activities in an informal network of trade, industry, and banking since individually, they do not meet some of the criteria within a formal system.

To satisfy the objectives of doing business in a formal system required by Government, they may operate through common-interest associations set up to attend to individual needs.

Through a registered association, small individual businesses

become recognized collectively within the formal system (i.e., Liberia Marketers' Association, Woodworking and Carpentry Industry Association, Federation of Transport Unions of Liberia, etc.). It can be added that a properly structured and working association becomes the "government" for its members who adhere to the association's policies set within the framework of the overall Government.

The first tendency is to only look for SMEs within the informal sector since one may feel they are too small in monetary size and are unable or unwilling to pay the official fees required of them. However, SMEs are found in both the formal and informal sectors through direct registration and payment of taxes to Government or indirectly through registered associations who serve the interests of their members.

It is interesting to note that rural-based enterprises surveyed during the six-week study were particularly conscientious about business registrations. They wanted to ensure their legitimacy and solidify their ties with the central Ministerial offices by having their names as part of the official rosters. They also felt that by contributing their taxes to Government revenues, the plans for infrastructural development, which are meaningful to their very existence, would be realized. Furthermore, the payment of their legitimate registration fees would hinder any harassment from revenue agents who may or may not be serving the sole interests of their government employer.

As a result of the above, it would appear that both the small and medium-scale enterprises have the potential of playing a very effective role in the development process since by their very characteristics, they are in a better position to survive under the prevailing difficult circumstances of doing business.

C. MAJOR PROBLEMS FACING SMEs

Although the above characteristics present the framework for a potentially-thriving economy of SMEs, Government has been handicapped in taking on an active and positive role in their development. Government is aware of the following major problems confronting SMEs which hamper their current level of growth:

1) Lack of financing - money for loans may be available, but SMEs may not meet the stringent collateral or guarantee requirements imposed upon them by financing institutions in the formal system;

2) Poor management - inadequate planning, poor record-keeping and maintenance of stock, and improper use of resources lead to premature failures;

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3) Debt payment and collections - difficulty of collecting debts and meeting debt payments to enable a smooth turnover of profits;

4) Competition - can be viewed in terms of ability to sell products and services. Competition can be described in terms of large vs. small, foreign vs. indigenous-owned, imported vs. locally-made products, and the quality. Of significant interest is also competition seen as a proliferation of enterprises in the same line of business and serving the same small marketplace.

These problems have been identified by Government, international agencies, and groups within the SME. Government joins hands with other interest groups to sponsor training workshops, host conferences, and other such forums to address these problems. However, Government has not succeeded in tackling the root causes of these problems which lie in the very underdeveloped nature of the Liberian economy: the general lack of linkages, the preference for imports and resulting dependence on foreign sources for consumption. Government, as the biggest consumer of goods and services, perpetuates the problems through Government's low level of patronage of the SMEs.

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IV. ROLE OF GOVERNMENT IN THE DEVELOPMENT OF THE SME SECTOR

The private sector emerges from within the Liberian economy with its various supporting roles such as: providing goods and services to satisfy the domestic and foreign markets; creating work and training opportunities for the labor force, and; injecting needed revenue into the economy through the payment of taxes and fees prescribed by the Revenue and Finance Laws of Liberia.

Government, too, has various specific roles to fulfill in addition to promoting and regulating business. In developing SMEs, Government has to lay the proper foundation for the private business sector in general. Businesses feel that Government should concentrate its efforts in areas such as:

a) consistent and well-implemented policies to promote confidence and thus reduce the elements of uncertainty and risk;

b) infrastructural development such as increased road networks and improved utilities for commercial use, and;

c) educational and training facilities to improve the current levels of skilled manpower resources which may later be absorbed in the private sector.

For specifically developing the SME sector, Government would not only play a role in the aforementioned areas but would also focus on an assistance policy with suitable programs for:

a) identifying priority sectors for development;

b) offering incentives for people to go into these sectors;

c) outlining the criteria for obtaining credit facilities and offering repayment terms appropriate to their special category;

d) imparting managerial and technical training, and;

e) patronizing SMEs on a more vigorous basis.

The following section provides a description of selected Government Ministries and Agencies with respect to their objectives and structure, activities, issues, and their role in developing small and medium enterprises.

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A. MINISTRY OF COMMERCE AND INDUSTRY (MCI)

1. Objectives and Structure

The MCI is responsible for promoting, developing, and regulating all commercial and industrial activities in the country. The Minister is the chief administrative officer and is assisted by a Deputy Minister for Commerce and Industry and a Deputy Minister for Administration. The two deputies are assisted by three Assistant Ministers who administer the affairs of the following three major bureaus:

Bureau of Commerce: Monitors, controls, and regulates all commercial activities in the country. The Bureau consists of four divisions: Domestic Trade, Foreign Trade, Price Analysis & Marketing, and the National Commercial Inspectorate.

Bureau of Industry: Formulates and administers industrial development policies. It consists of the Industrial Development and the Industrial Administration & Supervision Divisions.

Bureau of Central Administration: Coordinates the administrative operations of the Ministry in the divisions of finance, personnel, and information services.

2. Current Activities Relating to Business

The Division of Domestic Trade registers and maintains records of all existing businesses operating in the country. Statistics for 1988 reveal the number of business registrations at 3,536 with 72% of the total accounting for sole proprietorships, 81% being located in Montserrado County (which includes the capital city of Monrovia), and 49% as Liberian-owned. The total number of registrations represents a 30% increase over the total in 1987.

The Ministry has been monitoring the business activities with respect to fair quality and adequate quantity of all commercial imports, issuance of export permits and analysis of exports and exporting locations, analysis of import documents to determine the fair prices of goods before reaching the consumer, enforcement of price control regulations, and inspection of new and existing businesses to ensure compliance with the regulations governing commercial activities. In the past year, the Ministry has conducted studies in: the distribution and sale of frozen fish and meat, the price structure for used vehicles, and the allocation of foreign exchange for the purchase of imported essential commodities.

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On the industrial side, MCI has been visiting local manufacturing industries to assess their problems so as to institute measures to assist them. The Ministry is working on a comprehensive industrial sector policy for Government's attention.

A tariff review on manufacturing inputs is being conducted by a specially-appointed Cabinet Committee. The intent of the review is to decrease the tariffs on these inputs to help decrease the costs to industries.

3. Issues Affecting the Ministry

The Ministry is currently monitoring the activities of almost 4,000 businesses in and outside of Monrovia with a skeleton staff of only 230 persons and inadequate logistical support for surveying the market and for reaching all businesses to properly monitor, promote, and regulate their activities.

The level of activity in the industrial sector is very low because of the scarcity of foreign exchange for imported raw materials, the increased cost of production, and the lack of a clear, coordinated industrial development policy.

Industries have brought the issue of what they term "double taxation" to the Ministry's attention. Manufacturers pay a duty on the importation of raw materials and then are requested to pay an excise tax on their inventories. Moreover, a manufacturer who is also an exporter pays the 25% export surrender to the Government.

The Ministry does not have the capacity to classify its registrations and other information pertinent to the creation of updated and true statistics. For example, there is no classification and thus no exact information on the current number of SMEs in the country.

The trade information services within the Ministry have declined due to the discontinued sponsorship of the United Nations Development Organization and the International Trade Center. The information services formed an important link in promoting Liberia's trade with the outside world.

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4. Role of the MCI in Developing the SME Sector

The issues facing private sector development and industrial policy development strategies continue to request the Ministry's immediate attention. As an incentive for small businesses to register, MCI has lessened the annual registration fees from $200 to $100 for the small entrepreneur.

As yet, the Ministry has no other specific policies for developing the SME sector. However, consultations have been held with an advisory mission of the United Nations Industrial Development Organization to assist in developing a program for expansion of this sector.

MCI has requested Government to re-examine the Investment Incentive Code to accelerate industrial growth and development as well as to encourage the promotion of SMEs. The Ministry calls for collaboration with the National Investment Commission and the Liberia Industrial Free Zone Authority to:

a) provide industrial information to potential investors;

b) protect against too much foreign competition;

c) give preference to local industries through a Government purchase program;

d) entrepreneurship development

B. MINISTRY OF FINANCE (MOF)

1. Objectives and Structure

The primary function of the MOF is the fiscal operation of Government. This entails revenue collection, budget expenditure, and debt management. The Minister of Finance is assisted by the Deputy Minister of Administration, the Deputy Minister of Revenue and the Deputy Minister of Expenditure. The Deputy Minister of Administration serves as Acting Minister in the absence of the Minister. The Deputies of Revenue and Expenditure are assisted by Assistant Ministers in their divisions. The Revenue Department of the MOF consists of three bureaus: Internal Revenue, Customs & Excise, and Income Tax.

The Economic and Financial Management Committee (EFMC) is an arm of Government which is responsible for coordinating the economic and financial policies of Government and advising the President on all matters relating to the management of the economy. The

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Minister of Finance and the Minister of Planning and Economic Affairs serve as Chairman and Co-chairman respectively of the EFMC. Other members of the EFMC include the Ministers of Presidential Affairs, of Agriculture, of Justice, and of Lands, Mines, and Energy. The Minister of Commerce and Industry and the Director-General of the Civil Service Agency are co-opted as permanent members.

The fiscal performance of Government affects its financial and monetary operations and developments as well as the successful implementation of its Economic Recovery Program. The Recovery Program includes the performance of the Concession Sector, State Enterprises, and Government's relations on bilateral and multilateral levels. The fiscal operations of the MOF influence the economic and financial activities of the private and public sectors.

2. Current Activities Relating to Business

Through the various divisions of the Revenue Department, the MOF collects revenues from the private sector in the areas of real estate & realty leasing, national identification cards, motor vehicles, income tax, corporation & partnership, national reconstruction, health, development & progress revenue, customs duties, transhipments, special releases & bonds, rubber sales, royalties on the gross sales of iron ore, diamond & gold, dividend and profit sharing revenue, and miscellaneous taxes.

Miscellaneous taxes consist of business trade levy, business registration, business occupation license, general alcoholic beverages, immigration fees, and labor permits. This category of taxes affects a wider proportion of the private sector than any of the other categories.

In addition to its administrative and monitoring functions in many areas, the EFMC prepares quarterly reports on the status of the economy. It monitors, evaluates and prepares project proposals. The proposals are primarily for infrastructural development projects in the country. Through its Secretariat, the EFMC also coordinates the activities of the Commodity Import Program (CIP), a grant agreement instituted in late 1987 between Liberia and the United States. Over a three-year period, $5M is being made available to finance imports from the United States.

The MOF monitors the activities of Concessions in the Mining, Agricultural, and Light Industry Sectors. Trends in production, prices, and exports for Liberia's natural resources of iron ore, rubber, forestry, and oil palm are studied in the mining and agricultural sectors. Exemption from customs duties serve as the investment incentives for selected light industries which are

importing machinery, equipment, and related spare parts; raw and auxiliary materials; excise tax on production; and corporate income tax.

3. Issues Affecting the Ministry

In the area of expenditure, the private business sector is seriously affected by the shortage of foreign exchange (FX). The large ratio of Liberian coin over the US currency in circulation is in excess of L$ 130M in 5-dollar coins. This gross imbalance contributes to a severe FX shortage and a critical demand. As a result of the FX shortage, coupled with the expansion in external debt obligations, Government has found it necessary to prioritize the rationing of its low off-shore receipts.

The demand for FX by both the public and private sectors exceeds the supply. Business enterprises resort to the parallel market to purchase FX at exchange rates above the official rate of one Liberian dollar to one US dollar.

In order to infuse FX into the system, all exporters are required to surrender 25% of their FX earnings to the National Bank of Liberia. Government feels that this scheme is needed to control the allocation of FX. However, this surrender scheme continues to experience several difficulties as the exporters feel that the 25% surrender is not contained in their original concession agreements, and that it serves as an additional tax on their earnings. In addition, all log exporters are required to pay their fees, taxes, land rental, and reforestation to the Forestry Development Authority (FDA) in FX. The MOF has no control over FDA and thus cannot fully substantiate how much FX is generated and could be made available through tax revenues. These problems have caused a marked decline in the amount of surrender funds from the export sector.

The MOF is noting a decline in total amounts of salaries, wages, and benefits to Liberian employees in the iron ore mining industry. The sluggish economic situation of the World Iron Ore Market has resulted in a reduced labor force in this industry.

The increased demand for rubber coupled with higher world market prices in the rubber industry has resulted in an increase in the total workforce. This increase is due to a reactivation of previously dormant rubber farms. The average monthly income of the Liberian employee remains far, far below that of their expatriate counterparts.

The MOF is looking at the aspect of privatization with the objective of reducing the present size and economically inviability of the State Enterprises sector. It is the view of

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the MOF that privatization should improve the operational efficiency and financial health of the enterprises through fiscal, financial, and private managerial reforms. Government would then limit its function to monitoring performance according to agreed and specific criteria.

4. Role of the MOF in Developing the SME Sector

The MOF has reviewed the policy decision by Government to lift the import restrictions on commodities which are already made available by local industries. The MOF is conducting a study to determine the potential impact of this policy measure on the national economy. The objective is to determine equitable protective tariff rates that would be applied on finished industrial imports to ensure fair competition between the imported and domestic goods while at the same time levying adequate customs duties and fees that would compensate for the value added contribution which would be relinquished from domestic production.

Measures are being taken by the MOF to protect government revenues and to serve as a deterrent against alleged harassment of business. All employees in the revenue service of Government are required to post a cash bond equal to three times the amount of funds normally handled in that collectorate or division. Moreover, the MOF has recommended that all revenue collectors be paid a monthly salary of at least $300 and that an incentive program be developed to encourage dutiful and honest revenue collectors.

The MOF has proposed eight projects to the Economic Recovery Program of the Economic Community of West African States (ECOWAS) to secure financing. The following projects have been submitted for consideration by donor agencies:

1. Kle-Mano River Road
2. Rice Seeds Productions for Small Farmers
3. Improvement of Telecommunications in Rural Areas
4. Rural Water Supply
5. Feeder Roads Construction
6. Promotion of Small Scale Medium Enterprises
7. Rehabilitation of Rubber Plantations

Two of the projects have been selected by ECOWAS for direct financing by the African Development Bank (ADB) and the African Development Fund (ADF). However, the status of these projects are not yet known. Due to the high level of debt owed to the ADB/ADF by Liberia, the relationship between Liberia and the ADB/ADF Group is at a standstill.

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C. MINISTRY OF PLANNING AND ECONOMIC AFFAIRS (MPEA)

1. Objectives and Structure

The MPEA is the overall monitor for the various Government Ministries. The Minister is assisted by the Deputy Minister for Administration and the Deputy Minister for Planning and Policy. Assistant Ministers head the three bureaus of Sectoral Planning, Rural Regional Planning, and Economic Affairs. The activities of the MPEA are in the basic areas of research and statistics, monitoring of agreements and specific projects, and overseeing budget allotments for the various Ministries of Government.

The MPEA is responsible for the drawing up and implementing the 3-year and 5-year economic development plans for the country. The policies and plans contained in annual and projected reports from each Ministry are approved by the National Legislature and subsequently turned over to the MPEA for coordination. It is the responsibility of the MPEA to monitor the development projects set by each Ministry, to approve their quarterly allotments, and to ensure that their quarterly achievements are within the overall national development plans.

Bilateral and Multilateral Agencies interact with the MPEA as the representative of the Government of Liberia. The MPEA also is the administrator for the PL-480 program, an agreement with the United States for the subsidized import of rice from the U.S. and its sale within the country.

2. Current Activities Relating to Business

MPEA has participated in a series of local seminars to discuss Government's macro-economic policies and how best they can be changed to enhance the environment for the development of the private sector. The Ministry has provided planning assistance to many self-help groups at the regional and county levels. An update and distribution of the Planning and Development Atlas was undertaken to standardize all county maps for effective socio-economic development planning. County profiles were prepared to discern the socio-economic conditions of the county and to assist in the planning of regional surveys. An attempt was made to encourage regional development by concentrating the limited resources at a particular service center. Saclepea, Nimba County was chosen as the pilot for the Service Center concept.

Personnel support from the MPEA and the Ministry of Rural Development (MRD) was provided to donor assisted projects in the rural water programs which encompassed the digging of wells and experimental latrines, installation of hand pumps, and animation

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and pump repair. The MPEA worked through the appropriate Ministries and agencies to establish cooperative development agencies and land resource assessment, and to monitor and evaluate all educational and training projects.

In 1988, MPEA collaborated with the National Investment Commission (NIC) in the collection of economic and technical data and the assessment of ten investment project proposals, monitoring of existing industrial enterprises such as mining, manufacturing, construction, commerce, and services. The Ministry also recommended that a portion of the Monrovia Industrial Park be allocated for small-scale enterprise development.

3. Issues Facing the Ministry

The MPEA has identified the following obstacles which need to be tackled in order to bring about needed structural adjustment changes: an inadequate development budget, the fiscal/foreign exchange systems, insufficient physical facilities, and an inadequate agricultural revenue base.

In 1988, projects were below expectations due to:

- low foreign disbursements due to Liberia's inability to service its debts;
- most lending institutions freezing loan disbursements;
- no policy governing revenue distribution between the recurrent and development budgets, and;
- monitoring and evaluation exercises hampered by lack of skilled manpower.

4. Role of MPEA in Developing SMEs

MPEA needs to establish certain mechanisms on improving the environment for private sector development. MPEA plans to strengthen the activities of a monitoring and evaluation unit within the Ministry to:

- compare the expended resources against attained development objectives;
- determine both the economic and social impact of any development program, and;
- discover the possible organizational obstacles which may affect successful implementation of projects or

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programs.

MPEA will help establish policies to make available for development a portion of the annual estimated revenue. Support for priority projects will be solicited by MPEA in the areas of agriculture, rural development, education, health, and population.

MPEA should assist in implementing the primary objectives of the Liberia's Fourth Country Program: improving management of the public sector; developing agriculture and the rural sector, and supporting private sector initiatives.

D. MINISTRY OF AGRICULTURE (MOA)

The agricultural sector has the potential to revive the depressed economy of Liberia. Approximately 70% of the country's population reside in the rural areas and two-thirds of the country's population depend on agriculture and related activities for their livelihood.

Given the national objective for agricultural development, the dependency upon agriculture in the rural areas, and the contribution agriculture can make on the Liberian economy, it is befitting to discuss the role of the MOA in contributing, whether directly or indirectly, to the development of SMEs.

1. Objectives and Structure

The MOA is responsible for implementing policies and guidelines, as well as offering technical assistance in support of the National development objectives of the Green Revolution for agricultural development throughout the country. The immediate objectives are to improve the socio-economic conditions for Liberia's subsistence farmers to earn adequate incomes through cooperatives and integrated development which will also help to reverse the high rate of rural to urban migration, to make more productive use of Liberia's agricultural resources while conscious of conservation practices, and to increase the agricultural output thereby ensuring self-sufficiency in food production. Various agricultural institutions such as the rubber factories, the Agricultural Cooperative Development Bank (ACDB), and several commodity corporations are instruments through which the MOA implements Government's agricultural policies and strategies.

The Minister of Agriculture is supported by an Assistant Minister/Special Assistant who conducts the office management affairs of the office. The following four departments, each headed by a Deputy Minister, comprise the activities of the MOA: Administration; Technical Affairs; Planning and Development, and;

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Regional Development, Research, and Extension.

2. Current Activities Relating to Business

The MOA has proposed the implementation of several preconditions to satisfy the Green Revolution Program: provide more credit to rural farmers; strengthen the marketing aspects of the Liberian Produce Marketing Corporation (LPMC); establish market facilities throughout the country for agricultural produce other than rubber and those handled by LPMC, and; provide initial capital investment for the establishment of at least two central agricultural estates.

The MOA currently monitors agricultural development projects in the counties which are assisted by donor countries. These include the Agricultural and Rural Development Projects in Bong County (BCADP), Lofa County (LCADP), and Nimba County (NCRDP). All projects focus on increasing smallholder production of rice and tree crops as well as providing infrastructural and social services.

3. Issues Facing the MOA

The many development projects in the country cannot be adequately monitored by the MOA due to its financial and manpower constraints.

MOA cannot focus considerable and sorely needed attention to soil suitability, dietary habits, and socio-cultural practices of people in the various parts of the country.

There is a critical need for effective local level organizations which can perform production and marketing functions. Presently, the various projects have taken on these tasks themselves. Support systems for agricultural sectors of input supply, marketing of output, extension, and credit have not been adequate.

4. Role of MOA in Developing SMEs

The agricultural research and development projects in the counties should be encouraged to promote the target agricultural sectors of inland, marine, and artisanal (small scale) fisheries, livestock and food crop multiplication, rice seed production, etc. Other SMEs such as the following could spin off of these central projects to develop the SME sector: advisory services, making of farm implements, building of small fishing vessels and the supplying of fishing gear. SMEs in agriculture would help disperse the highly skewed income levels which are presently to

the disadvantage of rural income earners and to encourage these dwellers to remain in the rural areas to develop their areas. Assistance to farmers would improve food production levels for self-sufficiency.

In order to ensure maximum participation of rural dwellers, the following incentives for production should be provided: credit and marketing facilities, acquisition of land for productive use, extension services, and the provision of improved farm inputs. Advisory and training services should also be set up by Government to curb the problems of food preservation and storage.

Government needs to serve as a catalyst for the private sector and research institutions, like the Central Agricultural Research Institute (CARI) and the University of Liberia College of Agriculture and Forestry, to provide these services to farmers and cooperatives, and rural enterprises. Government should also provide incentives to producers to export crops in order to maximize their returns from the world market prices for themselves and for the economy as a whole.

E. NATIONAL INVESTMENT COMMISSION (NIC)

1. Objectives and Structure

The NIC was created by an Act of Legislature in September, 1979 to coordinate the investment policies of Liberia and to efficiently promote a more effective conclusion of investment agreements related to all sectors of the economy. The Commission receives, evaluates, and processes all investment agreements in collaboration with relevant Ministries and Agencies of Government, The NIC is a semi-autonomous agency which reports to a Board of Directors from the Ministries of Commerce, Finance, Planning & Economic Affairs, and from any other Ministry or Agency related to the particular sector of investment (i.e., Agriculture, Mining, Forestry, etc.). It is the only agency of Government to guide and monitor investment proposals.

The structure of the NIC is comprised of the departments of Research, Project Appraisal, Monitoring, Administration, and Small & Medium-Scale Enterprises Development (SME Department). The main office of the NIC is in Monrovia. Branch offices of the SME Department of the NIC are located in Gbarnga, Bong County and Zwedru, Grand Gedeh County.

2. Current Activities Related to Business

The SME Department of the NIC was instituted by Government approximately 6 years ago to help develop the SME sector.

Currently, this department is catering to those who have requested project assistance in the areas of woodworking, carpentry, blacksmithing, animal husbandry, and restaurants.

NIC/SME activities are primarily in the areas of Industrial Extension Service and Training, and Product Marketing. Investment proposals are screened and appraised in accordance with the Investment Incentive of Liberia. Evaluation reports are prepared for the review of NIC's Board of Directors and technical committee.

The NIC is focusing more attention to provide managerial and technical assistance in an effort to promote indigenous businesses. For the period covering 1988, the NIC headquarters in Monrovia reports that out of 36 applications submitted, 14 projects were evaluated and approved. Six out of the 14 projects were implemented to a total investment of $6.4 million. The projects implemented provided total employment of approximately 130 persons, 90% of whom are Liberians.

3. Issues Facing NIC

There is a current freeze of 50% on the level of incentives to enterprises. This freeze was imposed by the Ministry of Finance when it was reviewing the concession agreements of all of its current investors in the various sectors. It has been in effect since the mid-eighties. The partial freeze has rendered the National Investment Commission powerless in the eyes of any potential investor.

Also, since the halt on the World Bank Loan Scheme (1987/1988), there has been a very low number of applicants. The NIC/SME branch in Gbarnga reported that 80% of their clients are now frustrated since NIC can no longer avail itself to their financial needs.

Other issues hindering the effectiveness of NIC are as follows:

- budgetary constraints did not enable NIC to aggressively pursue its objectives and promotional activities;

- the foreign exchange problem, caused a decline in the U.S. dollar value and the drop in world prices for Liberia's primary foreign exchange earners, and;

- the revised Investment Incentive Code has not yet been approved by the National Legislature. When approved, the Code would improve the current level of incentives granted to potential investors, (i.e., granting of an extension contract with incentives for an additional

period of up to years.

4. Role of NIC in Developing SMEs

NIC/SME is continuing in its efforts to:

a) redirect its investment promotion activities to encourage and develop small and medium industries;

b) provide managerial and technical assistance to existing Liberian entrepreneurs;

c) involve itself in Government's initiatives to push agro-based industries in view of Government's objectives of the "Green Revolution";

d) advise Government to create policies that would improve the investment climate of the economy;

e) target the area to promote industries which would: utilize a substantial percentage of local available resources, increase employment of Liberia, decentralize from the urban center of Monrovia and move to the rural areas for infrastructure development, and;

f) cooperate with all Ministries and Agencies of Government in implementing investment agreements.

Meanwhile, the Research Division of the NIC should continue to collect and disseminate technical information for the work of the Commission and for potential investors and entrepreneurs. Information should be researched in the areas of: identifying products that have potential development possibilities; analyzing industrial trends in the Liberian economy for domestic transactions as well as against the backdrop of other economies; reviewing the Investment Incentive Code with a view to advise Government about revising those aspects of the Code that need to reflect the changing business climate of Liberia, and; preparing brochures and other literature to reflect the business promotional activities of the Commission.

F. LIBERIAN INDUSTRIAL FREE ZONE AUTHORITY (LIFZA)

1. Objectives and Structure

LIFZA was established in 1975 to induce foreign investment, promote exports, increase employment and improve industrial technology through the usage of local raw materials. LIFZA is a semi-autonomous agency headed by a Chairman, General Manager, and

directors who collectively are accountable to a Board of Directors. The rules and regulations governing the admission of industries are drawn up by LIFZA in consultation with the Ministries of Commerce & Industry and Finance. The Administration of LIFZA acts on behalf of various government agencies in handling matters with the Free Zone.

2. Current Activities Relating to Business

LIFZA has the authority to plan, construct, and maintain all installations and facilities as well as to control all revenues derived from operations within its Zone. LIFZA provides exemptions from import and export duties on machinery and equipment; raw materials and semi-finished products; real-estate tax on buildings acquired by the Authority, and; corporate income tax for 5 years which payment thereafter would not exceed 25%. Buildings, complete with electrical and running water facilities, are maintained within the Zone as ready-made conveniences for potential investors.

3. Issues Facing the Authority

In its 14 years of operation, LIFZA has a meager portfolio of investors operating within its Zone. The projected goals set at its inception for attracting investment capital, generating export sales, and creating job opportunities were severely hampered by political occurrences which interfered with an otherwise stable investment climate.

The revenue generated from the low number of industries within the Zone is not sufficient for its administrative operations. Building rentals have increased to an average of $30,000 annually, yet the level of facilities and services has dropped.

As a result of the high annual rents, Government's mandate on the 25% surrender for exports, and a decreasing level of incentives implemented, LIFZA is finding it difficult to attract and even maintain investments with its Zone. One investor who had been initially attracted to the Zone for its incentives and export-orientation, recently moved because of his inability to reconcile the relatively few benefits received against his costs to maintain himself within the Zone.

1987 statistics on LIFZA show that after more than 10 years in operation, LIFZA reached only a small fraction of its projected goals: investment capital of $3.5M against $12M projected; export sales of $137,000 against $24M, and; total employment opportunities of 465 against 6,000 projected.

4. Role of LIFZA in Developing the SME Sector

LIFZA currently does not have plans specifically for developing the SME sector. However, LIFZA should consider the changed conditions which prohibit the competitive survival of most large-scale industries within the Zone. Given the nature of SMEs, it would behoove the Authority to re-examine its admission requirements with a view to encouraging the SMEs to set up their operations within its Zone. It could perhaps serve as a linkage for SMEs in one industry to serve another sector.

LIFZA should take note of the fact that compared to large-scale industries, the SMEs have low investment costs, invest in local currency, use local raw materials, and can survive better within the prevailing difficult circumstances.

LIFZA should pursue a program of attracting those enterprises that can meet a revised admissions criteria and incentives package to encourage an SME sector within the Zone.

V. THE IMPACT AND ROLE OF THE DEBT COURT

A critical issue the SME Sector Assessment Team encountered during its study was the lack of credit facilities available to commence and/or maintain this category of an entrepreneur.

Examining the situation, it was discovered that lending institutions were outright unwilling or found it difficult to deal with the risks which this category of business is generally known to bring into loan discussions. The main reason for this negative lending atmosphere is the familiar story that lenders are not able to collect on loans, even in cases where high collateral agreements were signed by the borrowers. The persons who secure the loans take out loans, whether in good faith or fraudulently, and are either not able or not willing to repay their debts. The very small percentage of those entrepreneurs who may have enjoyed a good payment record in previous years are now stifled by the dried-up coffers of loanable funds and the non-leniency of the lending institutions.

In discussions with the banks and other lending institutions, the ineffectiveness of the debt courts was echoed. It was felt that the debt courts were particularly ineffective in expeditiously handling matters involving debt and concluding debt cases. As a result, a lending institution elects not to lend out funds rather than face the usually time-consuming, costly, and cumbersome process of going to court. Instead, the business of lending has come to an abrupt halt. The lenders do not have confidence in the potential borrower and they express disappointment in the debt courts' handling of debt matters to obtain the appropriate judgement.

The problems encountered with the court system greatly influence the decisions of lending institutions to extend credit. Although established bank relations with a client may lessen the doubts, these institutions are generally deciding not to lend. Therefore in order to ascertain the impact of the debt courts on the decisions of lending institutions, it is prudent to examine briefly the problems in dealing with defaulting debtors under the existing Liberian Code of Laws and debt courts in Liberia.

A. THE DEBT COURT IN THE COURT SYSTEM OF LIBERIA

The court system is the way of deciding how government will use its power. The types of courts range from: Justice of the Peace, magistrate, circuit, debt, probate, labor, criminal, and supreme. A debt court is a special statutory court exclusively for hearing debt cases involving amounts of over $2,001. Cases involving less

than this amount are usually heard in the magistrate courts.

The courts are housed within the Temple of Justice and serve to execute the judicial branch of government. The Ministry of Justice does not house any court. The Ministry may go to court to represent the State in cases before the court. The Ministry is primarily concerned with criminal prosecution, and as such, sees the problem of debt collection as civil cases unless a criminal aspect is introduced.

These various courts are operable in the urban areas of Monrovia. In the rural areas of Liberia, two court systems prevail: the magistrate court and the "tribal" courts of the county paramount chiefs and clan chiefs. The magistrate courts are extensions of the urban-based magistrate court and hear cases that cannot be solved in the courts of the paramount and clan chiefs. In discussions held with a paramount chief and several clan chiefs, the "tribal" courts appear to be successful in informally getting parties together to resolve issues concerning debt, land disputes, domestic affairs, ethnic matters, and other such quarrels which warrant a hearing. The cases are heard by the chiefs and their appointed "jury".

The success of these courts basically have to do with the respected judgements of the chiefs and the desire for quick resolve since the parties involved do not want to be "embarrassed" in the eyes of their families or peer groups with whom they live.

If there is no satisfaction in the "tribal" courts, the matter is then presented before the magistrate court -- a court on an equal level as the "tribal" court. The case then becomes a civil matter recorded by the State. Usually, rural-based criminal cases go straight to the magistrate court in the area.

B. PROBLEMS WITH THE COLLECTION OF DEBT

When judgement is rendered against a person, that person is required to pay first, then appeal, if desired. However, banks and other lenders have experienced problems which influence their decisions in lending. Their views on the subject are as follows:

- There is no limit as to time length or as to how many times an appeal can be filed. Repayment is stalled when appeals are filed and until judgement in the appeals is rendered. In some cases, appeals overrule the original judgement.

- Only a small percentage of the outstanding debt has been collected.

- Procedures are too lengthy, costly, and in some cases, perceived as not worth the time spent away from their normal work responsibilities.

- Lenders are unable to evaluate credit risks due to their inability to obtain objective reports on credit. Unfavorable reports may lead to libel suits. The claimant in one case may turn into the defendant in a libel case stemming from information presented in the original case.

- The courts have weak means of exercising garnishments (legal deductions of wages or removal of other assets) to satisfy amounts owed by the debtor.

- The court system is inundated with problems arising from mishandling of filed papers by the court clerks, loss of papers from the docket, and any combination of problems arising from changes in scheduling, venue, judges, jury, and even lawyers.

- There has been little impact of the courts on unauthorized payments and conflicts of interests.

- The commercial law presently guiding the debt courts are outdated and full of technical loopholes which constantly test interpretation of the law and which interpretation may vary from case to case.

On the other hand, the view from the Ministry of Justice was that the problem of debt originates more from the lender than from the borrower. In discussions held with the legal counsellors of the Ministry of Justice, it is contended that a large number of debt cases would not be filed if the lenders had done thorough background checking on the borrower and on the genuineness of the borrower's collateral. Creditors do not provide sufficient information in order to study the case. Moreover, businesses are not conversant with commercial law and not aware of the credit and collateral instruments the law provides. In summary, these counsellors feel that sound judgement and thorough investigations <u>prior</u> to lending may avoid court cases later.

Under the above circumstances, from both the viewpoints of the lenders and the government, businesses generally have to cultivate good relationships and continually prove their credit-worthiness with lenders. For small businesses, this would be particularly difficult since many small business have inherent problems such as:

- They are difficult to find if judgement is rendered against them.

- There is poor, if any, accounting records to compile any credit records. They primarily operate on a cash, and not check basis. There is a lack of record keeping and proper management skills.

- There are almost no use of title documents, securities, and other forms of modern collateral.

- The commercial laws are not well understood by them.

C. PLANS TO IMPROVE THE PROCESS OF DEBT COLLECTION

Much of the problem in debt collection stems from the present commercial law which has not been revised over the past twenty years. It needs to be revised for content and context. The commercial law is currently being reviewed by the National Legislature and Judiciary. The new law will propose some changes to expedite debt cases.

- A small claims court would be set up specifically handle smaller debt claims that are currently being handled by the magistrate courts. A small claims court would not be a court of record which would expedite the rendering of decisions.

- Technical loopholes such as timing for filing of papers and scheduling of cases would be addressed.

- There will be a call for an immediate two-day appeal in which to take action about an unsatisfactory decision. If there is no appeal after two days, then the original judgement stands.

ANNEX V

CONSTRAINTS TO SME DEVELOPMENT

by Micheline Mescher

ANNEX V
CONSTRAINTS TO SMALL AND MEDIUM ENTERPRISE DEVELOPMENT

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I. INTRODUCTION

The Liberian economy is reputed to be a laissez-faire economy because the government has maintained a long-standing open door policy toward foreign investment. It is far from such from the perspective of Liberian businesses. While a laissez-faire economic philosophy must be coupled with free access to economic opportunities, all businesses do not have equal access. Some can take advantage of rent seeking -- profiteering by those with power to grant economic favors -- as a means to unfairly influence decisions.

Opportunities for profit making in the private sector abound because the country is extremely rich with natural resources. The government's policies and its officials' rent-seeking activities only increase the cost of doing business and create a great deal of risk and uncertainty for new investment. They define a complicated set of rules by which business is conducted in Liberia. Yet all of the difficulties that they create can be avoided or bypassed if one learns how to play within the rules of the game. As a matter of fact, many of the constraints are created to be bypassed. Many businesses in Liberia have done just that. They have used different techniques to survive and prosper in the present economic system. The majority have been initially foreigners to Liberia: Lebanese, Ghanians, Guineans, Indians, Chinese, Americans and Europeans. The indigenous Liberians have not been able to prosper as well as the other groups and remain mainly in agriculture. In business, the Liberians operate mainly in the small and medium enterprise sector.

While one could consider all of the factors that make up the rules of the game as constraints to businesses, many businesses have managed to transform these into challenges and have succeeded in spite of them. The Liberian SME has not been able to do as well. Three factors have impeded the Liberian SME from competing as successfully as other groups have: lack of skills and education, lack of organization, and lack of innovation and entrepreneurship.

This report is aimed at describing: (a) the rules of the game as defined by government policy, official and unofficial, (b) how different groups compete and succeed in the system, and (c) the factors responsible for the Liberian SME's poor competitive position. Avenues for improving the competitive ability of the Liberian SME are suggested for USAID's consideration.

II. THE RULES OF THE GAME

The economic system of Liberia is characterized by a major rift between "de jure" regulation (rules and regulations on the books) and "de facto" liberalism (a lack of regulations and economic constraints imposed by government). The system can be defined by three major characteristics:

(A) Economic policy making that results in a proliferation of regulations which are often determined hastily, not well implemented and often abrogated with the help of government officials;

(B) An "open door policy" which has allowed much foreign access to economic opportunities but has also allowed massive capital flight; and

(C) The lack of a strong judicial system to uphold business contracts and agreements.

A. ECONOMIC POLICY-MAKING

The economic system in Liberia is defined by a maze of regulations which make running a business extremely difficult and costly. Getting around these regulations is more the rule than the exception in this system and is expected by those that have made the rules. Given that the government does not have the capacity to implement many of these regulations, many are either disregarded or rescinded soon after being decreed. The recurrent desire to reserve certain sectors of the economy for Liberian ownership is the most noteworthy example.

The abrupt and temporary nature of policy-making creates great uncertainty and discourages new investment. When the economy is low and foreign exchange tight, policies become more restrictive. They remain on the books but are not enforced. Trade policy is an example. Import tariffs are changed often, depending on each Minister of Commerce's particular bias. The Minister of Commerce has changed several times in the last five years and trade policy has been greatly affected by these changes.

The widespread occurrence of rent-seeking activities by government officials is also a force behind economic policy-making in Liberia.

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1. The Official Regulations

There are eight major categories of taxes and regulations. All of these directly and indirectly affect small and large businesses in Liberia.

- Regulations on registering a business
- Taxes and occupational licenses
- Rules on the ownership of land
- Rules on the use of labor
- Interest rate ceilings
- Price controls
- Regulations relating to exports; and
- Regulations relating to imports.

a. Business Registration and Informality

All businesses in Liberia must register with the Department of Commerce which has branches in every county. Registration of sole proprietorships and partnerships is relatively easy and takes only a few days. After filling out an application at the Ministry of Commerce, the premises of the business are visited by the health, fire, and labor inspectors. Each application requires their approval before the license is issued. The fire regulations require that fire extinguishers be bought; the fire department has the monopoly on fire extinguishers. Health officials check availability of common facilities and labor officials check the validity of work permits for non-Liberian employees. Health, fire and labor norms and their enforcement vary depending on the type of business and the relative wealth of the entrepreneur. For small businesses the rules are relaxed and the process can be eased with $50 to $100. But for corporations, the rules are tight and rent seeking may involve thousands of dollars.

The registration fees have recently changed and are the following:

Corporations:	$400
Partnerships:	$400
Sole Proprietorships:	$100
Cooperatives:	$175

The Commerce Department has about thirty inspectors in Monrovia and two in each of the thirteen counties who make sure businesses register. The first offense will usually result in a warning; the official fine for further offenses can be as great as $10,000 although it is usually $200. The inspectors report that most of the offenses are made by urban businesses. It was also observed by our visit to Gbarnga, Zorzor, and Voinjama in Lofa County that the rural businesses were all registered, no matter how small. This may be due to the help of the Paramount Chiefs who have helped the authorities in the counties.

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Small businesses prefer being registered because inspectors extract money for their own account for the favor of not closing down the operation or confiscating the goods, or of giving an extension on the registration fee. In many cases these cash payments add up to more than the registration fee over the year. Those businesses which do not have the ready cash resort to paying off the inspectors, who come often in teams of two or three and as often as once a week. The team interviewed an informal mechanic who had just started in business with less than $1000 of capital who was paying between $100-$150 per month to avoid paying the registration fee and associated business taxes simply because he didn't have the cash. A furniture maker working from an abandoned building is paying $10 per week to inspectors and tax collectors to avoid being closed down. One street vendor interviewed is paying $2 per week so that inspectors and tax collectors will not confiscate his goods. Once an informal business applies for electricity, his record starts and he has no peace with the inspectors and tax collectors. Because the registration fees are affordable, and the procedures are relatively speedy, there are very few unregistered businesses in Liberia.

Informality has different definitions. The ILO and UNIDO definitions characterize informal enterprises as those that do not fit the traditional capitalist mode of business operation. In reality, informal businesses are a very heterogeneous group. Their occupations range across a spectrum of organizational forms from the very simple self-employed peddler who buys and sells on the street to microenterprises composed of several employees producing relatively sophisticated products for a larger formal firm. Their primary unifying characteristics are that they are run without the sanction or help of governmental institutions and are started with very little capital by people with low levels of education and only rudimentary job skills. Therefore we take the definition of "informal" to be an unregistered business operating without the approval of the Ministries of Commerce and Finance. Using this definition we have found that there are not many informal businesses in Liberia. The informal businesses tend to be concentrated in home workshops, in residential neighborhoods and itinerants who can move from place to place with less fear of being raided or fined.

The case of market vendors, tailors and transport companies are special because they are not informal, since they are recognized by the authorities as legal entities, nor do they pay license fees and taxes the way other formal firms do. They are represented by unions/associations which have won them recognition in the public eye without the cost of formalization which, for them, would have been excessive.

b. Taxes and Licenses

Only the central government has the power to collect taxes therefore businesses do not pay taxes to the county governments or the city governments. There are over twenty different general taxes collected by the Ministry of Finance. Taxes can be paid through the commercial banks or to tax collectors. Although the Ministry has more than 1000 collection agents, inspectors and revenue agents, collection of most taxes is difficult. With only 33 auditors in Monrovia and limited resources for verification of income tax returns, there is widespread tax evasion. There are also problems with tax collectors. For example, they often do not have means of transportation. They may have difficulty determining the amount of tax owed. And because government salaries are very low, they tend to pocket some of the moneys collected especially from those that do not have enough to pay the full amount owed. There are also problems in the customs department where agents can easily be swayed into falsifying the value and the amount of goods being imported and exported.

The taxes that provide the greatest revenue to the government, in order of importance, are the import duties, the individual income tax, the excise tax, the corporate and partnership income tax, the customs user's fee, and the tax on non-residents. Similar to registration agents, tax collectors are relatively efficient in taxing businesses in Liberia because they receive personal gain from making the rounds of all the businesses.

The Ministry is improving tax collection efforts by requiring that the collectors record collections, give receipts and hand in reports. They are also given certain targets by region for which they will receive bonuses. A national ID card system was instituted but not fully implemented therefore it cannot help the revenue agents catch income tax evaders. So far it encompasses only some of the government workers, which have their taxes withdrawn from their salaries anyway.

All of the taxes are described in detail in Appendix 1. The taxes a small business must pay include the following:

1. Business Occupation License: This tax is a yearly renewal of a license which only some businesses are required to have. It differs depending on the business. For example:

Liquor license (retail)	$50
Tailor's license	$50
Restaurant license	$30
Itinerant merchant license	$10
Prospecting license/precious minerals	$150
Diamond mining license	$450
Mining license/precious minerals	$100
Commercial fishing license	Ranges from $5-$225

2. Business Trade Levy: This tax is paid on gross revenues which is determined by inspecting bank records of the business. The tax is deductible from income tax and is paid once a year on March 31. It ranges from .05% or a minimum of $100 for service and manufacturing industries to 2% or a minimum of $2500 for banks and insurance companies. Wholesale and retail trade pay 1% or a minimum of $125. Professional occupations like doctors and lawyers pay 1% or a minimum of $30. The tax is deductible from gross income for the purpose of determining taxable income.

3. Excise Tax: This tax is levied on all goods manufactured in Liberia. It is 5% of the sales price or a $50 minimum. It is paid monthly. The tax is deductible from gross income for the purpose of determining taxable income.

4. Income Tax: The income tax for individuals, sole proprietorships, and partnerships is graduated from 11% on taxable income under $2000, rising to 65% on income above $99,000. Corporate tax rates start at 20% on income up to $10,000 and rise to 50%.

5. Social Security Tax: This tax is supposed to be split evenly between the employee and the employer but is often paid by the employer as a benefit. It is 6% of the wage bill.

6. Miscellaneous Tax: A tax of 3% of net income is levied from all businesses.

7. Local Tax (Development or Progress Tax): Although this tax is supposed to be paid by the employee, it is often paid by the employer. It is a flat $10 per person gainfully employed in Liberia.

8. Real Property Tax: The tax touches land and buildings. In the city, the tax on a parcel of unimproved land is 5%, improved property for commercial purpose is 2%, improved property for industrial purpose is 1%, improved property for residential purpose is .05% of the assessed value which is updated every 2 years. Farmland is taxed at 5 cents per acre with a minimum of $5 per parcel.

9. Realty Lease Tax (Coast Guard Tax): The tax of 10% is levied on all rents paid. The tax is withheld from the rent and paid by the lessor of the land.

10. Motor Vehicle Tax: An annual tax is paid on all vehicles. Taxes on commercial vehicles range from $96 for business cars, $156 for taxis, $204-$252 for buses. License plates cost $10 per year.

Table 1 on the following page demonstrates the incidence of the major business taxes (the business trade levy, the excise tax, the income tax and the real property tax) on private enterprise. It is apparent that the tax system significantly disfavors manufacturing enterprises, especially the small and medium ones. Small commercial enterprises are taxed 41% less than manufacturing ones and medium commercial enterprises are taxed 39% less than manufacturing ones. For large enterprises, the differential narrows to 19.5% and for giant enterprises the difference is only 12.3%.

The tax burden for small and medium enterprises is approximately 28% of their gross income. It rises to 46% for large, incorporated businesses. All of this analysis assumes that businesses are paying the taxes as per the tax code. There are, however major differences between what a business should pay and what it actually pays. The difference arises, as mentioned above, from the fact that businesses don't declare their incomes. The large ones falsify the figures, the small ones don't keep any books. Another major factor is due to the collection agents who can be swayed to overlook the tax liabilities of a firm.

The tax bite is shown in Figure 1 where the incidence of taxation and unofficial payments is shown as a proportion of the enterprises' gross profits, according to the size of the enterprise. These figures are approximate and a result of the subjective judgment of several knowledgeable business people in Monrovia.

The figures shows that the tax burden is heaviest on the medium enterprise and the concession holders. The small enterprises pay less than they ought to because they have no books to verify their incomes and the large enterprises pay less because they falsify their books. Both will tend to spend more in unofficial payments, however. The medium sized firm is keeping books and can afford to pay the taxes which are not very high at this level (around 28% if it is a manufacturing enterprise and 17% if it is a commercial or service business). It does not have the knack for falsifying the books as well as the larger enterprise and gets less involved in paying unofficial payments. The larger enterprise can afford higher unofficial payments and pays very little tax. The giant company, i.e. the concession holder with assets greater than US$ 1 million, is held accountable by its home government and cannot freely engage in corruption the way the smaller private companies can. It is more limited in its ability to show losses and carry them forward therefore it pays a higher proportion of its gross profits in taxes.

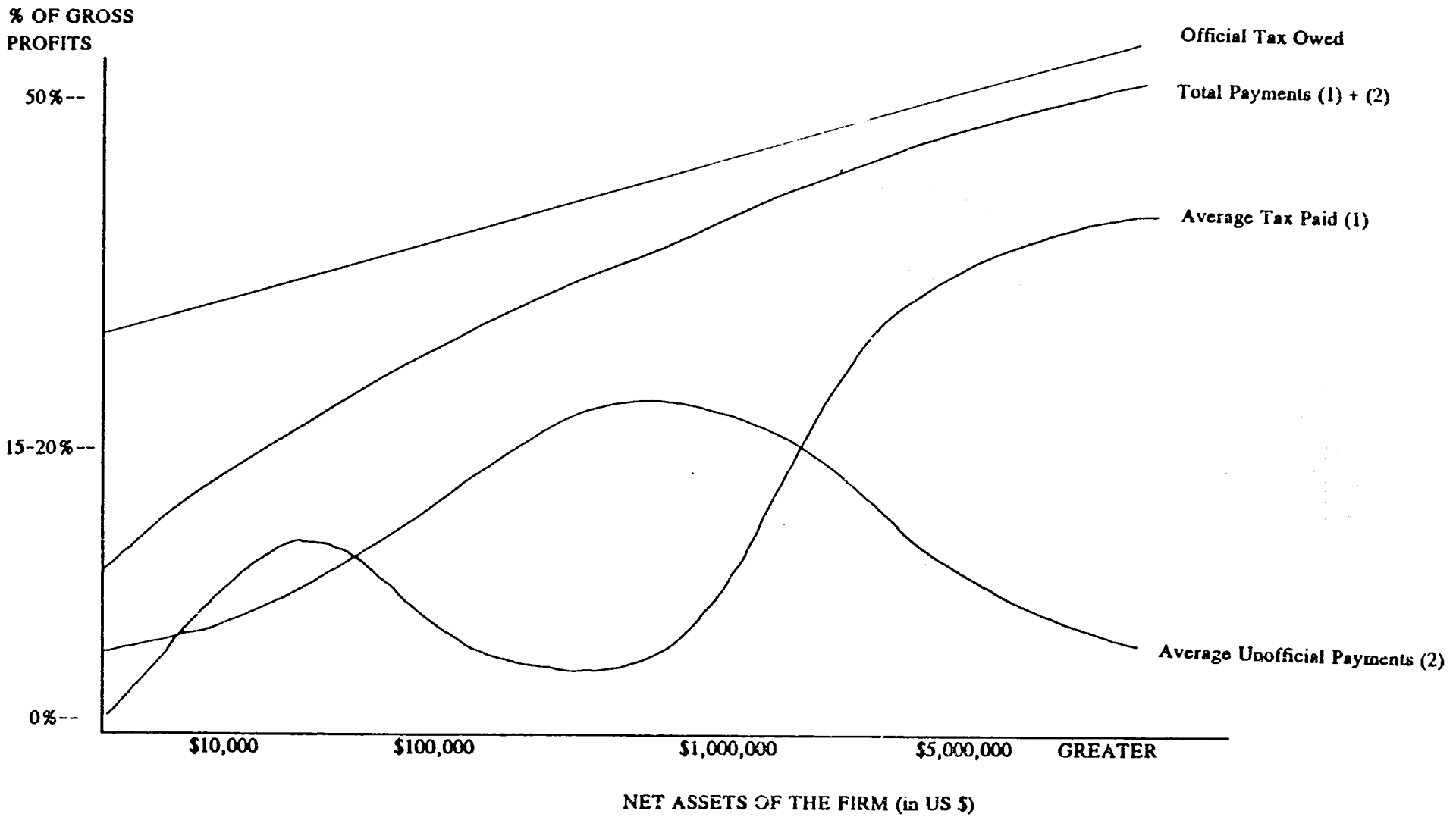
Comparing the total amount of actual payments to the official tax owed, as calculated in Table 1, one can see that engaging in unofficial payments is more rewarding to a small and medium sized firm than it is for the larger firms; i.e. the difference between

TABLE I

INCIDENCE OF TAXES ON PRIVATE ENTERPRISE IN LIBERIA

SIZE OF BUSINESS:	SMALL		MEDIUM		LARGE		GIANT	
TYPE OF BUSINESS:	Manufacturing and Services	Commerce	Manufacturing and Services	Commerce	Manufacturing and Services	Commerce	Manufacturing and Services	Commerce
ASSUMPTIONS:								
CAPITAL	$5,000.00	$7,000.00	$10,000.00	$15,000.00	$50,000.00	$75,000.00	$250,000.00	$375,000.00
SALES VOLUME	$7,500.00	$10,000.00	$15,000.00	$20,000.00	$75,000.00	$100,000.00	$375,000.00	$500,000.00
GROSS INCOME	$2,500.00	$2,500.00	$5,000.00	$5,000.00	$25,000.00	$25,000.00	$125,000.00	$125,000.00
PROP VALUES	$1,000.00	$1,000.00	$3,000.00	$3,000.00	$30,000.00	$30,000.00	$75,000.00	$75,000.00
TAXES OWED:								
BUS TRADE LEVY	$100.00	$125.00	$100.00	$200.00	$375.00	$1,000.00	$1,875.00	$5,000.00
EXCISE TAX	$375.00	$0.00	$750.00	$0.00	$3,750.00	$0.00	$18,750.00	$0.00
INCOME TAX	$223.25	$268.75	$499.50	$584.00	$5,262.50	$6,200.00	$36,187.50	$44,000.00
PROPERTY TAX	$10.00	$20.00	$30.00	$60.00	$300.00	$600.00	$750.00	$1,500.00
TOTAL TAX	$708.25	$413.75	$1,379.50	$844.00	$9,687.50	$7,800.00	$57,562.50	$50,500.00
TAX AS % OF INC	28.33%	16.55%	27.59%	16.88%	38.75%	31.20%	46.05%	40.40%

FIGURE 1
EFFECTS OF GOVERNMENT TAXATION AND RENT SEEKING ACTIVITIES
ON LIBERIAN PRIVATE SECTOR ENTERPRISES



Source: Result of interviews, May 1989.

the total tax owed and the total actual payments is greater the smaller the enterprise. Although the return is greatest for the small enterprise, it is least able to afford these payments.

c. Ownership of Land

The ownership of land remains the sole domain of citizens of Liberia. Foreigners cannot own land even though those of Negro descent can become citizens. Lebanese and Indians have been rejected both Liberian citizenship and ownership of land. That has not stopped them from leasing land from Liberians. But leasing land does not provide the needed certainty required to invest in durable structures. Not being assured full ownership, foreigners are reluctant to build for fear of having the structures revert legally back to the owner of the land after the lease is expired, especially in view of the fact that Liberians are reluctant to give leases of longer than 20 or 30 years.

This rule has implications for all land, rural and urban, except that offered to a concessionaire. As with all the other rules, exemptions are made outside of Monrovia.

d. Use of Labor

There are no major rules on the use of local labor except that the employer must pay social security benefits. The use of foreign labor is not restricted but foreign workers must obtain a worker's permit from the Ministry of Labor. It is not hard to get. Employers who employ illegal workers are subject to a fine and run the risk of having the businesses closed. Labor inspectors make the rounds of businesses in the same way as tax collectors and Department of Commerce inspectors.

e. Interest Rate Ceilings

Banks are subject to the usury law which limits interest rates to 25%, and have put a 14% ceiling on commercial loans regardless of the rate of inflation, the cost of financing, risk and uncertainty. Hence most banks have greatly reduced the amount of lending they do to private individuals and businesses without secure foreign collateral. Domestic collateral is no longer viewed as valid because it is difficult to appropriate due to the undependable nature of the judicial system.

f. Price Controls

The Ministry of Commerce controls wholesale and retail prices of all commodities. Increasing the price on any good requires the approval from the Minister. The granting of a price approval by the Ministry of Commerce can cost a company up to $5000. Presently, however, the system is relaxed and only the prices of some essential commodities, medicines, auto parts, agricultural

implements and construction materials are being monitored by the Ministry. The controlled price is determined by adding an allowed margin onto a cost declaration. The margin is based on turnover frequency: wholesale foods - 10%; retail foods - 10%; retail clothing -25%; wholesale clothing - 20%; spare parts - 100%.

To take into consideration the "de facto" devaluation of the Liberian dollar, the allowed price markup for importers has been 100%; for manufacturers, it has only been 30% to cover the portion of their costs that has necessitated foreign exchange. This severely disfavors manufacturers with a high proportion of imported inputs such as assembly-type operations. All but five large manufacturing enterprises in Liberia fall in this category.

g. Import Taxes and Regulations

Imports are readily available in Liberia. They have created an important source of competition to local manufacturing when bans on the importation of domestically produced goods were lifted in April/May 1987 and the import surcharge of 20% was reduced to 10% of the c.i.f. value of goods in September 1987. Imports are now subject to the import tariff, the surcharge and a customs user's fee of 7.5% on duty-free and transhipment goods, 5% on duty-paid goods, and 1.5% on essential duty-paid goods.

The import tariff has been a major source of contention between those who favor protection for domestic industry and those who prefer to let market forces play. The tariff and surcharge are the domain of the Ministry of Commerce although they can also be changed by the Ministry of Finance, whenever seen fit. The procedure for changing a tariff does not require that a law be amended, hence it is done frequently. The Liberian Tariff Commission is empowered to study tariff related issues and act as a consultative body to decision makers.

The present tariff code tends to favor imported goods against domestically produced goods. Many inputs bear a higher tariff than the finished product made from them. In other words, the tariff structure actually provides negative protection for domestically produced goods.

To limit underinvoicing, a preshipment inspection scheme was put in effect and operated by the Societe Generale de Surveillance. The scheme was operating well until recently when the government couldn't find the funds to pay for the service. It was originally to be paid from the import permit which charges all importers 1.5% of the invoice value; the import permit fee is still being collected by the National Bank of Liberia.

h. Export Regulations

In June 1986, as a measure to repatriate more foreign exchange, the government decreed the 25% Foreign Exchange Surrender Act that required all exporters to surrender 25% of their export earnings in foreign exchange to the National Bank of Liberia. This system has not worked well in recovering foreign exchange because many exemptions have been formally given and implementation has been lax. The government has not always had the local money with which to buy the foreign exchange. Customs, which is notorious for being the weak link in the system, is ultimately responsible for enforcing the regulations.

An export earnings declaration form is required of all exporters. The bureaucracy involved in getting this form is extremely heavy and requires the signature of the Minister of Commerce and authorizations from the National Bank of Liberia, the commercial banks, and the customs. For timber exports, besides the Forestry Development Authority's authentification, the Ministry of Justice and the Vice President's Office must get involved. The more profitable the activity, the more layers of bureaucracy are created to give rise to rent seeking activities.

In January 1989 an executive decree instituted a compulsory scheme in which all exports should be paid using letters of credit supposedly to improve the enforcement of the 25% surrender scheme. The measure has passed the legislature but has not yet been enforced. Because this measure will create added costs to the export process and will disfavor many exporters who do not have firm links with importers, it will disproportionately affect the smaller exporters. There has been a large outcry from the whole business community against the measure.

An export license is required for some commodities and there are export duties on timber, minerals, and rubber.

2. The Temporary and Abrupt Nature of Policy Making

Economic policy-making is presently the domain of the executive branch of the government. Since 1988-1989, only two bills have been passed by the legislature and one was the budget. On the other hand, most of the decrees have been issued by the executive branch. Ministers have the authority to dictate policy as does the Executive Mansion, i.e. the President and his cabinet. These are immediately undermined because the government on the one hand grants formal exemptions and, on the other hand, cannot implement many of the measures it decrees because of weak administrative controls and lack of manpower. This has been the case with the SGS import inspection scheme, the 25% foreign exchange surrender scheme, and other policies.

Other policies are not official but are applied in an ad hoc manner to particular companies. For example, the Ministry of Finance has recently required that some companies pay their taxes in foreign exchange. In some cases it is requiring companies to surrender more than 25% of its foreign exchange earnings.

The Liberianization scheme is another example of rash policymaking. In the name of helping the indigenous small businesses, the policy, which is still on the books of the Ministry of Commerce and dates back to 1979, announced that in certain industries in Monrovia all foreign businesses of less than a certain level of inventory were to be relinquished. They were given very short notice and many were evacuated forcibly. The policy was partially implemented and businesses were turned over to Liberians but it was abandoned after the coup of 1980.

Similar abrupt policies have affected small enterprises in Monrovia. Today a system of zoning is now forcibly relocating many small businesses, mainly Liberian, from their original place of work to other designated areas of the city. Although zoning is a very positive policy, the people are given no warning and have no previous knowledge of this policy. Without more than 24 hours' notice, small businesses are vacated from certain sections of the city and their temporary structures razed to the ground in the name of keeping the city clean. The capital, inventory and stock of many informal enterprises have been lost due to this policy of the Monrovia City Corporation.

3. Rent Seeking Activities

The need to expend unproductive time and money to compete for either exemptions from regulations or for access to lucrative business opportunities inflates the cost of doing business and biases the outcomes in favor of those businesses which are willing and able to pay for favors. Rent seeking by government officials occurs systematically throughout the government because public sector wages are low, are subject to periodic pay cuts and deductions for special events, and are often paid with more than a month's delay. Hence government officials must compensate for their incomes by other means while remaining on the job. Others have occupations on the side which take time away from their public duty. The system is perpetuated as new officials see other government officials who use their positions of power for personal gain.

This aspect of the economic environment increases the cost of doing business for enterprises that are affected by the government; that is, all enterprises in Liberia. The unregistered small business faces constant extortion from inspectors and revenue agents, as described and quantified above. Large companies bidding for lucrative supply contracts and favorable tax free status feel

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compelled to pay large amounts of money to government officials. Figure 1, above, approximates the cost of rent seeking to private enterprises according to their size.

Starting a new, large enterprise used to cost $15,000 to $20,000 in unofficial payments before 1980. Now it is estimated to require at least $100,000 in extras to begin a new investment program where investment incentives are being sought.

In conclusion, the regulatory system increases the cost and risk of doing business. These must be either absorbed or reduced by private business. Profitable businesses can absorb these costs and risks, the organized and politically powerful businesses can reduce them. The effect on the SME is very negative, however, since it is neither profitable enough nor powerful enough to absorb or reduce the effects of government taxation and regulation.

B. THE OPEN DOOR POLICY

The second important characteristic that defines the rules of the game in Liberia's private sector is its long-standing open door policy which began in 1926 when the Firestone Tire and Rubber Company agreement was signed. Previously, policy was designed to protect indigenous business from external control. Since then, many foreign nationals have moved to Liberia to reap the benefits of the country's rich resources. The open door policy is characterized by the support the government has given to foreign investment by: (1) providing generous investment incentives; (2) opening all private industries to foreigners; (3) providing concessions of land for mining, timber and rubber to any business willing to pay for them; (4) putting no restrictions on the hiring of foreign technical and managerial employees; (5) allowing full repatriation of profits and employees' savings; and (6) allowing a free flow of foreign exchange.

This policy has attracted many foreign nationals in both the concession sector (timber, rubber, and mining) and other parts of the economy. The Lebanese are the largest group of foreign investors who have settled in Liberia. There are many investors from Europe, the United States, India, China and other West African nations who have now settled in Liberia. Many large ventures have not worked out.[1] However the few large ventures that have, have done very well especially in rubber and timber. Those firms that have gotten involved in smaller businesses, such as those of the Lebanese community and Indian community, have thrived.

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[1] Clifford Flemister, Strategies for Industrialization by the Year 2010, Report presented at the UNIDO Symposium, September 1988.

Investment incentives are given for any major investment for the five initial years of the investment through an investment incentive contract. The contract will give 90% duty free privileges and a 50% exemption from income tax. The contract is negotiated with the National Investment Commission, a semi-autonomous body. Normally, the Commission will have the authority to negotiate a contract and approve it without the approval of any Ministry for all investments of less than two million dollars. Larger investments seeking incentives must have the authority of the Minister of Finance and must be presented to the National Planning Council.

In reality, however, there are many problems with the investment incentives contracts. At times, the Ministry of Finance will not honor the benefits it provides. In 1987, the duty free exemptions were revoked, in an ad hoc manner. The investors were not warned that they would have to pay the whole duty until they picked up their goods at the customs. They were expecting to have a 90% exemption. This was changed, later in 1987, to a 50% exemption and stands as such to date even though the investment incentive code and the contracts in force stipulate a 90% exemption.

While investment incentives are not conditional on any minimum size of investment, a conscious policy is being implemented to avoid granting tax breaks to local enterprises. This is the result of a general tightening of the budget which has affected all enterprises. The government can no longer afford to give up much needed revenue and is squeezing all possible avenues for extra funds. However, the enterprises which can afford to pressure politicians have done so and have enjoyed privileges which would otherwise be rescinded. Such are the large foreign firms. The Liberian Marketers Association and the Federal Transport Union have also obtained tax free privileges for their constituents due to their political strength, as described below.

Large investments in the concession sector (timber, mining, and rubber) have been able to receive even more interesting incentives. For five years they do not pay income or excise tax and can import their machinery and equipment 100% duty free. They however must pay royalties on the value of their production.

The tax law of general application, the investment incentive contracts and the concession contracts stipulate that losses can be carried forward over a period of five years. Notwithstanding the investment incentives, this law has caused much loss in revenues for the government. Many large businesses understate their incomes and use depreciation to create losses which are used to shelter incomes of future years. For the last two years, the large iron ore mining operations, which produce the country's most important export product, have paid no taxes under this arrangement.

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The overly generous incentives that have been allowed to foreign firms have deprived the government of much needed funds. In consequence, the government has had to default on its obligations to its employees, local governments, suppliers, and creditors. This is a shift of the tax burden directly from the large foreign firms to the Liberian public and government employee. This has caused a slump in the internal demand for goods and services, directly affecting the Liberian small and medium enterprise which caters principally to this market.

A second aspect of the open door policy is that all industries are open for participation by private foreign businesses except certain ones now monopolized by state-run enterprises: the marketing of cocoa and coffee, the production and distribution of electricity and water, palm oil products, among others. The Liberianization policy of 1979, aimed at the smaller foreign businesses, was dismantled after the coup of 1980 and there is little interest in the government for reinstituting it although it remains on the books as a policy goal.

The open door policy allows free entry of expatriate employees. The Lebanese and Indian communities have made very heavy use of this privilege, bringing in their families to settle in Liberia. They are now well established in many businesses but mainly dominate retail and wholesale commerce. As a result of this aspect of the policy, almost 5500 foreigners were legally registered with work permits in 1985 and the ILO estimates that the actual number of expatriates working in Liberia was close to 40,000[2]. The Indian and Lebanese have created a strong support system which has greatly helped the newly arrived family members with capital and training.

Another aspect of the open door policy is complete repatriation of profits. It is now encroached only by the 25% foreign exchange surrender scheme which does not really restrict repatriation of profits since the proceeds can be used to pay for local costs: the government pays the enterprise for the foreign exchange at the official exchange rate. There have been problems in the government's ability to pay local money for the foreign exchange being repatriated, so companies have been allowed to deduct some of their foreign exchange requirements from their quota or to assign their foreign exchange to other firms in need of foreign exchange, at the official exchange rate.

Due to the minting of the Liberian dollar and its devaluation relative to the US dollar (since 1985), the open door policy which has allowed the free flow of foreign exchange has allowed large

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[2] International Labour Organization, Private Sector Development in Liberia: Challenges for Employment Promotion in the Urban and Rural Informal Sectors, Addis Ababa: JASPA, 1988, p. 67.

capital flight from the country. The difficulty and cost of getting foreign exchange is now being felt only by those firms that have no access to the export sector, no good relationship with the formal banks, and little political influence with the people in government who have the power to provide foreign exchange at the official rate. That is, the Liberian small and medium enterprise, among others.

While the open door policy has attracted many foreign investors and is inherently a positive policy instrument for growth; coupled with the uncertain environment caused by other factors, it has had very negative repercussions for the small and medium enterprise.

C. THE LEGAL SYSTEM

Although this topic is being covered in detail by Thomas Rasmusson[3], it is important to mention the role that the legal system has on the rules of the game in the Liberian economic system and how it affects private business. The Liberian judicial system is dysfunctional with respect to commercial law. This has added much risk of damage and injury to the conduct of business in Liberia. It has ultimately hurt the small and medium business.

When property rights, contracts or extracontractual agreements cannot be supported by a functioning legal system, the economic system can no longer make use of conventions that facilitate business but involve a certain level of uncertainty. These may include a checking system, credit, and higher levels of financial intermediation such as a capital market; risk-sharing conventions such as joint ownership of property, partnerships, and specialization of employment. When the legal system cannot dispel that uncertainty, these conventions are no longer used or their cost becomes exceedingly high.

For example, the cost of credit has become much higher than the expected economic returns from the projects and the legal interest rate ceilings. Therefore banks have stopped providing credit to enterprises, especially the small and medium enterprise which tends to be more costly and risky. Credit by suppliers has also increased in price. Suppliers have resorted to the use of the Limited Power of Attorney system of payment that ensures payment by giving the supplier the right to tap the purchaser's paycheck until the good has been paid for. The price of using this credit scheme has reached more than 100%, that is, the price of a good purchased under this scheme can be double the cash price.

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[3] Thomas Rasmusson, Study of the Liberia Laws and Legal System Respecting Commercial Law and Debt, USAID internal document, March 1989.

To reduce the risks caused by a lack of enforcement of economic rules, the use of intermediaries to get official protection has increased. The need for commissions has increased, hence the inflation in rent seeking activities. This method of compensating for the lack of security is therefore becoming less affordable by small enterprises.

To a certain extent some small enterprises have been able to reduce risks through the formation of unions which have been able to gain political acceptance and thereby increase their bargaining power. This is described as a competitive tactic below. Small businesses have also limited themselves to hiring family members and relatives rather than more experienced or specialized outside labor which could have been more efficient, but is the less risky alternative.

Hence it is the small enterprise, in need of loan capital and with no political negotiating power, that has suffered the most from the lack of a functioning legal system. The greatest effect to the economy, however, is the negative effect it has on investment, both domestic and foreign.

III. COMPETITIVE GROUPS AND THEIR STRATEGIES

As noted above, Liberia's economic system is extremely complicated because the government has created many rules; it has also allowed the private sector to get around them by using many different strategies. These strategies and the type of competition that results is the subject of this section. Many strategies have already been referred to in the context of defining the rules of the game. They will be explained here in the context of competitive strategies. We look at competitive strategies for two reasons. One reason is to see how the constraints posed by the rules of the game have been used to benefit particular competitive groups and how that has affected Liberian small and medium enterprises. The second reason is to find out what are the factors that have helped certain groups of firms succeed in that environment.

To understand competition in the Liberian private sector, one needs to look at competitive groups defined by their origin and their industry. Within a competitive group, strategies tend to be the same. Foreigners have tended to create strong ties within their own communities which have served their business needs as well as their social relationships. They tend to get into similar lines of businesses as well in order to create a strong support system. Levels of education and the level of physical capital they will accumulate and invest in their business tends to also be the same within competitive groups. This has a direct relation on the size of the firms they will run in each industry. Therefore, to understand competition in each sector one must look at the makeup of each sector of the economy in terms of the size of the firm, the nationality of the ownership, and finally the size distribution of firms of each nationality.

In so doing we find that the majority of small businesses are run by the Liberians and other West Africans and that these businesses concentrate on market selling; small scale manufacturing; construction; services such as cookshops, bars, clinics; and transport. The larger firms are dominated by Indians and Lebanese and concentrate on construction, large scale manufacturing and commerce. Medium scale businesses are run by a mixture of African, Lebanese, and Indian entrepreneurs in all of the different sectors listed above. The giant enterprises, the large wholesalers and concession holders, are predominantly Europeans and Americans.

There are many different reasons behind these patterns which, in the long run, are the natural outcome of the human and physical capital that each group has brought to bear on its competitive environment. Lebanese and Mandingo Liberians have a natural tendency toward commerce; many Ghanians, being natural fishermen, came to Liberia for better fishing grounds; Americans and Europeans that have great amounts of capital to invest have come for the

natural resources with which they want to supply their home countries.

The analysis of competitive groups and strategies is amplified further by sector below. It is the result of four weeks of research that was done through more than eighty interviews in Monrovia and Lofa County and is summarized graphically in Figures 2, 3 and 4 on the following pages. They describe the size distribution of firms by sector and by origin of owner, and the composition of each sector by origin of owner. The numbers used to make up these figures are approximate, derived from the judgment of many knowledgeable business people in Monrovia belonging to each of the different competitive groups. All of these figures are drawn to give an approximate understanding of the relative standing of the different competitive groups and are not to be interpreted as exact representations of magnitudes. That is, this analysis is meant to be ordinal rather than cardinal in nature.

A. AGRICULTURAL AND RESOURCE-BASED INDUSTRIES

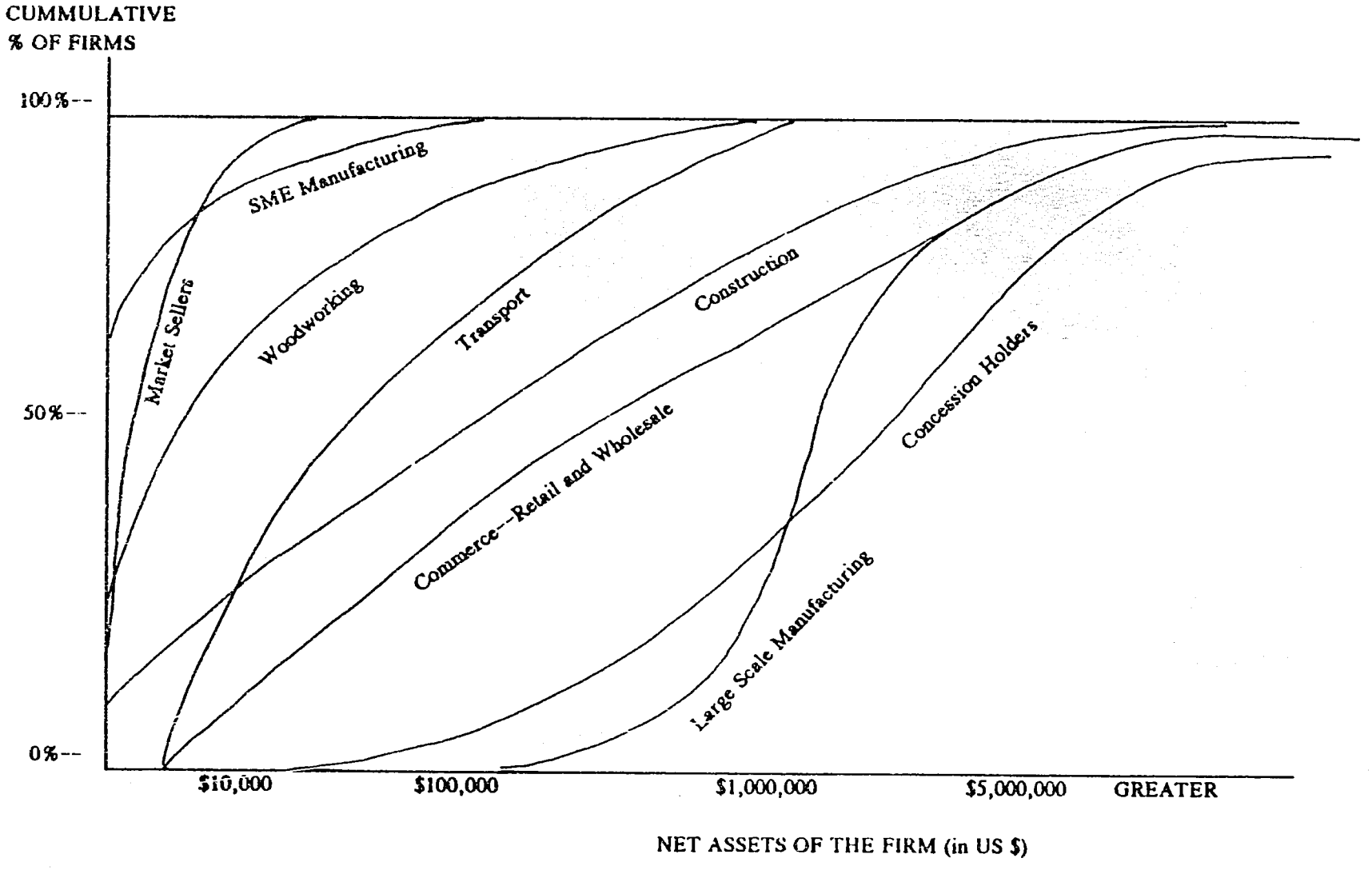
Agriculture represents almost one-third of the country's gross national product. It is the Liberian's chief occupation. Only government service can rival it as the natural stronghold of Liberian employment in Liberia. The industries that evolve from agriculture are few and not all dominated by Liberians. There is a conspicuous lack of an agricultural implements industry. Apart from the simple hoe, other agricultural tools and implements are imported and sold by Lebanese merchants. Many of these can be locally produced such as wheelbarrows, picks and axes.

The major agricultural and resource-based industries are rubber processing and export, wood products, coffee and cocoa processing and export, the fish industry, food processing--rice milling and palm oil, bakeries, piggeries and the poultry industry.

1. Rubber

Rubber processing into Latex is the domain of large firms as it requires much capital. In the private sector and besides the large concessions, only one large private Liberian firm, Alan Grant, with the help of foreign capital, is operating a rubber processing plant. Since 1987 when the world market price started going up and the industry started becoming very profitable, many new firms have been entering the rubber processing business in Liberia. They are Lebanese, Asian, and European. Many Liberians with rubber trees on their farms have not been making use of their trees until recently and are now supplying Firestone and Alan Grant. Many Liberians that own rubber plantations, which they had left idle during the depressed years, are now leasing them to the newcomers rather than developing them themselves. (A phenomenon also prevalent in timber and mining.) The capital requirements for

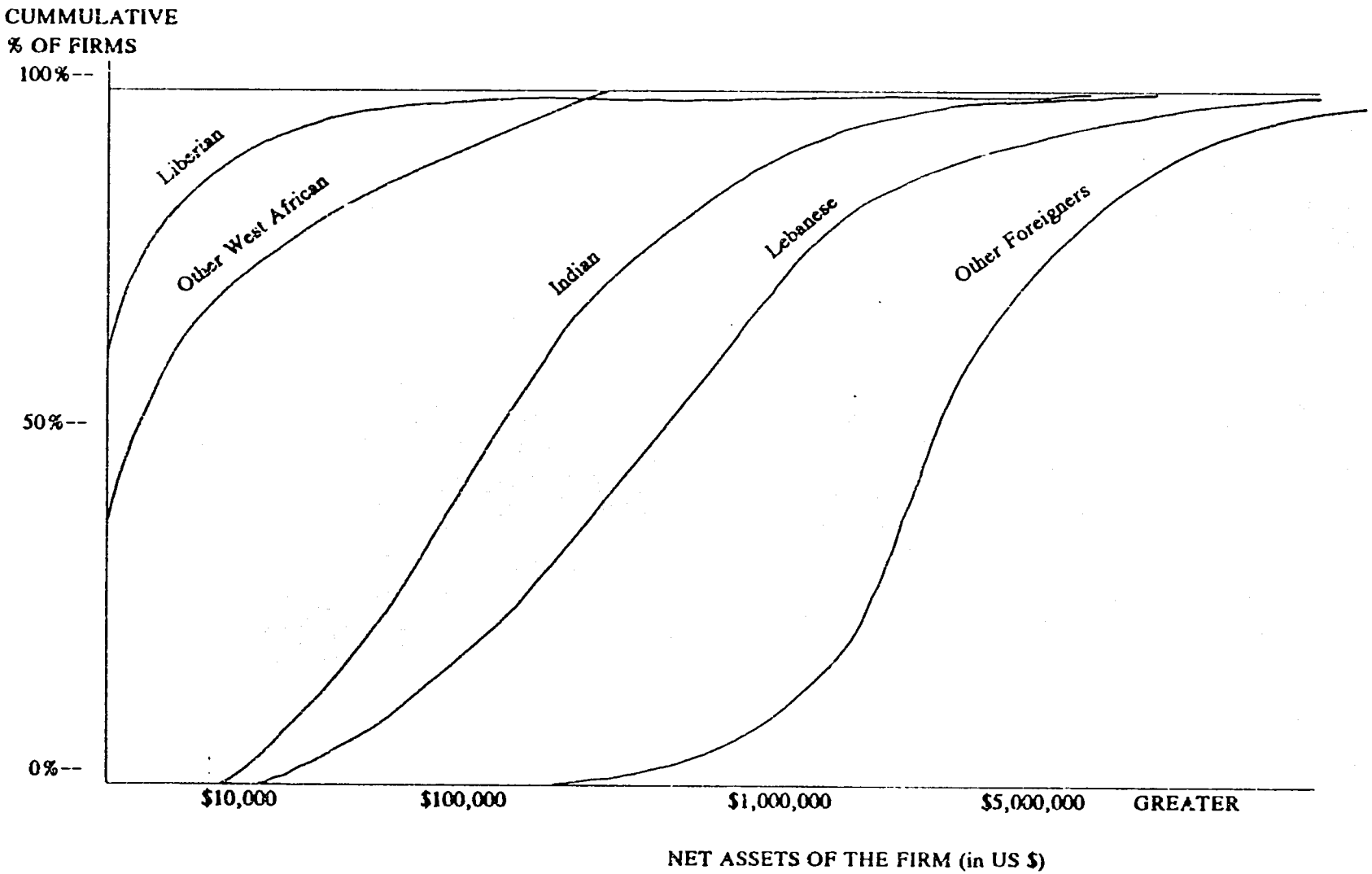
FIGURE 2
SIZE DISTRIBUTION OF PRIVATE SECTOR FIRMS IN LIBERIA, BY SECTOR



Source: Result of interviews, May 1989.

FIGURE 3

SIZE DISTRIBUTION OF PRIVATE ENTERPRISES IN LIBERIA, BY ORIGIN OF OWNER

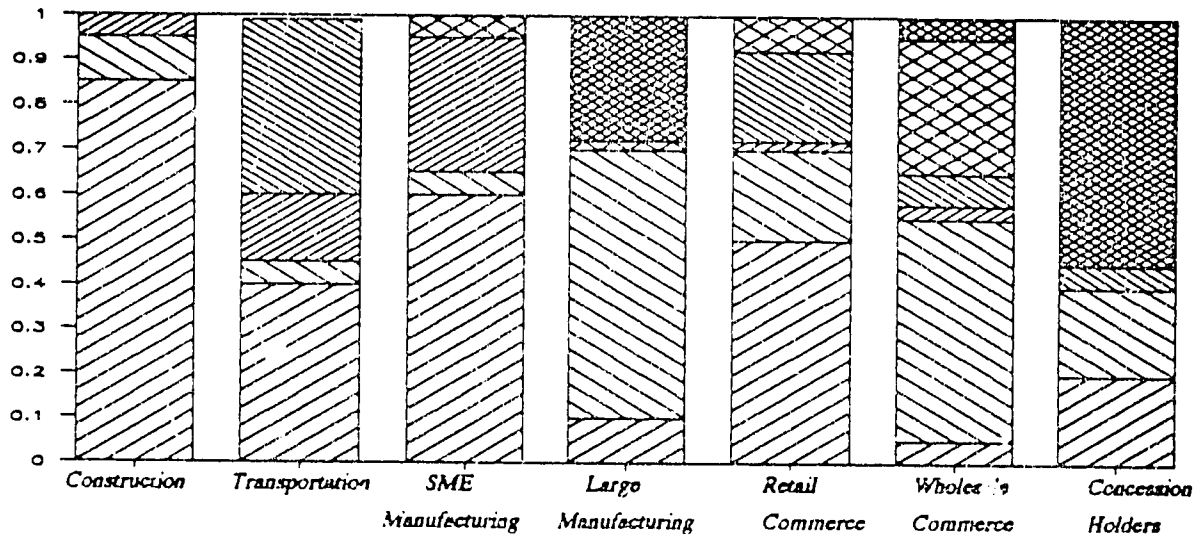


Source: Result of interviews, May 1989.

FIGURE 4

COMPOSITION OF SECTORS BY ORIGIN OF OWNER

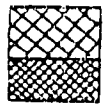
(Proportion of Total Enterprises)



Legend:

Liberian
Lebanese

Other W African
Mandingo/Fulani



Indian
European & American

SECTOR\OWNER	LIBERIANS		LEBANESE	OTHER WEST AFR	INDIAN	EUROPEAN/ AMERICAN
	Others	Mandingo/Fulani				
CONSTRUCTION	85%	0%	10%	5%	0%	0%
TRANSPORTATION	40%	40%	5%	15%	0%	0%
SME MANUFACTURING	60%	0%	5%	30%	5%	0%
LARGE MANUFACTURING	10%	0%	60%	0%	2%	28%
RETAIL COMMERCE	50%	20%	20%	2%	8%	0%
WHOLESALE COMMERCE	5%	7%	50%	3%	30%	5%
CONCESSION HOLDERS	20%	5%	20%	0%	0%	55%

Source: Result of interviews, May 1989.

developing a rubber processing plant need not be excessive. A coagulum plant can be constructed for L$100,000 to L$150,000. An EEC program is being put into place to help Liberians take advantage of the high price of rubber by helping them acquire capital to build such plants.

2. Wood Products

The wood products industry is the result of the requirement set by the timber concession agreements: foreign firms interested in logging must transform a portion of the wood locally. Hence this industry is wholly run by foreigners with large logging concessions.

Woodworking, however is an industry dominated by Liberian small and medium enterprises: 80% of the firms are probably Liberian, 10% Lebanese, 5% Indian and 5% Liberian Mandingo, upcountry. Second only to tailoring, it is the industry in Liberia which employs the greatest number of small and medium enterprises. They get their wood from their homelands, but mostly from salvaging the wood from concessions that has been cleared by loggers. Therefore, most of their inputs are of second grade quality.

Carpenters do not face much domestic competition but have not been able to compete against imported furniture because their wood is not good quality. The wood is not been properly dried and therefore has a tendency to warp; they do not have good tools with which to work; and they are not familiar with sophisticated methods and technologies. Carpenters tend to cater to the low income, domestic demand for furniture and construction materials. Many of them need to learn better techniques and maintenance of their equipment.

Because the industry is fragmented, carpenters get their equipment from importers at very high prices and cannot afford more than the essentials. They have recently been urged, with the help of UNIDO, to create the Liberian Woodworking and Carpentry Industrial Association. The aim is to create common facilities including a kiln to dry wood, some good equipment, a maintenance workshop, and training facilities. The project, however, is being stalled by the African Development Bank; without its financial support UNIDO will not initiate the project.

3. Coffee and Cocoa Processing and Exporting

This industry has been monopolized by the government owned and operated Liberian Produce Marketing Corporation (LPMC).

4. The Fish Industry

The fish industry employs very few Liberian enterprises. It is made up of approximately seven Ghanian fishing villages that provide fresh fish to market women, several foreign (Lebanese and European) importers who freeze and distribute fish throughout the country, and some Liberian owners and operators of fish ponds who supply their immediate vicinity with fresh fish. The latter have been instigated and trained by Peace Corps volunteers.

The Ghanian fishing villages are very productive and profitable but their market is limited to the coastal cities. Having more capital and many retail outlets throughout the country, the frozen fish suppliers are larger in scale and undoubtedly are the most profitable competitive group. All of the firms in the industry are registered. The Liberian fisheries have a good market in the interior but they are small and can only provide a limited supply of fresh fish. They face competition from the frozen fish companies which can supply the market at all times. Due to the problem of spoilage and the nature of their harvest, the Liberia fisherman tend to flood the nearby market thereby depressing fish prices during harvest times. This makes for a very unprofitable business. They are in direct competition with the frozen fish companies, and hence, have not joined forces in order to freeze their fish and keep prices high.

The profitability of fish importers comes from their organization, a nation-wide distribution network of frozen fish, and the running of cold storage facilities in the most primitive conditions. They enjoy a near monopoly position on the sale of fish in many parts of the country. This has required initial capital investments considerably higher than that of the fishermen, organization and management skill.

The Ghanian fishermen's strategy for success has been their skill as navigators and fishermen, their organization and business sense. They have brought their boats with them from Ghana because of their large size yet light weight. They also brought a substantial amount of supplies including fishing nets. Their initial capital is rather high for small businesses. It is approximately US $10,000-$30,000 per fisherman.

They share the work and the profits through the organization of companies. Each company is made up of the boat owner, the managing director, the crew, and their wives who act as the salesforce. All own shares in the company. The company may own one or more boats. The owner of the boats receive a higher proportion of the shares in the company. Their contracts with the company are limited after which they return to Ghana. The village is run by a chief who manages all of the companies. Chiefdom is hereditary and comes from the leader of the original settlers.

5. Food Processing: Rice Milling and Palm Oil Extraction

This is the domain of Liberian small businesses which are predominant in the countryside. The majority of private producers use entirely traditional technologies and mainly supply the local market. The major problem with modernizing the industry is the availability of crushing machines and their spare parts. It is an extremely risky business because it is totally dependent on imported machinery which cannot be repaired in-country. These are used by the government corporations and some large private companies which have gotten help from the National Investment Commission. They have not fared well once the machinery needed repair.

6. Bakeries

Bakeries and bakery products employ many informal businesses which are really dough making centers, dough marketers, and backyard bakers. They are mainly Liberians and Ghanians. There are approximately five quasi-organized Liberian bakeries and five formally organized bakeries which are owned by either Lebanese or Ghanians. It is a fragmented, highly competitive industry with low value added because it does not require much capital or skill and it services the neighborhood.

The successful strategy of the organized bakeries is large quantity production and the use of large distribution networks. This requires mainly organization and management skills.

7. Pig and Poultry Industries

The pig and poultry industries are almost all run by Liberians. They suffer from the competition of backyard animal husbandry and very cheap imports. Many people raise their own chickens and pigs and therefore do not buy them on the market. Only the urban market will buy meat and poultry from the market. Only a few poultry farms have managed to do well in this industry. One Liberian poultry concern has succeeded by integrating backward: the Rooster chain of restaurants, which serves fried chicken, is owned by Dr. Baker of Baker Homegrown Poultry Farms.

B. SMALL AND MEDIUM-SIZED MANUFACTURING

This group of industries encompasses all small workshops and enterprises involved in manufacturing. The majority are involved in metalworking and tailoring businesses, although there are a few making cement blocks, bluesoap, and shoes among others. These are predominantly Liberian and other West African owned and are started with little to no capital.

1. Metal Workshops

There are approximately 102 metal workshops in the country. Approximately 43% are owned by Liberians and are principally serving the automotive repairs market. Their initial capital is usually less than $2500 while the rest of the industry's initial capital is usually greater. 30% of the enterprises are Lebanese owned employing Liberian workers or sub-contractors. They work on larger contracts involving items like large gas tanks. 27% are Mandingo Liberians: 20% in the interior and 7% in Monrovia.

The firms that do well are those that are able to get the more profitable, larger jobs. They require a large staff and much equipment. Both the Lebanese and Mandingos have done well in this industry because they have marketing networks and specialize in particular market niches. The Lebanese have been able to tap the profitable end of the market (the foreign missions and the international community).

Most of the firms are registered formally and pay taxes because they all have a fixed place of work and need electricity so they cannot avoid the grasp of the inspectors and collection agents. They have recently been helped by UNIDO to form an association and to develop a project creating a common facility and up-to-date metal workshop to provide better equipment, training. It will provide metalworking capacity that does not exist in Liberia to make spare parts and maintain equipment.

2. Tailoring

Tailoring is the occupation of a very large proportion of small enterprises in Liberia. 80% of these firms are owned by Guineans, Ghanians, and Liberian Mandingos and Fulani (who tend to be more business minded than other Liberians). Only 10-20% of the firms are owned by other Liberians. Because many firms have the tailoring skills and the initial capital required to buy a used sewing machine that may cost between $200 and $600, the industry is fragmented with very little value added. It is dominated by the trade of cloth which is controlled by the Lebanese. Tailors' profits are squeezed between low output prices forced down by competition from the imported used clothing industry and high input prices caused by a collusion between its suppliers.

This is an industry that cannot afford official taxation or the unofficial payments that would have been required to stay informal. Hence they have created a union which has gained political approval and acts as a private corporation. It collects $25 annually for the tailor's license and $0.50 per machine per week. In return the union assures the tailors tax free status and freedom from the harassment of inspectors and tax collectors. The union, in turn, pays taxes on its profits from the fees it has collected. The union also provides some financial and political support and can

intervene to keep peace and order among the tailors. It provides the security that is required to operate a small business which individual tailors could not have had and spreads the cost of taxation across enterprises and over time so that even the smallest of shops can afford to operate legally.

Although the union is criticized for not serving its constituency adequately because it does not provide it with material welfare and squanders much of the money it collects, only the security it provides is worth the membership fee. That is why most tailors belong to the union and they are not the ones voicing this criticism.

C. MARKET SELLERS AND PETTY TRADERS

Urban migration into Monrovia has spurred the proliferation of sidewalk markets throughout the city. This industry is predominantly Liberian, and other West African. Instead of remaining itinerant, they formed an association in the 1960's that provides fixed locations with tables in the markets and on the sidewalks for all market sellers.

Twelve markets are now organized in Monrovia, each headed by a superintendent, a table director who knows all of the merchants and their table positions, market security guards and market sweepers. The Association sets the operating rules of the markets and provides security and peace among the marketers. A new marketer will be assigned a table by the table director as soon as he registers with the Association. When he is ready to vacate his table and move to another city or market he must relinquish his table to the Association. However, in some markets, vacant tables are rare and the marketer will prefer to sub-lease the table until he returns. A table sub-lease can go for approximately $200 irrespective of the period of time of the lease, usually unspecified. Sub-leasing is illegal according to association rules.

The Association has won official recognition by the government and, with the transport union, falls under the responsibilities of the Minister of State without portfolio, Chairman of the special cabinet committee of the marketing and transport unions. The union has gained much political bargaining power and has secured its members a privileged position as tax exempt formal enterprises.

The one-time price of registration varies depending on the market and it ranges from $16.50 at the East Waterside Sidewalk Market to $50 at the Red Light Market. The Association collects 25 cents per day for street cleaning. On special occasions, the government will ask $1 to $2 per marketer. However, it is the Association as a private corporation that pays taxes. On average it pays $2 per marketer to the government.

The marketers' association is a very important risk sharing strategy which has paid off well for the market sellers in Monrovia who are too poor to pay registration fees and taxes. Similar associations for market sellers exist in other parts of the country. Although it has been beneficial to the marketers, the association can use improvement. With the proper training and management control, it could be a means of creating a pool of savings from which loans can be made to its members, it could provide technical assistance in a punctual and appropriate manner to its members.

There exist many itinerants who do not register with the association or with the Ministry of Commerce. They face constant harassment by city police because they are congesting the streets, not having a spot on the sidewalk like the association's members.

D. CONSTRUCTION

The construction industry is mainly in the hands of the Lebanese. They represent about 10% of the number of firms but get the major portion of the business because of large government contracts. Liberians make up 85% of the firms in the construction industry but are mainly contractors that have smaller, home-construction contracts.

The success of the Lebanese has been their marketing network, as well as their ability to invest and use heavy equipment. While the Liberian construction firm may have little capital investment, some Lebanese firms have up to $5 million in assets. Since there is much rent seeking in government contracts, the larger firms can afford larger kickbacks.

E. COMMERCE: RETAIL AND WHOLESALE TRADE

The Lebanese are renowned traders and in Liberia have proven that this is not mere accusation. They dominate the commercial sector in the country. Indians are making important progress in wholesale trade as well. Among the Liberians, the Mandingos are natural traders and are very strong in retail commerce outside of Monrovia. While most small Liberian shops have inventory valued at less than $50,000, most of the Lebanese businesses have invested in larger inventories. About 20% of the businesses have over $1 million of inventory. The success to trading is knowing where to buy, shopping around for the best suppliers, and how to price the goods. This involves know-how and experience and psychology.

F. LARGE-SCALE MANUFACTURING

There are approximately 50 large-scale manufacturing businesses in Liberia, that is, businesses that have invested at least US$100,000 in initial capital. Sixty percent of them are owned by Lebanese, three or four firms belong to Liberians, one belongs to an Indian and the rest are controlled by other foreign interests. The majority are low value added, assembly-type of industries that are heavily dependent on imports. As the Lebanese control much of the trading as well, their manufacturing businesses help strengthen their trading businesses.

A significant number of these firms have received incentives through their investment incentive contracts which have recently expired. Until 1987 and the expiration of their incentives, these businesses were very profitable. Now that their protection from imports has been reduced and they are liable for taxes, all but a few are no longer viable.

In order to be profitable and successful, a large scale manufacturing enterprise must be able to create value added. Hence it will require much manpower and/or capital and must use local inputs. As the labor force is not educated and expatriate labor is expensive, few profitable large scale manufacturing enterprises can be sustained in Liberia. Those that have done well are Monrovia Breweries, Industrial and Chemical Corporation which produce alcoholic beverages, the National Food Manufacturing Corp, which produces Maggi cubes, Liberia Cement Corporation, and United States Trading Corp--Firestone.

G. CONCESSION HOLDERS

The majority of the concession holders are European and American companies that bring in large scale investments to develop large mines, carry out major logging operations and process large quantities of rubber. A concession agreement normally requires a $50,000 performance bond and a minimum initial investment of $1 million to $2 million within the first two years. So far no Liberian has been able to exploit a large concession without being in partnership with a foreign firm. Liberian owners usually work with foreign operators to smooth the way and reduce the operational conflicts that may occur with the government and the labor force.

H. PROFESSIONAL SERVICES: CLINICS AND HOSPITALS

There are more than thirty private clinics and one 50 bed hospital in Liberia. Most other health facilities are either run and subsidized by charities or by the government. The private facilities are incorporated and are treated like any other private business, subject to all of the same taxes and fees. Although drugs come in duty-free they are taxed the 10% surcharge.

After a few years of suffering from the increase in cost of foreign exchange and the withdrawal of government support, private clinics are starting a private association, the Liberia Community Health Care Association (LCHC), to be able to pool their resources and buy drugs in bulk, to get better quality drugs, and to share the cost of training doctors and nurses who are in short supply.

IV. CONSTRAINTS AND SUCCESS FACTORS

When the ILO surveyed the small and medium enterprises in Liberia in August 1987, they asked the entrepreneurs to explain their difficulties. "The majority of the enterprises indicated that they could even double their current levels of employment if some effort was made to alleviate or minimize these constraints:"[4]

1. Access to credit
2. Problems in marketing/competition
3. Lack of suitable premises
4. High taxes
5. Irregular supply of raw materials
6. Inability to import equipment and other inputs

We have seen above that all competitive groups in the private sector in Liberia have been faced by the same constraints and many have managed to succeed using different strategies to surmount these and transform them into challenges. Why then is the Liberian competitive group crippled by these constraints?

The theme of this report is that these constraints are not the problem but the manifestation of the real constraints: the lack of education and training, the lack of organization, and the lack of innovation and entrepreneurship.

All of the strategies discussed above for succeeding in the different sectors of the Liberian economy involve the use of technical and managerial skill, the formation of economic organizations that support the individual in his business activity, and the ability to seize economic opportunities which is derived from motivation to improve the business and make it grow.

A. EDUCATION AND TRAINING

Some important figures on the quality of education will explain why Liberians have not been able to compete with foreigners in their own business environment: "In 1984 a total of 8082 students sat for the 12th grade national exam and 7066 sat in 1985. Those who passed in '84 were 1481 and in '85 1275."[5] That is, only 18.3% passed in 1984 and 18.04% passed in 1985. In 1986, 59.4% of the 6839 students that took the test passed and in 1987, only 34.85% of 7398 students passed.

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[4] ILO, pp. 69-74.

[5] Flemister, pp. 33-35.

As for vocational training, at the Booker Washington Institute in Kakata, the results of 1987 exams were as follows: "Of 29 who sat for the exam, 2 passed mathematics, 1 passed science, 2 passed social studies, and 3 passed language arts." The results of vocational training have been mixed, better in the private religious institutions, except for the Liberian Assembly of God Mission in Maryland County where none of the fourteen students passed a single subject.

For a population of close to 2.5 million people, these numbers tell the whole story. The ILO survey shows that the general level of education of the small scale entrepreneurs is 3-4 years of schooling. Nearly 35% of them have not attended formal schools and out of those 95% could not read or write.[6] This has manifested itself in the inability of the Liberian entrepreneurs to financially manage their businesses: Most Liberian businesses do not reinvest the profits they have made and quickly go out of business for lack of working capital. As a corollary, they do not inherently understand the meaning of credit and the difference between own capital and debt. For this reason banks in Liberia have suffered massive default rates. They are not lending to the small entrepreneur because they cannot charge an interest rate high enough to compensate them for this risk.

Hence it is impossible to expect that a credit scheme will help the entrepreneurs until they fully understand how to use debt to leverage their own money and to make it work for them without assuming possession of it. Most credit schemes to small entrepreneurs have failed because that education has not been effectively imparted on the borrower.

Once small entrepreneurs understand and use this concept, they will become much more trustworthy in the eyes of their neighbors and friends and will be able to form informal credit schemes much as have done the Lebanese and other expatriate groups who lacked initial capital when first starting a business. Informal credit schemes are already available through revolving funds called Susu. Similarly, salaried employees in particular companies have grouped and organized informal credit unions. But the small businesses have not yet followed that example.

Without a basic level of education, in particular business education, Liberian businessmen cannot be effective in any environment let alone competing with expatriates who have much higher levels of education.

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[6] ILO, p. 67.

B. ORGANIZATION

A very important factor of success used by all successful competitive groups is organization. They have created marketing networks and financial networks. Business organizations have been created that improve efficiency of production by dividing responsibilities according to specialization. Organizations have formed to make common use of physical capital and to pool financial resources to buy in bulk thus having access to lower prices and better quality inputs.

The only formal organizations that have been formed by Liberian businesses are the three associations which provide the smallest and least profitable occupations with protection, reduction of risks and spreading tax payments over a longer period of time. This has been very beneficial to the market sellers, the tailors and the taxi and bus drivers. However the other Liberian businesses have not organized to provide support to their business activities. In part, this is due to mutual distrust and jealousy that comes from a lack of education.

Another important reason why few working organizations have not been formed is that most small entrepreneurs have a very short term economic outlook. Their internal rate of discount is so high that the notions of building long term institutions and investment hold no value for them. That is, due to a lack of a steady cash flow, cash holds a premium that can reach very high levels for the small entrepreneurs: they will be willing to give up substantial revenue flows in the future for a small amount of cash today. They do not place enough value on the earning of future cash flows. This can only be dispelled slowly and with good business management training, education, evidence and good role models.

Private organizations are slowly forming as more small entrepreneurs begin to understand the value of support groups and working together. Privately, the Liberia Community Health Care Association (LCHC) is forming to support private clinics and hospitals throughout the country. A few educated businessmen in the woodworking, ready-made garment, and metalworking industries are being helped by UNIDO to group themselves into associations. It is interesting to note that these associations are being spurred by educated Liberians, with the longer-term in mind.

Groups such as these can be very instrumental in providing skills, mutual financing and common use of expensive equipment such as a kiln for the woodworkers and a showroom to display their products. They can pool their resources to buy in bulk and reduce the price of their inputs. And they can provide much needed moral support and motivation to individual entrepreneurs, especially those that are just starting out.

C. INNOVATION AND ENTREPRENEURSHIP

Many successful competitive groups have shown that they have the motivation to make their businesses a success by aggressively marketing their products, entering new product areas, and taking other measures to seize business opportunities. The small entrepreneurs do not show the same level of innovation and entrepreneurship. The small and medium sized business does not spend any effort marketing its product, even in very competitive industries such as market selling and woodworking. This lack of innovation can be improved with education and support groups which provide self-assurance.

V. CONCLUSION

The Liberian private sector is very strong and thriving. Many competitive groups have been succeeding in the present economic system. Their success factors have been education, organization and innovation. The Liberian entrepreneurs are in desperate need of education and training which is basically at the root of all their problems, even at the root of their lack of organization and innovation.

Organization, if spurred by a few educated entrepreneurs, can be the means by which training can be given to other entrepreneurs, by which working capital can be provided through financial networking, and by which to build the systems for easier access to inputs and capital equipment. Organization will also provide the security and political bargaining power required to deal with government policy. It is in this direction that we suggest USAID can best use its resources to support the small and medium sized enterprise in Liberia.

A. BUSINESS ASSOCIATIONS

As the UNIDO project which has spurred the initial ideas for three industrial associations is coming to an end without having effectively seen the creation of a single working association, it would be incumbent on USAID to pick up where UNIDO has left off and make the projects a success. The associations are still in draft form, the most advanced one being the Liberian Woodworking and Carpentry Industrial Association. Its founders are full of hope and enthusiasm to make their projects work. The Liberia Community Health Care Association is forming without the help of any donor but needs support. New associations can be created such as the fishermen's association and others in the making can be supported.

To make these associations a success, a lot of managerial expertise is needed to set up their charters and constitutions, to elaborate their needs, and to get concessions of land and permits from the government. Once the project is defined, the implementation will need technical assistance in the form of getting access to machinery and equipment for the common use facilities. Associations will also need technical assistance in training their constituencies on how to use and maintain the equipment. Each association will have its specific needs which USAID can address through the use of specialized NGOs that can provide technical assistance. For example, an NGO specialized in health care delivery systems in developing countries could be used to help the LCHC in setting up a facility for buying drugs in bulk, or buying renovated hospital equipment from hospitals in Europe or the U.S.

B. PROPERTY RIGHTS

The Liberian Marketers Association could use help to work with the Monrovia City Corporation to reduce the forced movement of marketers from their place of business. They need to chose appropriate sites for their existing and new constituents in approved zones of the city. Through the association, USAID can help small businesses understand the city's zoning policy so that they are not taken by surprise by the city police. Similarly, USAID can help small businesses gain property rights in those new zones so that they may feel secure enough to build permanent structures, thereby working toward the city's goals of safety and beautification.

C. MONO-PRODUCTION PHENOMENON

In conjunction with the city's zoning policies, USAID can help spur mono-production zones where many like merchants or manufacturers coexist and provide the public with large specialized markets for particular types of products. This can be a very successful marketing technique to build renown through Liberia and other parts of West Africa. Each zone establishes a market on a particular day of the week that is similar to an industrial fair. In numbers, producers will be able to attract many buyers who prefer the range of choice provided by the mono-production zone and its market. More and more businesses will want to relocate to that zone to have greater exposure to buyers. This structure of production provides strength and motivation to the individual producer.

Due to the geographical proximity of the constituency, associations can be more effective in a mono-production zone and can provide a wider range of services at lower cost. It will be easier to establish better and cheaper methods of supply as well since many more suppliers will be attracted by the larger market and this will create more competition, thus reducing the price of inputs to the industry.

In conclusion, if the "organization" theme is used to direct its support of small and medium enterprises in Liberia, USAID will find many opportunities to help SMEs help themselves.

APPENDIX 1

IMF SUMMARY OF THE TAX SYSTEM IN LIBERIA

Liberia: Summary of Tax System 1/

(All amounts in Liberian dollars)

Tax	Nature of Tax	Exemptions and Deductions	Rates
A. Central Government 1. Taxes on income and profits			
1.1 Taxes on companies			
1.11 Tax on company income	Annual tax on net profits received by Liberian and foreign companies. Liberian companies are subject to tax on their global income, while foreign companies are taxed on income derived from their operations within Liberia. Companies with tax liability of $500 or more are required to make payments on a current payment basis.	Income derived from sources outside Liberia is exempt, if the majority of the voting power of a domestic company is held by foreigners or non-residents. Also exempt are earnings from the operation of vessels if not derived exclusively from coast-wide operation by resident corporations. Under the Investment Code, companies with qualifying Liberian personnel are exempted from all income taxes for a period of five years or until their accumulated profits exceed 150 percent of their initial investment. This tax holiday may be extended to ten years in certain cases. Donations to approved organizations are deductible subject to a limit of 15 percent of net income.	Rate Up to $10,000: 20 per cent 10,001 to 50,000: 2,000 plus 30 percent of excess over 10,000 50,001 to 100,000: 14,000 plus 40 percent of excess over 50,000 100,000 and over: 34,000 plus 50 percent of excess over 100,000 A rate of 50 percent is applied to the Liberian Refinery Company.
1.12 Tax on partnership income	Payable on all net profits received by partnerships. When the tax liability exceeds $500, payments must be made on a current payment basis.	Partnerships are granted the same deductions as for corporations. No deductions may be made for personal or family expenses of any partner.	The rate is the same as applied to individuals (see 1.2 "Income tax" below).
1.13 Taxation of iron ore companies	Iron ore companies share their profits with the Government under concession agreements, paying 50 percent of net profits in lieu of company income tax.	Concessionaires are entitled to similar deductions as permitted under company income tax. In addition, many agreements provide loss carry-overs and loss carry-backs which are not allowed under company income tax.	50 percent. In certain cases minimum payments per ton of ore are provided by the agreements.

Liberia: Summary of Tax System 1/ (continued)

(All amounts in Liberian dollars)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2 Taxes on individuals (including unincorporated trusts and estates)			
1.21 Income tax	The tax is payable annually by all citizens and residents of Liberia on net income received from all sources, including capital gains. Partners must file individual returns of all partnership(s) distributive income, together with income from other sources. Employees' taxes are withheld from salaries or wages, and self-employed individuals with tax liability of $500 or more are required to make payments on a current payment basis. There are established estimates for taxpayers who do not keep records of their income.	Proceeds of life insurance, value of gift, compensation for personal injury or sickness, and interest on certain government obligation are exempt from taxation. A number of personal deductions are granted to each taxpayer, including personal allowance of up to a maximum of $1,000 a year. Other deductions are interest paid during the taxable year, taxes paid, and losses from fire, theft and other casualties. Donations to approved organizations are deductible within the limit of 15 percent of net income. A tax credit is allowed for the partner's share of the partnership tax.	**Rate** Up to $2,000: 11 percent 2,001 to 3,000: 220 plus 13 percent of excess over 2,000 3,001 to 4,000: 350 plus 16 percent of excess over 3,000 4,001 to 6,500: 510 plus 20 percent of excess over 4,000 6,501 to 9,000: 1,010 plus 24 percent of excess over 6,000 9,001 to 14,000: 1,610 plus 26 percent of excess over 9,000 14,001 to 19,000: 2,910 plus 31 percent of excess over 14,000 19,001 to 49,000: 4,460 plus 36 percent of excess over 19,000 49,001 to 74,000: 15,260 plus 45 percent of excess over 49,000 74,001 to 99,000: 26,510 plus 50 percent of excess over 74,000 99,001 and over: 39,010 plus 65 percent of excess over 99,000
1.22 National reconstruction tax	The tax is levied on every self-employed, salaried or wage-earning citizen and foreign resident in Liberia over 16 years of age on gross income for each month of employment or fraction thereof.		Payable quarterly on monthly income as follows: (In dollars) — (In percent) 1 to 200: 1.0 201 to 500: 4.5 501 to 1,000: 7.5 1,001 and above: 8.0
1.3 Other Withholding on payments to nonresidents	Levied on the gross amount of interests, dividends, royalties, rents, compensations, and other fixed or determinable incomes earned in Liberia by nonresident foreigners. Under certain conditions taxpayers may obtain a refund of this tax if they cannot credit the payment of the Liberian tax against the tax they owe to another	(a) Interest earned on deposits with banks in Liberia; (b) interests, commissions, and other charges levied on short-term commercial transactions; and (c) items of income specifically listed in concession agreements are exempt from taxation.	15 percent on interest paid to foreign banks or other financial institutions, and dividends. 30 percent on other payments.

Liberia: Summary of Tax System 1/ (continued)

(All amounts in Liberian dollars)

Tax	Nature of Tax	Exemptions and Deductions	Rates
	country. In certain cases an option is available for assessment as a resident. Refunds due can be either set off against future tax liabilities or against liabilities of taxes due to the Ministry of Finance (real estate, vehicle, etc.)		
2. Payroll taxes – (none)			
3. Taxes on property			
3.1 Real estate taxes			
3.11 Property tax	Levied on land located in a city, township or Commonwealth District and the assessed value of any improvement thereon. Valuation of the property is determined by the tax administration.	(a) Government properties; (b) properties of churches or other religious societies held for educational, charitable, or fraternal purposes; (c) buildings and other properties owned by the University of Liberia; (d) properties held by foreign governments not owned by private individuals are exempt from the tax.	5 percent on unimproved land in towns and cities, and 5 cents per acre on rural land, including farm land, with a minimum of $5.00. 2 percent on improved land in commercial use. 1 percent on improved land for industrial use. 1/2 percent on residential property.
3.12 Realty lease tax	Annual tax on rent or lease payments of realty. The tax is withheld by the lessor at the time of rent payment.		10 percent of the rental or lease value.
3.2 Net wealth taxes None			
3.3 Death and gift taxes None			
3.4 Property transfer taxes None			

Liberia: Summary of Tax System 1/ (continued)

(All amounts in Liberian dollars)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4. Taxes on domestic goods and services			
4.1 Sales taxes None			
4.2 Excise taxes (published under Section 22.2 of the Revenue and Finance Law 1977, and as amended on April 1, 1978, July 1, 1978, September 1, 1980, July 1, 1981, December 30, 1981, and July 27, 1983.)	Levied at the manufactured level. The schedule (tariff items and numbers) which fully correspond to the tariff item numbers and subheadings of the external tariff in respect of similar imported goods comprised of (a) common (harmonized) rates of excise duty of the member states of the Mano River Union; and (b) the national (unharmonized) rates of excise duty. Common rates apply to goods (1) manufactured in a member state and consumed in that country and (2) manufactured in a member state and considered as of local origin on importation. Such goods will be exempt from customs duty and other charges. National rates apply only to goods manufactured and consumed locally. If imported into another state these goods will be chargeable with customs duty.	The following products of local origin of the member states of the Mano River Union. (a) Edible vegetables, fruits, and nuts; (b) live animals; (c) products of live animals; (d) products obtained by hunting or inland fishing; (e) goods produced exclusively from products of (a) to (d) above.	A common rate (a) Specific (1) Beer 0.75 a liter (2) Salt 2.50 a metric ton (3) Bitumen and asphalt 1.50 per 100 liters (4) Matches (in booklets) 0.20 per gross (b) Ad valorem (1) Sugar confectionery, bread, ice cream, cement, cosmetics, glues, insecticides, polyethylene bags travel goods, gloves and knitted garments, rails, galvanized buckets, clothes hangers and cardboard boxes) 5 percent (2) Biscuits 15 percent (3) Electric accumulators 25 percent B National rate (a) Specific (1) Soft drinks $0.68 a case (24 bottles) (2) Wine and fermented beverages $0.75 a liter (3) Spirits (whiskey, brandy, etc.) $2.15 a liter (4) Petroleum products: Gasoline premium $1.50 per U.S. gal. Kerosene $0.67 per U.S. gal. Gas oil $0.30 per U.S. gal. Fuel oil $0.29 per U.S. gal. (5) Varnishes $0.30 per U.S. gal. (6) Matches $1.00 per 144 boxes (7) Ammunition $60.00 per 500 units.

Liberia: Summary of Tax System 1/ (continued)

(All amounts in Liberian dollars)

Tax	Nature of Tax	Exemptions and Deductions	Rates	
			(b) Ad valorem (7 duty rates)	(Percent)
			(1) Candles, denatured spirits, woven fabrics of manmade, vegetable or animal fibers, rugs and blankets, footwear, articles of iron and steel, batteries, cereal flours, chocolate preparations and wall tiles	5
			(2) Articles of jewelry and precious metals, brooms and brushes	7.5
			(3) Soaps	10
			(4) Chairs and other furniture, mattresses and detergents	15
			(5) Oxygen, nitrogen and acetylene	17.5
			(6) Liquefied petrol gases	18.5
			(7) Plywood	20
			(8) Cigarettes	37.5-55
4.3 Taxes on betting and gambling				
4.4 Taxes on specific services				
4.41 Cinema tickets	A specific tax on cinema tickets.	--	15 cents for orchestra seats. 25 cents for balcony seats.	
4.42 Travel tickets	Tax on the value of a ticket purchased for air or sea travel outside Liberia.	Domestic travel.	10 percent of the value of the ticket.	
4.43 Football tickets	On the purchase of football tickets.	--	40 cents for stadium tickets. 20 cents for stadium wing. 10 cents for field.	
4.44 Tax on accommodation	Levied against the rate charged for the use of a hotel room.	--	10 percent	

Liberia: Summary of Tax System 1/ (continued)

(All amounts in Liberian dollars)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.5 Business and professional licenses			
4.51 Business trade levy	Annual levy payable by all business including manufacturers, wholesalers, retailers, and service industries.	(1) Rubber and agricultural industries; (2) real estate business; and (3) government-owned public utilities are exempt.	From 0.5 percent to 2 percent of gross receipts.
4.52 Liquor license and other occupational fees	Payable annually by liquor business and certain occupations and professions.	—	(1) Liquor (a) distillers and brewers 0.5 percent (b) retailers 0.5 percent and dealers 1 percent of value. (2) Other businesses (a) wholesalers and retailers 1 percent, (b) banks and other financial institutions, service, manufacturing and processing industries, and all others 0.5 percent. (3) Specific license fees are levied on diamond brokers ($1,000) and other mining operations ($450), on diamond dealers ($15,000), on cinemas ($200), on insurance companies ($500), and on hotels ($1,000).
4.53 Business registration fees	Annual fee on all businesses registered in Liberia	—	Sole proprietorship (foreign-owned) $200; Sole proprietorship (Liberia-owned) $100; Partnership $350; Corporation $500.
4.54 Business license on professions	Levied annually on professions such as accountants and auditors, architects, doctors, dentists, surgeons, engineers, lawyers, pharmacists, and surveyors.	—	One half of 1 percent of income derived from such professions subject to a minimum of $300.
4.6 Motor vehicle and vehicle operators' fees	Owners of motor vehicles are subject to plate and inspection fee and an annual vehicle license fee.	—	Motor vehicles are taxed according to their use: private vehicles, used by a business entity, for hire, trucks owned by individuals and business entities, and trucks for hire. On each of these categories there is a plate fee, an inspection fee and an annual license fee; the latter which varies according to engine capacity or weight. An annual operator's fee of $10 to $30 is levied according to purpose of use.

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Liberia: Summary of Tax System 1/ (continued)

(All amounts in Liberian dollars)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.7 Vessel registration fees	Initial registration fee (i.e., until the vessel changes ownership) and annual tonnage fee levied on all ships registered in Liberia. Fees are also payable on the vessel's net tonnage or when the name of a vessel is changed.	--	For initial registration, $1.20 per net registered ton of vessel. Annual tonnage taxes are 40 cents per net registered ton. Change of name fees include a publication cost of $40 and a fee that varies according to gross tonnage from $10 to $100. There is in addition a fee charged on the new certificate of $200 and recording fees for each item such as bill of sale, mortgage, and assignment from $50 to $425.
4.8 Taxes on timber production (stumpage tax)	Levied on the sale of logs, lumber, planks, and other partly manufactured timber products.	Not applicable in case of exports, except where product comes from privately owned land.	(1) Severance fee $1.50 per cu. meter ($m^3$). (2) Industrial incentive fee on all round logs for export varies according to species from $2 to $75 per cu. meter. (3) Forest products fee (a) for sawn timber from $1.50 to $60 per m^3 (b) square edged (unplaned) from $1.50 to $15 per m^3 (c) square edged (planed) from $1 to $2 per m^3. (4) Reforestation fee $3 per m^3.
5. Taxes on international trade			
5.1 Taxes on imports			
5.11 Customs duties	Import duties are mostly levied as ad valorem duties on the c.i.f. value of imports. Specific duties apply to a variety of foods, beer, and other alcoholic beverages, paints, and soap. For grains and certain luxury food products, the specific tariffs are combined with ad valorem duties.	Exempt from duties are (a) imports by Liberian Government, diplomats, and missionary organizations; (b) intermediate goods used in agriculture and some medical and fire-fighting supplies; (c) imports granted by special contracts to the large concessionaires operating in Liberia; and (d) imports granted under the Investment Incentive Code to stimulate industrial activities in Liberia.	Ad valorem rates range from 5 percent to 80 percent. Consumer goods other than food are generally taxed at the rate of 28 percent or above. Imports related to capital investment usually receive favorable rates.
5.12 Surcharge on imports	Surcharge is levied on the c.i.f. value of all dutiable goods not classified as essentials.	As in 5.11 above.	All surcharges and fees on imports were consolidated and the rate reduced to a uniform 10 percent of c.i.f. value during September 1987. However, a special custom surcharge rate of 25 percent was introduced at the same time for beverages and tobacco products.

Liberia: Summary of Tax System 1/ (continued)

(All amounts in Liberian dollars)

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.13 Invoice entry fee	On all imports at time of entry.	—	(1) On duty-free goods inclusive of essential goods—7.5 percent; (2) on duty-paid goods exclusive of essential goods—5 percent; (3) transshipment goods—7.5 percent; and (4) duty-paid essential goods—1.5 percent.
5.2 Taxes on exports Export duties	Export duties are levied on rubber, a variety of minerals, and wood products.	Logs and sawn timber are exempt when cut on privately owned land. Export duties are creditable against income tax.	Rubber sold or exported at a price exceeding a specified production cost by: 6-9.99 ¢ per lb. — 1 1/2 ¢ per lb. 10-14.99 ¢ per lb. — 2 ¢ per lb. 15 ¢ per lb. or more — 2 1/2 ¢ per lb. Diamonds, platinum, silver and gold 15 percent per troy ounce. Salt 15 percent per kg. Iron and other metals 15 percent per metric ton. Wood $2.22 per cubic meter ($m^3$).
6. Other taxes			
6.1 Poll taxes			
6.11 Development and progress tax	An annual development and progress tax is payable by citizens or alien residents between the ages of 18 and 61 who are gainfully employed.	Hut dwellers and students not gainfully employed; and persons considered indigent or infirm by the Head of State.	This tax was abolished in July 1987.
6.12 Local tax	An annual tax payable by citizens and alien residents not paying income tax (and collected by the Central Government).	Children under the age of 14 and students not gainfully employed; and persons considered elderly, indigent or infirm by the Head of State.	$10.00.
6.13 National Identification Card Fee	An annual fee payable by citizens and alien residents	Children under the age of 5.	Children age 5 to 18 — $3.00 Students — $3.00 Adults, 19-65 — $7.00 Adults, 66 and above — $5.00
6.14 Payroll tax	A monthly tax on wage- and salary-earning citizens and alien residents		$5.00.

Liberia: Summary of Tax System, 1/ (concluded)

(All amounts in Liberian dollars)

Tax	Nature of Tax	Exemptions and Deductions	Rates
6.2 Stamp taxes (Revenue and Finance Law)	Obligatory use of stamps for a wide variety of legal documents.	--	Various rates are applied depending on the type of documents, such as: (In dollars) (a) affidavits 1.00 (b) bill of entry for duty-free goods for each $100 or fraction thereof 10.00 (c) bill of health 3.00 (d) bill of lading for export 10.00 (e) bond, surety and similar instruments 5.00 (f) marriage licenses, regular and special 25.00 and 50.00 (g) power of attorney, pleadings, petitions and promissory notes 4.00
6.3 Other			
6.31 Airport/seaport service charges	Levied on each full-fare passenger leaving Liberia. The charges are collected by carriers.	Passengers in immediate transit.	$10.00 per person.
B. Local Governments			
Only the Central Government levies and collects taxes.			

1/ As of December 31, 1987.

New Measures Introduced During Fiscal Year 1986/87 and the 1987 Interim Budget

1. The Development and Progress tax was abolished in July 1987.

2. In September 1987, all customs fees, surcharges, and other charges imposed on imported goods were abolished and replaced by a single fee called Customs User's fee at a rate of 10 percent of the c.i.f. value of the imported goods.

3. A special customs surcharge of 25 percent was introduced in September 1987 for beverages and tobacco products.

APPENDIX 2

THE NEW LPRC DEAL

Vol.9 No. 48 Tuesday, May 2, 1989 Monrovia, Liberia

LPRC LOSES MAJOR FUNCTIONS

By S. Togba Slewion

A new petroleum company is to be established here shortly with the duties of refining petroleum products for sale locally and for export.

Known as the Liberia National Petroleum Company (LNPC), it has already signed an agreement with government to lease the facilities of the Liberia Petroleum Refining Company (LPRC) to carry out its functions. However, the new company will not totally replace LPRC in its petroleum service to the Liberian public. . . .

LPRC will retain its right as the supplier of petroleum products to the domestic market, but when the new refinery begins operations, it will buy its products from that source.

According to the lease agreement entered into on January 31, 1989, the facilities to be leased by the LNPC include all "facilities, plants, tanks, pipelines, property, equipment, stocks, stores, warehouses, offices and machinery"

However, the agreement noted that excluded from the lease are certain executive and administrative offices, segregated product holding tanks designated for use by LPRC exclusively for storage of its own products, loading racks for the purpose of LPRC supplies to the domestic market, and certain stocks of petroleum products and certain inventories and consumables.

A press release from the LPRC yesterday confirmed the signing of the agreement with the LPRC, but maintained that the LPRC still has the full responsibility for the importation and distribution of all petroleum and petroleum-related products into the Liberian market.

The acting managing director of LPRC, Mr. Perry Zulu, noted that the signing of the agreement with the LNPC should not be misconstrued to be a "take-over" or privatization of the Liberia Petroleum Refining Company. "No shares have been sold, and no assets have been bought", Mr. Zulu clarified.

Described only as a "Liberian company" by the LPRC management, the LNPC, under the terms of the agreement, has been appointed as the sole and exclusive supplier of petroleum products required by the LPRC for sale and distribution on the Liberian domestic market.

Meanwhile, it was reliably learned last night that the new company is a private Liberian entity. It is basically "export-oriented". The company was established to help the gasoline problems in the country and is headed by one Mark Wolmans as president.

When contacted, the chairman of the Board of Directors of LPRC, Minister William Amara Freeman, confirmed the signing of the agreement, but noted that discussions were still going on with local companies and institutions which had been involved in the importation of petroleum products.

However, sources revealed that the lease shall be granted for ten years, commencing February 1, 1989, up to and including January 31, 1999, with an option of a further term of ten years, on the same terms and conditions, except that rent and prices for the optional period shall be agreed between the parties.

In consideration of the foregoing, the agreement noted that LNPC shall pay the lease rental amounts per annum as follows: it shall pay US$1,500,000 each year for the third to the fifth year, and US$3,000,000 each year for the sixth to the tenth year.

"LNPC shall have the unrestricted right to transfer, assign, sub-let, and otherwise convey all of its rights, interests, privileges, and obligations under this agreement to any company or legal entity, provided always, however, that proper notice is given to GOL and LPRC and that such transfer or sub-lease will in no way relieve or discharge LNPC from its obligations hereunder," the agreement added.

Supply and Refining Operations

On supply and refining operations, the agreement explained that for the duration of the lease term, and any option period, GOL shall ensure that by appropriate regulations promulgated, LPRC shall be granted the sole and exclusive rights to supply all petroleum products to the Liberian domestic market, including public and private customers, parastatals, mining and forestry concessions, and all other concessions, adding, "these products shall include, but not to be limited to LPG, gasoline, naphtha, kerosene, jet fuel, diesel/gasoline oil, fuel oil, bitumen and asphalt."

For the LNPC, the agreement added that for the entire life of the agreement, and any extension therefore, LNPC is hereby appointed by LPRC as the sole and exclusive supplier of petroleum products required by LPRC for sale and distribution in the Liberian domestic market.

In order to meet the requirement of the LPRC, the LNPC shall at all times maintain sufficient stock of petroleum products in Liberia to enable LPRC meet the demand of the Liberian market. "It (LNPC) shall have the right to restart the refinery within a reasonable period, rehabilitate the refinery hardware, and shall operate the refinery to the extent viable as an off-shore refining operation with the purpose of supplying the Liberian market or exporting to international market", the document noted.

Incentives and Exemptions

For incentives and exemptions, the agreement noted that the LNPC will be accorded "Free Zone" status for its import/export and refining operations, within the general context of the statutes, exemptions benefits, and policies applicable to companies and industries established and operating within the Liberia Industrial Free Zone.

In this regard, LNPC has been granted the right for the duration of the agreement to import and export all products and equipment required for its operations free of duty, excise tax, import tax, consular fees, tra[illegible] sales tax, profit tra[illegible] management charge [illegible] corporate income tax, and any other taxes,
import, storage, [illegible]
port operations of any n[illegible]
fund whatsoever. This exe[illegible]
shall also apply specifically
importation of all materia[illegible]
equipment required fo[illegible]
rehabilitation, repair, re[illegible]
and operation of the refine[illegible]
agreement stated further.

However, apart from the
tax exemptions, the agre[illegible]
said LNPC will be subje[illegible]
general tax application o[illegible]
profits earned from do[illegible]
Liberia trading operations [illegible]
under the exclusive supply
tract to LPRC." It is said
LNPC shall also pay the G[illegible]
special tax equivalent to
percent of the annual p[illegible]
derived and earned from it[illegible]
port/refining, and export o[illegible]
tions, and shall pay withho[illegible]
taxes on the salaries o[illegible]
domestic employees.

Pricing

The sale price of the L[illegible]
products, whether produce[illegible]
the refinery or imported as f[illegible]
ed products, shall be priced
Monrovia in accordance wit[illegible]
platts CIF MWE Mean q[illegible]
tion, plus a premium of U[illegible]
per metric ton, which shall c[illegible]
product cost, transporta[illegible]
charges, ship financing cost,
ment losses, inspection cost,
marine insurance, the agree[illegible]
added.

For products delivered int[illegible]
LPRC tank for domestic dist[illegible]
tion, the agreement expla[illegible]
that the prices shall be as pe[illegible]
formula above plus a premiu[illegible]
US$0.23 per gallon, which
cover, among others, pr[illegible]
cost, transportation cost,
ment financing cost, ship[illegible]
losses, inspection cost, marin[illegible]
surance, port agencies cost,
bour dues, and discharging
from vessels to storage tank.

It is said that LPRC shal[illegible]
for all products purchased
LNPC in a form and mu[illegible]
satisfactory to LNPC, which
include but not to be limit[illegible]
documentary letters of cred[illegible]
telegraphic transfers, adding
the currency payment shall
United States dollars u[illegible]
otherwise expressly agreed
ween the parties.

Meanwhile, in order to e[illegible]
LPRC to meet its payment t[illegible]
LNPC, it has been agreed
GOL shall provide to LPRC
requisite foreign exchange
facilitate the purchase
petroleum products for
domestic market. It has also
agreed that GOL shall mak[illegible]
propriate adjustment in excis[illegible]
levied on LPRC sales in ord[illegible]
accommodate the foreign
change loss incurred by LP[illegible]
adding, "excise tax on gasoli[illegible]
to be reduced from $1.5[illegible]
$1.10."

The agreement, which bea[illegible]
signatures of a "representa[illegible]
of the LNPC, the chairma[illegible]
LPRC Board, the former ma[illegible]
ing director of LPRC, Mr. F[illegible]
Davies, was attested to by J[illegible]
Minister Jenkins Scott, an[illegible]
proved by the President.

APPENDIX 3

LIST OF PEOPLE INTERVIEWED

International Organizations	Firm/Organization	Phone
* John Hicks, Mission Director	*USAID	
* Ed Ploch, Deputy Mission Director	*USAID	
* Susan Merrill, Program Officer, SPPD	*USAID	
* Fred Witthans, Economist	*USAID	
* Alfreda Brewer, Project Officer for SPPD and SEFO	*USAID	
* Tim Born, Project Officer for CIP	*USAID	
* Maria Beebe, Project Officer for PFP	*USAID	
* Ritu Kumar, Project Officer	*UNDP	*262500

Businessmen	Firm/Organization	Phone
* Yao Kudayah, CPA and President	*Yao Kudayah & Associates	*262478
* William Smith, President of management consulting firm	*Vista Group	*262031
* Eugene Peabody, Vice President of management consulting firm	*Vista Group	*262031
* John Dimarcopoulos,	*Electromotor, Inc.	*221950
* Klaus J. Hoffer, Managing Director	*Rainbow Industries	*223794
* Tennema Sirleaf Delirre	*Villancey Real Estate	
* C.S. Sethi	*Sethi Brothers, Inc.	
* David K. Vinton, President	*Magus Investment Corp	*261918
* James F. Howard, Proprietor	*Howard Bros.	
* Andrew Jardoe, Managing Director	*Liberia Appoliabo Coop Society	

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Businessmen	Firm/Organization	Phone
* Riad Ali Jawad, Managing Director	*Jawad Kaba Diamond Co.	*225539
* Kaba Noumouke, Partner	*Jawad Kaba Diamond Co.	*225539
* Ismail Faraj, Managing Director	*Africof	*222325
* James A. Holder, President	*Liberian Steel Products	*271090
* Len Maestre, V.P.	*Citibank	
* Eugene Cooper, President	*Denco Shipping Lines	*221905
* Roland Barnes, Jr. Managing Director	*Lone Star Insurances, Inc.	
* Roger Ashi	*Ashi Supermarket	
* T. T. Senah, President	*Small Mechanical Workshop Gardnersville	
* Jerome Saah	*Susuman, E. Waterside Sidewalk Market	
* Marketers	*Red Light Market, Monrovia *E. Waterside Sidewalk Market, Monrovia	
* John D. Arthur, Ghanian fisherman	*Patience Good Co.	
* Azeza Barbar, Owner	*General Store, Gbarnga	
* Garter Cooper, Owner	*Cookshop, Gbarnga	
* Ibrahim Kamara, Owner	*Tailorshop, Monrovia	
* Dr. A. Amechi, Director	*Island Hospital, Monrovia	

Associations, Unions and Other Institutions

* Seward Cooper, President of Chamber of Commerce and in Tubman Law Firm	*Chamber of Commerce
* Dr. Christian Baker, Past President of Chamber of Commerce and President of Baker Homegrown Poultry Farms and Rooster Restaurants	*Chamber of Commerce

Associations, Unions and Other Institutions

* Johannes Mulder, Chairman	*Liberia Manufacturers Assoc.	*262372
* Arthur O. Williams, Sec. Gen.	*Liberia Manufacturers Assoc.	*262372
* Deleisa V. Sanoe, Deputy	*Federation of Transport Union Headquarters	
* Winston Mensah, Secretary General	*Federation of Transport Union Headquarters	
* James Q. David Sp. Asst to President	*Federation of Transport Union Gbarnga Branch	
* Edison Amara Kromah Accountant	*Federation of Transport Union Gbarnga Branch	
* James Woods, Machinist Instructor	*Monrovia Vocational Training Center	
* Robert G. Stewart	*Liberia Woodworking and Carpentry Association	
* Jerry Wowah, Chairman	*Liberia Marketing Association E. Waterside Sidewalk Mkt #2	
*Yalyal Seysey, Operations Superintendent	*Liberia Marketing Association E. Waterside Sidewalk Mkt #2	

Government Contacts	Firm/Organization	Phone
* L. Kwia Johnson, Mayor	*Monrovia City Corporation	*261022
* Henry K. Jones, Assistant Minister for Trade and Commerce	*Ministry of Commerce	*224585
* Mrs. Wifo, Director of Foreign Trade	*Ministry of Commerce	
* Johnny Lincoln, Director of Industrial Administration and Supervision	*Ministry of Commerce	
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ANNEX VI

THE FINANCIAL SECTOR: CURRENT SITUATION AND RECOMMENDATIONS

by Ibrahima Seydi

ANNEX VI

THE FINANCIAL SECTOR: CURRENT SITUATION AND RECOMMENDATIONS

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I. THE CURRENT SITUATION

A. The Financial Sector

The Liberian financial sector has several unique characteristics. The National Bank of Liberia, the central bank of the country, has little control over money supply. The absence of exchange controls and import licensing, the Government of Liberia's open door policy, and the use of the U.S. Dollar as legal tender have made the country attractive for investments. At the same time, the use of the U.S. Dollar has created tremendous liquidity problems.

The financial sector is made up of the central bank, six commercial banks and four development finance institutions. The commercial banks are branches of multinational banks and control 80% of total bank deposits. These financial institutions offer a wide range of financial services including commercial banking, development banking, specialized lending to medium and small-scale enterprises, mortgage lending, trade financing, and venture capital. There is no organized and active money market in Liberia due to several factors: the small size of the economy, sluggish economic activity and a relatively low degree of monetization in the economy.

The banking network is located mainly in Monrovia with about 13 branches in rural areas. The foreign banks have a presence only in the capital city because of the subsistence level of economic activity in rural areas, inadequate infrastructure, low degree of monetization, and the high minimum balance requirements. Today, all of the 13 branches are owned by development finance institutions. Despite this low level of indigenization of the banking system, savings have grown from $30 million in 1974 to $60 million in 1988. This is an indication that there exists a large potential for savings mobilization as the monetized section of the economy grows.

B. The National Bank of Liberia

The National Bank of Liberia (NBL) was created in 1974 with all the powers of a central bank except the right of issuing bank notes. U.S. Dollar notes are legal tender in Liberia; Liberian currency consists of coins up to maximum denomination of five. Because of this unique situation, NBL has had little control over money supply except to the extent of issuance of Liberian coins. Therefore, the economy expanded or contracted automatically as a function of the country's balance of payments situation.

During the late 1970s, Liberia began to experience balance of payments difficulties as a consequence of soaring oil prices and the need to finance imports and government expenditures. The April 1979 rice riots and the 1980 change of Government served to

precipitate a crisis of confidence which led to a strong outflow of U.S. dollar assets and bank notes. The IMF estimates that U.S. dollars circulating in Liberia declined by $18 million between 1979 and 1982 to $39.0 million. The liquidity crisis was at its peak. The NBL, with frozen external credit lines and relegated only to minting coins, could not provide the liquidity to sustain the smooth functioning of the economy.

Instead of allowing the money supply to contract which in time would have led to a reduction in consumption and lower levels of imports, the NBL introduced two fundamental policy measures that proved to exacerbate the government's expansionary fiscal policies. First, the Bank minted and put in circulation the L$ 5 coin in 1982, and secondly, raised the reserve requirements of the commercial banking system to 30% from about 12%. These policy measures were designed to put additional domestic resources at the disposal of the government. By the end of 1986, roughly L$ 90 million in coin were in circulation. As a result, the regular circulation of United States dollar notes had largely ceased.

Nonetheless, domestic resources proved inadequate and the need for external financing remained high. These policy measures have greatly contributed to domestic inflationary pressure, a large and rapidly growing parallel market for foreign exchange due to the scarcity of foreign exchange and the virtual collapse of a sound credit and monetary system.

The NBL has been using the regulation of reserve requirements (immobilization of as much as 50% of bank deposits) as an instrument of fiscal deficit financing rather than an instrument of control over creation of credit. As a result, the banking system in Liberia suffers from acute scarcity of cash liquidity. The NBL is unable at present to repay in cash the excess balances of commercial banks. This growth of excess balance is a source of involuntary lending to the government through the NBL operated clearing house. This situation has eroded acceptability of checks in settlement of commercial/private transactions. The table below shows a steep reduction in the number and the amount of checks that pass through the clearing house.

Financial Transactions By Checks

		Average No. of Checks Processed per Day	Average Amount Check in $
December	1983	3374	907
"	1984	1749	904
"	1985	720	1319
"	1986	1395	613
"	1987	669	2398
"	1988	1120	1650

Source: Quarterly Statistical Bulletin (Dec., 1988) The NBL.

It is against this background that one must address the NBL policy toward the SME sector.

1. NBL Policy Towards the SME Sector

Generally, one role of the central bank towards the SME sector is to channel funds to the banking sector for special SME lending programs and to establish and operate credit guarantee schemes for SME loans. Special lending programs for SMEs usually ensure credit on concessionary terms and the credit guarantee schemes insure (partly) the banks involved against losses on their SME loans. It is important that certain credit lines be earmarked for SMEs. Otherwise they hardly get any loans from the formal credit sector. In most developing countries formal credit is scarce, and in competition with large companies, there is normally little left for the SMEs.

The only conscious effort of the NBL to finance the Liberian SME sector started in 1981 with the signing of a US $3.4 million loan from the International Development Agency. The NBL played the key role by lending funds at attractive spreads to the participating financial institutions, i.e., the Liberian Bank for Development and Investment, the Agricultural and Cooperative Development Bank and the Small Enterprises Financing Organization. Most of these funds went to finance already existing businesses.

A credit guarantee scheme was also introduced under the IDA credit. The NBL established a special credit guarantee fund with an initial contribution of $500,000 to provide coverage to the scheme; the aim was to encourage lending to Liberian entrepreneurs by providing a degree of protection to the banks against possible losses on loans. The response to the scheme was not very encouraging. The objective

of encouraging banks to increase their lending to Liberian-owned SMEs has not been achieved to the extent expected. On the other hand, the NBL has not been happy about the quality of lending and the attitude of banks in that they treat the guarantee as a measure of first resort rather than "last resort".

In summary, the NBL has not played a substantive role in SME promotion in Liberia. This situation is due mainly to the Bank's lack of financial resources. Originally, the Bank was restricted by its own modest capital base and its authority to mint only change coins. This situation precluded any ability on the part of the Bank to expand and contract the supply of money in any substantial manner. Later, when the Bank proceeded to issue the $5 coin, it had already become heavily indebted and completely beholden to the commercial banks. In addition, the expansion of the stock of money was monetized by advances to the government to finance recurrent expenditures rather than to finance productive activities through the banking system. In the case of IDA credit, the NBL played only an administrative role by establishing a project analysis section to coordinate the lending. Concerning the credit guarantee scheme, its success has yet to be proven. The NBL is also responsible for the management of foreign exchange reserves of Liberia and the regulation of Interest notes. Its actions in these areas has some effect on SME development in the country.

2. Management of Foreign Exchange

The NBL is responsible for constituting and managing the country's foreign exchange reserves. At present, however, Liberia's foreign exchange reserves are virtually depleted, and the country is now experiencing difficulties in conducting business under one of the most severe shortages of foreign exchange in its history.

Prior to 1982, when the US dollar constituted the bulk of the money supply, the need for monitoring external reserves was not as pressing as it is today. With the introduction of the L$ 5 coin, and the flight of the US bank notes from Liberia, a parallel or extra-legal foreign exchange market emerged where Liberian coins were traded at a discount to the US dollar. This discount gradually increased until October 1988 when US 1.00 was around L$ 2.30. Meanwhile, the official exchange rate remained one to one, resulting in a de facto dual currency system.

In spite of the problems and distortions in the current money system, the parallel market has served as a source of needed, if more expensive, foreign exchange for importers. Imports have actually increased since the parallel market emerged. Much of the foreign exchange, however, seems to have been used

to buy consumer goods. Manufacturing establishments have encountered some difficulty in obtaining foreign exchange for raw materials.

Since June 1986, exporters have been required to surrender 25 per cent of their foreign exchange earnings to the Government of Liberia in exchange for Liberian dollars at the official exchange rate. These regulations are intended to enable the authorities to obtain foreign exchange for official purposes, including debt service. A comprehensive import surveillance scheme (CISS) through the Swiss firm of Societe Generale de Surveillance (SGS) has also been instituted.

It is incumbent upon the authorities to institute internal and external corrective measures to arrest and reverse this deterioration in the foreign exchange reserve position. Limited accessibility to foreign exchange is one of the constraints to SME development.

3. Regulation of Interest Rates

Interest rate policy is used to obtain a desirable pattern of resource allocation in order to promote orderly and sound growth in the economy as a whole. It is used to encourage the mobilization of savings and to supply resources for sound investment opportunities. The NBL has issued several regulations setting savings and lending rates, taking into consideration both the domestic and international financial environment. However, today, interest rates within the commercial banking system do not conform to the levels set by the NBL.

Actual lending rates of commercial banks vary in relation to factors such as credit rating, quality/quantity of collateral, and profitability. Whereas deposit rates are based on money market rates prevailing in New York, lending rates in Liberia are very close to the maximum permissible under usury law (25% per annum). This has led to a very high spread between deposit rates and lending rates.

C. The Commercial Banks

1. Deposits and Interest Rates

Six commercial banks mobilize 80 per cent of customer deposits. These banks include Citibank, International Trust Company, Eurobank, Tradevco, Bank of Credit and Commerce International, and Meridien Bank. These funds represent the single largest source of funds for banks. Over the years, there has been an uneven trend in bank deposits; since 1983, however, confidence

in the banks has partially restored and the level of deposits has been increasing.

As shown in the table on the following page, savings deposits have been increasing due to an increase in the number of new accounts and an increase in the average size of accounts. Demand deposits also registered some growth both in terms of account numbers and in size of average accounts. Only time deposits fell sharply. This is mainly due to interest rates on time deposits which are often less than prevailing deposit rates in New York and London. The deposit rates are not attractive enough to discourage outflow of funds. Despite this downward trend, banks have managed to keep some big accounts. They have become highly selective in their deposit-taking.

The NBL's high reserve requirements coupled with the high balances in excess of reserve requirements account for immobilization of almost 50% of bank deposits. This has been a disincentive to commercial banks in their deposit mobilization efforts and partially explains their apathy in reaching out to rural areas where money is still hidden "under the carpet". In addition, commercial banks have limited possibilities for lending deposits, but to finance imports which in turn creates higher demand for foreign exchange.

Lending by commercial banks forms the most important source of short term finance and is concentrated in trade finance. Most of the lending to the private sector goes to businesses owned by foreigners and may contribute to the perpetuation of the "traders economy". Of total bank credit in 1988, more than 50% went to finance trade-related activities, 29% to the Government of Liberia and public corporations, 13% to agriculture, 6% to construction and 2% to the manufacturing sector.

The operations and lending policies of commercial banks have contributed to a huge increase in commercial banks' profitability. The consolidated statement of income and expenses of commercial banks shows that total income jumped over 100% between 1987 and 1988. This is due in part to increased income from interest on loans and advances because of (a) the wide interest spread between deposit and lending rates, (b) the high minimum balance requirement in deposit accounts, and (c) high unregulated service charges. In addition, income from foreign exchange transactions contributed to more than 25% of increase in income between 1987 and 1988. This large increase has contributed to increased profit from current operations even with the augmentation of current operating expenses.

TABLE

Trend and Composition of Deposits with Commercial Banks

($ million)

Period	Demand Deposits			Time Deposits			Savings Deposits		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
1983 Dec.	55,030	4,693	12,330	28,198	363	77.680	40,178	49,689	0.809
1984 Dec.	61,060	4,496	13,580	16,130	181	89.116	37,060	52,535	0.705
1985 Dec.	67,221	4,108	16,364	18,618	128	145.453	36,207	51,426	0.704
1986 Dec.	81,861	4,385	18,668	10,874	95	114.737	41.644	43,670	0.954
1987 Dec.	92,733	4,816	19,255	8,091	88	91.943	47,661	51,552	0.925
1988 Dec.	86,023	5,416	15.892	8,925	80	112.312	58,659	55,410	1.059

Note: (1) = Amount (000 L$)

(2) = Number of Accounts

(3) = Average Amount

Source: Quarterly Statistical Bulletin of NBL, December 1988

The SME Team's interviews with bank executives indicate that lending policies will not change in the near future and credit from these institutions to Liberian owned businesses is very unlikely. Three main reasons are given to explain the commercial banks' shift away from such credits:

- Most local businesses have been undercapitalized and are structurally weak in terms of their ability to cope easily with changing economic conditions. Management has been generally inadequate to deal with rapidly changing conditions.

- Businesses have been unable to meet repayments on their debt obligations for various reasons, many of which have been outside of their control. External influences, such as falling rubber prices, made it impossible for some businesses to continue operating. In the coup of 1980, many businesses suffered losses from looting and simply could not replace the goods they needed to operate.

- Once a business defaults on a loan, it takes a long time to bring the case to court. In the end, the court invariably decides in favor of the debtor, hence banks have been unable to collect their money or collateral. This has happened so many times that the banks have lost confidence in courtroom remedies to their credit problems. The result? Little credit for indigenous businesses.

D. The Development Finance Institutions

1. The Liberian Bank for Development and Investment (LBDI)

The LBDI was established in 1965 for financing productive enterprises in manufacturing, agriculture, tourism and services. The capital structure of the bank is provided in the Annex. In the past, the bank's form of lending has been medium to long-term loans with 6 to 10 year maturities, typically for the financing of capital assets. Presently, LBDI's loans are largely short-term working capital loans. Analysis of the LBDI Annual Report showed that in 1988, 33.6% of the approvals had maturities of under 24 months and the remaining 66.6% had maturities between 24 and 71 months.

In recent years, most of LBDI financing has been for the service sector dominated by merchants. The bank argues that the lack of foreign exchange has curtailed its traditional financing of capital assets for industry. Outside of the IDA credit, very little financing has gone to the SME sector.

2. The Agricultural Cooperative Development Bank (ACDB)

The ACDB was established in November 1976 to carry out the following functions: (i) provide agricultural credit either directly and/or through cooperative societies; (b) develop rural areas; and (c) provide technical assistance to farmers and cooperatives. The capital structure of the bank is provided in the Annex.

Of all the financial institutions in Liberia, ACDB has the most extensive branch network. It has eight branches including the main branch in Monrovia. The remaining seven branches are in rural areas.

As in the case of LBDI, most of the ACDB's loans (70%) financed working capital for mainly state enterprises; 20% of the loans financed produce marketing and commercial activities. In recent years, ACDB has been getting more of its revenues from commercial originated activities. For instance, commission on letters of credit, acceptances, and others accounted for 62% of total revenues in 1987 as compared to 44% in 1986. ACDB has participated in the IDA SME project scheme. The bank is also involved in the Lofa County Agricultural Development Project, Bong County Agricultural Development Project and the Liberian Rubber Development Unit.

3. The National Housing and Savings Bank (NHSB)

The NHSB started operations in 1976. It is fully owned by the Government of Liberia with paid-in capital of $5.0 million. Its main objective was to provide housing mortgage loans and personal loans; its charter also authorized it to undertake commercial banking. After several bad loans to the housing sector, the bank stopped making loans for housing in 1979 and became increasingly involved in commercial lending. Presently, commercial loans account for 80% of the total loan portfolio; real-estate mortgages account for 15% of the portfolio. The NHSB did not participate in the IDA credit for SME financing.

4. The Small Enterprises Financing Organization (SEFO)

Created in 1981, SEFO is a component of an official project under the title "Small and Medium Enterprise Development." SEFO's main objective is to assist Liberians in establishing and managing small and medium-scale enterprises. The program offers technical, managerial, and financial assistance to small businesses.

The Small and Medium Enterprises Department (SME) at the National Investment Commission (NIC) provides technical and

managerial services, while SEFO is responsible for financial assistance to small enterprises in the form of term loans, working capital loans and equity participation. The capital structure of SEFO is provided in the Annex. Its shareholders are LBDI, ACDB, NHSB, The Liberia Finance and Trust Company (LFTC), the Netherlands Development Finance Corporation (FMO) and the PVO Partnership for Productivity/Liberia (PfP/L). USAID is assisting SEFO through the Small and Medium Enterprise Development Support Project. Volunteers in Technical Assistance (VITA) became USAID's implementing agency in January 1988, replacing Partnership for Productivity which ceased operations.

As of April 30, 1988, SEFO had committed 250 loans and disbursed L$ 2,024,702. Loans have averaged about L$ 8,100. The loans finance a wide variety of activities, including vehicle repair facilities, metal working, cement block production, pharmacies, retail shops, tailors, advertising companies, and poultry and pig production. It is important to note that SEFO has concentrated on the financial and managerial needs of the relatively well-off small scale firms. All of the 49 enterprises which have benefited from the loan scheme thus far were in existence prior to benefiting from the loan.

SEFO is facing three major financial problems: (i) heavy long-term debt relative to equity; (ii) massive losses due to its obligation to repay foreign debt in hard currencies, and (ii) bad loans. The two first problems are being solved as a result of major recapitalization decisions taken by the shareholders and Board. FMO, the largest creditor, has agreed to convert its loan to non-cumulative 2 1/2% preferred stock redeemable in 10 years and to waive the foreign exchange losses. The other owners and USAID agreed to take actions to reduce the debt burden and provide additional capital. These decisions will improve SEFO's debt-equity ratio.

The final major problem of bad and uncollectable loans comes from commitments made during SEFO's early years, 1983-1985. Since 1987, the staff has been strengthened; in addition, better procedures for appraising projects and monitoring collections have been instituted. These steps have improved the situation, and recent loans are sound as a group. The problem of what to do with the early loans remains however.

SEFO has been the biggest beneficiary of IDA credit. Out of 89 projects provided under the credit totalling $2 million, SEFO utilized $1 million for 54 projects, ACDB $630,000 for 25 projects and LBDI $370,000 for 10 projects.

5. Partnership for Productivity (PfP)

Partnership for Productivity/Liberia (PfP/L) was established in 1974 by PfP/International. PfP/L's broad mandate was to diversify the economic base and improve the standard of living in Nimba County. Initially, it concentrated its early efforts within the Lamco concession area to generate alternative employment opportunities for thousands of mine workers. As the difficulty of this proposition became more apparent, PfP/L reoriented its program toward a rural development project. Its activities included small business assistance, savings program, and loan program.

The small business management includes working capital management, business planning and organization, and fixed asset management. As of December 1988, 9,452 clients have benefited from such assistance. This number includes not only loan clients but also Saveway clients who receive assistance in rudimentary accounting and bookkeeping.

The Savings Program: Compared to the $181,383 in savings mobilized in 1987, PfP/L was able to mobilize savings amounting to $385,259 in 1988. Of this amount, $194,880 was "rolled-over" in the loan program. The average amount of savings per saver in 1988 was $40.

The Loan Program: Total amount of loans disbursed in 1988 amounted to $811,256 compared to $331,520 loaned out in 1987. 2,519 new jobs were generated; the cost per job created was $322.

The credit scheme of the PfP appears to be quite effective for small enterprises. Their credit assistance has concentrated on productive and service oriented activities such as poultry, beer processing, carpentry, tailoring and retail shops. The average loan size is $500. Since 1980, 60 percent of the loans have financed expansion of existing businesses and the remaining have been used for new businesses. The repayment rate has been as high as 95 percent. The main reason for the high repayment rate is the efficient loan collection system of PfP and its grass roots approach. PfP works closely with the Market Women's Association and Farmer Development Associations. These relations have supported the mobilization of savings and as a means to check references or borrowers.

PfP has a relatively large staff: 43 people, including 27 individuals who are actively engaged in extension or advisory services to the enterprises which have received the loans. The location of PfP and even its branch offices are such that small and micro enterprises in Monrovia are not likely to benefit from their support. PfP is consciously following a rural development strategy and proposes to expand into neighboring

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Bong and Lofa Counties. The headquarters is in Yekepa, about 500 kilometers northeast of Monrovia. The branch offices are at Ganta, Sanniquellie, and Tappita. PfP plans to move its headquarters to Ganta.

The location of PfP and its branch offices are such that small and micro enterprises in Monrovia are not likely to benefit from their support. The headquarters and the branch offices are very far from Monrovia. It is expected that in the future PfP services will be extended to other cities in the country. But this will certainly require an increase in resources to the PfP if it is to replicate its activities nationwide.

II. RECOMMENDATIONS

A. Commercial Banks

The World Bank's experience in developing countries shows that, in general, commercial banks perform better than any other type of finance institution as as credit intermediaries for SME programs. In Liberia, however, the commercial banks did not participate in the IDA line of credit. The banks believed that too much risk was involved and that the large number of small loans would be heavy to administer.

To get the commercial banks interested in the SME sector, it will be necessary to introduce certain credit guarantee schemes and a cost sharing of administration. This could be arranged as a direct cash contribution or as increased interest spread to the banks on their SME lending. It is important to note, however, that a 10% spread on IDA credit was not attractive enough for commercial banks to get involved in the IDA credit scheme; and yet this spread is very high compared to the spread prevailing in other countries.

For some time the NBL will have no influence to shift the flow of commercial credit away from traditional bank financing toward appropriate economic development projects. The NBL's current credit guarantee schemes are not perceived by the banking sector as a solution in lowering the risk burden. Investigations, bureaucracy and suspicion seriously delay the payment of the insurance on losses. The insurance premium is also too small compared to the risk. For a guarantee scheme to be successful, it is important to incorporate the following guidelines:

- Not all risk should be covered. At least 30-50% of the risk should be left to the lending institution. If not, loan management may become lax resulting in increased arrears and lower recovery rates.

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- Premiums and other operating incomes should be carefully balanced against risk and operating costs.

- Payment on announced losses should be promptly executed. Investigations should be carried out afterwards.

B. Development Finance Institutions

LBDI and ACDB have participated to some extent in the IDA credit scheme for SME projects, however, they have been normally extending credit to larger projects or to commercial activities. The NHSB, after considerable arrears and low loan recovery rates in the housing sector, has shifted toward commercial operations. These three banks do not have the staff and apparatus to deal with a lot of small loans, even though in theory there are financial institutions whose activities are geared to meeting the financial needs of SMEs; they are quite happy that organizations like SEFO cater to the needs of the lower end of the market. In some cases, they have even replaced direct lending to SME projects by developing on-lending schemes with SEFO.

SEFO and PfP are the primary sources of finance for SMEs. Strengthening these organizations would therefore seem to be the most viable alternative. In assisting these two organizations, it is important to keep in mind the nature of the risk involved in dealing with the lower end of the market. A program of assistance should be committed to take certain risks in its lending to the SME sector and therefore be prepared to lose money and write-off loans to a certain extent. In this context, a 100% loan recovery rate would be a failure, indicating that the program has been too restrictive and cautious in its lending. The aim should be loan recoveries of 80-90%. These considerations, if kept in mind, would permit a much fairer assessment of SEFO and PfP performances.

C. Composition of a Financial Package for SME

The proposed comprehensive financial package for SME development in Liberia includes the following components:

1. Credit for investment and working capital
2. Venture capital
3. A leasing/hire purchase arrangement

Below is given a short description of these different financial components.

1. Investment Credit and Working Capital

Given the very little credit available in the financial system for investment and working capital for the indigenous enterprise, it is recommended that USAID makes this type of credit available to the Liberian entrepreneur through SEFO and PfP. Investment credit comprises medium and long-term loans for purchase or lease of land, buildings, machinery, tools, equipment and vehicles. Working capital credit should be extended as overdraft facilities. The credit will be thoroughly balanced against the needs and the financial ability of the entrepreneur in question.

a. Size of Loans

The size of loans should be tailored to the financial needs of the entrepreneurs and properly balanced by equity and credit. It is extremely important that sufficient overdraft facilities be provided for working capital. It is recommended to increase overdraft facilities gradually and in accordance with growing needs, and to avoid over-financing. The aim is to establish a long-term relationship between the financial institution and the entrepreneur by starting slowly, so that the entrepreneur becomes accustomed to loan servicing and other banking requirements before a larger loan is extended.

b. Pay-Back Period

The pay-back period of a loan for investment should in general reflect the average lifetime of the asset financed. A short grace period could be considered for the pay-back of principal, but not for interest payment. It is important that loanees start to pay back small amounts to the bank immediately after the loan has been obtained to ensure loan recovery discipline. For the same reason, it is important that the payment frequency be rather high, if possible once a month.

c. Interest Rate

Loans should be extended at market interest rates; concessional loans should be avoided. The recommendation is based on the following points:

- SMEs, particularly micro entrepreneurs, pay an exorbitant price on credit from suppliers or money lenders. These entrepreneurs would find institutional credit at cost recovery rates to be a great improvement in their position. Their real problem is not so much the interest rate, but the timely and adequate supply of funds.

- Cheap money would be subject to abuse as there would be temptations to on-lend for profit.

- Subsidized credit would distort business decisions in favor of capital-intensive methods of operations and might result in selection of non-viable projects or sub-optimal operation of the enterprises involved.

d. Collateral and Equity

We recommend that the collateral and equity requirements follow the present practice of development finance institutions in Liberia. For collateral, it is normally 100% of the total lending, and for equity it ranges between one-third and fifty percent of the total capital needed. At a first glance, 100% collateral seems very high, but one should remember that the assets for which the investment loan is extended is usually included in the total collateral package. However, a viable enterprise should be supported irrespective of its possibility to present collateral or equity. In the case of no collateral or equity, venture capital and/or a leasing arrangement is recommended.

e. Foreign Exchange

Because of the shortage of foreign reserves described earlier, accessibility to foreign exchange is one of the constraints SMEs will have to face. This situation is extremely troublesome for the enterprises dependent on import of capital goods and raw materials for their production. The foreign exchange risk for the period between placement of purchase orders and the actual payment should not be borne by the small entrepreneurs. A mechanism should be set to insure him against such risk.

2. Venture Capital

Venture capital or equity participation is a tool of financial support to viable projects lacking collateral and equity. It ensures the sponsor some control over the enterprise. Considering the weakness of the judiciary system in Liberia, the venture capital formula could be a good way for financial institutions to protect their funds and loanable capital. In the venture model, the partners' agreement can ensure the venture partner's right to take over the enterprise or part of it, if the entrepreneur defaults.

The entrepreneur should be given, however, the right to take over, i.e., purchase the share of the venture partner after a period within which he has proved his ability to run the business and pay down on his loan. This type of financial arrangement exists in Liberia in the transport business and is known as "work and pay back system". For the venture to be

successful, certain rules should be kept in mind at the time of the withdrawal. Withdrawing normally creates liquidity problems for the entrepreneurs and valuation problems concerning the worth of the company. In order not to destroy the success of the enterprise promoted, it is necessary to view the venture participation as a long-term engagement and to consider the possibility, at a certain stage, of transforming the equity capital into long-term debt.

3. Leasing

Leasing or hire-purchase system is another means to protect the funds extended to an enterprise. In a leasing arrangement, the ownership of the items continues to be with the leaser until the last payment on the lease has been made. Thus, if the entrepreneur defaults, it is rather simple to reclaim the assets.

Venture capital and leasing would be more relevant for SEFO rather than PfP. With some capital investment, they constitute an important means of financial support. Prior to introducing the arrangement on a broader scale, it should be tested on a pilot basis in selected projects of different size and nature. PfP clients have little demand for capital investment loans. On the other hand, they normally need working capital. Financing can be based on a group membership and a kind of solidarity concerning the repayment of loans. Loans should be extended without many formalities and no collateral or equity should be required. The loans should be smaller and on shorter terms. Interest should be at commercial levels.

Annex

Capital Structure of LBDI

Common Stock of 490,393. Value of each is L $10 a share on a net asset basis

Shareholders as of December 1988

Class "A" Shares	No. of Shares	
Government of Liberia	87,868	19.9%
International Finance Corporation (IFC)	87,866	17.9%
National Bank of Liberia (NBL)	25,392	5.2%
LAMCO Company	29,024	5.9%
Bong Mining Company (BMC)	22,336	4.6%
Private Liberians	5,616	1.1%
Total Class "A"	258,102	52.6%
Class "B" Shares		
Firestone Plantation Company (FPC)	8,096	1.7%
Citibank, N.A.	26,276	5.4%
International Trust Company (ITC)	20,242	4.1%
IMI International S.A. (IMI)	10,432	4.0%
DEG	32,951	6.7%
Insurance Company of Africa	13,959	2.8%
European Investment Bank (EIB)	31,294	6.4%
Commonwealth Development Corporation (CDC)	36,361	7.4%
IEE Holding S.A.	13,680	2.8%
Caisse Centrale de Coop. Econ. (CCCE)	30,000	6.1%
Total Class "B"	232,291	47.4%
Total Class "A"	258,102	52.6%
Total Outstanding Shares	490,393	100%

Sources: LBDI Annual Report 1988

Annex

Capital Structure of ACDB

Authorized:

Common Stock of 50,000 shares of $100 each
Issued and fully paid 33,859 shares

	1987 $	1986 $
Government of Liberia	3,250,000	3,250,000
Liberia Produce Marketing Association	105,000	105,000
Liberia National Federation of Cooperative Societies	20,900	20,900
Liberia Credit Union National Association	10,000	10,000
Stated Capital	3,385,900	3,385,900
Capital Surplus		
Government of Liberia	3,257,686	3,257,686
	6,643,586	6,643,586

Sources: ACDB Annual Report 1987

Annex

Capital Structure of NHSB As Of December 1987

Authorized:

Class A	3,000,000 common shares of L$ 10 each	
Class B	2,000,000 common shares of L $10 each	

Issued:

Class A	Government of Liberia	L $ 5,000,000
Class B	Banque Internationale Pour l'Afrique Occidentale	L $ 130,510
		L $ 5,130,510

Note: Class "A" shares are to be held by the Government of Liberia only. Apart from this restriction, the two classes of shares are the same in all other respects.

Sources: National Housing and Savings Bank. Financial Statement December 1987

Annex

Consolidated Statement of Income and Expense
of Commercial Banks (in '000 L $)

	1988	1987	Variation %
A. INCOME			
Interest on Loans and Advances	18,527	10,598	75
Interest on Balances with Banks	2,762	2,025	
Foreign Exchange Income	10,591	2,346	351
Service Charges and Fees	8,835	11,539	
Other Investment Income and Rents	896	35	
Total Current Operating Income	41,611	26,473	57
Extraordinary Profits and Recoveries	2,681	144	
TOTAL INCOME	44,292	26,617	66
B. Expenses			
Salaries and Related Payments	9,075	6,259	
Interest Paid on Deposits	3,498	2,082	
Interest to Banks and Other Interests	3,986	965	
Rent Depreciation and Provision for Losses	13,073	8,167	
Total Current Operating Expenses	29,632	17,473	
Taxes on Income and Profits	2,967	143	
Total Current Operating Expenses after Taxes	32,599	17,616	
Losses and Charge-offs	624	346	
TOTAL EXPENSES	33,223	17,962	85
C. Profits			
Profit from Current Operations	11,979	9,000	33
Profit from Current Operations (after taxes)	9,012	8,857	
Profit including Extraordinary Profits and Losses	11,069	8,655	28

Sources: Quarterly Statistical Bulletin of NBL December 1988

List of Persons Contacted

A. International Organizations

Name	Firm/Organization	Telephone
* John Hicks, Mission Director	USAID	262023
* Ed Ploch, Deputy Mission Director	"	262043
* Susan Merrill, Program Officer, SPPD	"	262883
* Alfreda Brewer, Project Officer, SPPD, SEFO	"	"
* Fred Witthans, Economist	"	"
* Shirley Erves	"	"
* Tim Born, Project Officer, CIP	"	"
* Juliet Born, Project Manager CARI	"	"
* Maria Beebe, Project Officer PFP	"	"
* MacArthur Pay-Bayee Agricultural Economist	"	"
* Michael Barford Economic Advisor	EEC	262278
* Jean-Pierre Filippi Counsellor	French Trade Commission	262030

B. Government Contacts

* Pete Norman, Director	National Investment Commission	224224
* Mr. K. Khosla, Chief Tech. Advisor, UNIDO	NIC	"
* Ms. Leny Van Oyen, Economist UNIDO	NIC	"
* Mr. Hanafee Massaquoi, Coordinator	Liberia Business Development Fund	225422

C. National Bank of Liberia

* William Flah, Manager	NBL	222580
* Thankor Desai, Advisor to the Governor	NBL	222580

D. Private Sector Contacts

1. Banks

* James S.P. Cooper, Gen. Mgr.	LBDI	261111
* Eric M. Freeman, V.P.	Meridien Bank	221097
* N. J. Viegas, Gen. Mgr.	Meridien Bank	221097
* V. Minikon Weah, Mgr. of Proj.	ACDB	224420
* Riccardo Sembiante, V. P.	Tradevco Bank	225035
* Leonard Maestre, V.P.	Citibank	221289
* Samuel W. Thompson, Manager	Citibank	221289
* Alvin Eastman, V.P./Marketing	NHSB	222402
* Raymond Abou-Samra, V.P.	ITC	225946
* Richard Morris, President	SEFO	262039
* Euphemia Yaidoo, Project Manager	SEFO	262039

2. Other Organizations

* William Smith, President	Vista Group	262031
* Eugene Peabody, V.P.	Vista Group	262031
* David Vinton, President	Magus Invest. Corp.	261918
* Fr. Joseph Brown, Director	Arthur Barclay Inst.	262570
* Dr. Christian Baker, President	Rooster Rest.	261125
* Dr. Alfred Kulah, General Manager	PfP/Liberia	Yekepa Nimba Cnty
* Mohammed Waritay Extension Officer	PfP/Liberia	Yekepa Nimba Cnty

*	Woodworking Workshop	PfP-funded Project	Yekepa
*	Pharmacy, Camp 4 (Lamco)	PfP-funded Project	Yekepa Nimba Cnty
*	Gen. Joseph Farngalo, Owner	Cash Checks & Buy Bread Corp.	Sanniquellie Nimba Cnty
*	George Nyuma, Proprietor	Uncle George's Disco	Ganta Nimba Cnty
*	Ashok Kumar, Engineering Mgr.	LAMCO	Yekepa Nimba Cnty
*	Robert Bright, Owner	Bright Poultry & Pig Operations	Kakata Margibi Cnty
*	William Appleton, Chairman	Architecture & Town Planning Consultants	Monrovia
*	Robin Parker, Representative in West Africa	Margurette Pinson Research Institute	
*	James Peters, Manager	Peters Tile Co. (PETICO)	Paynesville Monrovia
*	Dr. Walter Wiles, Director	CARI Project	Suakoko Bong Cnty

ANNEX VII

SME PROGRAM STRATEGY: ECONOMIC AND REGIONAL CONSIDERATIONS

by Leo T. Surla, Jr.

ANNEX VII
SME PROGRAM STRATEGY
ECONOMIC AND REGIONAL CONSIDERATIONS

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I. INTRODUCTION

Economic development has been described as the process of allocating scarce resources to achieve specific objectives. The intent is to increase specific measures of economic well-being such as per capita income, health indicators including life expectancy and infant mortality rates, and assets and infrastructure indicators such as quality housing and electricity consumption. Ideally, the political system enveloping the economy allows for freedom of choice in professions or economic pursuits, places to live, and individual life styles.

The premise of free enterprise as proposed by the classical (18th century) economist, Adam Smith, is that supply of goods and services will equal demand at prices that optimize the allocation of resources as inputs to production. The key assumptions are the equal access to information and the absence of constraints to a free market. In this classical model, the role of the government is limited to providing the necessary infrastructure such as roads and providing for national defense. The key player is the entrepreneur who, in seeking profit, assists in satisfying the demand for goods and services. Capital in the form of machinery and equipment increases overall productivity and results in declining costs.

Theoretical systems devised in the 19th Century proposed a stronger role for the state. In these socialistic systems, private ownership of capital was outlawed or proscribed. Infrastructure was expanded to include health and education. Production targets took the place of the profit motive.

Modern economic systems are mixed and contain elements of both basic economic philosophies. The United States developed the Social Security System in the 1930's. China and Russia are now moving towards free markets.

Liberia has generally followed a policy of minimal regulation and interference in the economy. Private ownership of property is a recognized and respected practice in the Liberian economy although ownership of land is restricted to Liberians. When rubber plantations were abandoned due to reduced rubber prices or political conditions, the trees were not tapped by others. Deserted houses are not generally occupied by others without permission of the owner.

Liberia's open door policy encourages investment and participation in the economy by non-Liberians. The Lebanese and Indian communities are vital to commerce, agriculture, and the limited

manufacturing sector. In addition, a new generation of Liberians is entering the economy as entrepreneurs. Individually and sometimes in association with Lebanese and expatriate interests, Liberians are engaging in developing small and medium enterprises.

Liberia owes a debt to individuals and organizations that, in the spirit of entrepreneurship, innovation and profit motivation, have increased the economic activity of the nation. Liberians have not all shared equally in the benefits of these economic activities and the challenge is to enable others to participate and create value themselves. SME development offers opportunities for Liberians to contribute and participate directly in the Liberian economy.

II. OPPORTUNITIES FOR SME DEVELOPMENT

To facilitate the development and expansion of SMEs, areas of opportunity were investigated. SMEs may supply these existing areas of economic activity with necessary inputs or create value added to the products that are generated. These categories include the following:

- Export Agriculture: Major products are rubber, coffee, and cocoa.

- Agriculture for Domestic Consumption: Agriculture produce i. created for local or national markets and these were reviewed. Fisheries were also reviewed.

- Retail and Wholesale Trade, Services: Monrovia has a highly developed wholesale and retail trade structure based primarily on export consumer items for a selected segment of the population. Examples of professional services include health care and accounting. Tourism can generate foreign exchange in addition to providing possibilities for SME development.

- Extractive Industries: Iron ore, diamonds, and timber are major products for export.

- Manufacturing and Processing: While this area is not highly developed in Liberia, some possibilities exist in the export area.

III. SME PROGRAM POSSIBILITIES

The required inputs to generate goods or services are capital, management, technology and labor. Programs to support SMEs generally support one or more of these necessary inputs as outlined below:

- Capital: Capital in classical economics referred to equipment as a means of production as in the case of factories. Capital also can be interpreted as the money necessary to purchase equipment and to finance ongoing operations pending the receipt of income. Programs that support the financing of SMEs include loan guarantee programs, provision of funds to make loans, and the associated support for making loans to SMEs.

- Management: Distinctions are sometimes made between the entrepreneur, who identifies business opportunities and secures the necessary resources, and managers, who operate the business and make decisions to maximize profit. In the case of SMEs, the two functions are usually performed by the same person or partners. Programs to support management include entrepreneurship identification and training, assistance in obtaining necessary financing, training in management and business planning, and services to management such as marketing and accounting.

- Technology and Technology Transfer: In classical economics, technology was envisioned as mechanical machinery to increase the productivity of labor. As we approach the year 2000, technology has an expanded meaning. For example, all industries are taking advantage of advances in communications and information handling. Retail and wholesale organizations in Monrovia are using computers to assist in inventory control and accounting. Tailored applications and introduction to these and other tools can assist SMEs in addition to the adoption of appropriate technologies as experienced in other countries An example of such technology transfer is inland fisheries development in Liberia by the Peace Corps.

- Labor: Liberia lags behind other African countries in the provision of trained personnel. Unlike some

countries, Liberia does not have an abundance of educated laborers.

IV. MISSION POLICY OPPORTUNITIES

While an agency equivalent to the Small Business Association does not exist in Liberia, government policy and programs do affect SMEs along with other components of the economy. Information gathering and data analysis will result in the identification of policies as constraints to or opportunities for SME development. The Mission can support the collection of economic data on SMEs. USAID activities in human resource development, education, health and population are necessary to the provision of a healthy and productive labor force.

In reviewing areas for the development of SMEs, there is a tendency to overlook and underplay the importance of the public sector. Major procurements, in which SMEs may play a role, are made for the military and construction, primarily highway development and maintenance. The Mission can encourage the Government of Liberia to set aside proportions of construction funds for SMEs.

Similarly, the Mission can encourage the set-aside of funds for SMEs in the contracting of the Mission, the U.S. Embassy and other U.S. agencies in Liberia such as the Military Mission and the United States Information Service (USIS).

The business community feels comfortable with the Doe Administration. Key businessmen have access to the Executive Mansion and feel that there is a pro-business attitude. A key element to business community confidence is the long history of U.S. interest in Liberia. One respondent, a European businessman, said, "If the Americans leave, we will all be shaking."

V. URBAN/RURAL AND RELATED CONSIDERATIONS

The dynamic and complex Liberian economy contains several unique characteristics attributable to historic, political, and cultural factors. The distinctions presented below are proposed as aids to subsequent SME program development.

A. Internal Market and Production Segments

The economic development literature includes discussions on the dual economies of developing countries that rely on extractive industries for export production. The classic case is United Fruit of Central America which, in the production and harvesting of bananas, paid low wages to local workers and used foreign nationals as managers who lived in an enclave separate from the local economic and social environment. Very little economic contact was made with the local economy and two systems existed side by side. One was thriving and generating profits while the other stayed primarily at a subsistence level. The Liberia case has elements of the dual economy with additional complications.

- Monrovia/Rest of Liberia: Monrovia with 22% of the national population is responsible for a disproportionate share of economic activity in terms of consumption and production.

- Consumer Markets: At least three levels of consumer markets can be identified:

  - Expatriate and Liberian Professionals

  - Government Employees and Mid-level workers

  - Consumers of local agricultural produce and local generated services

- Export Industries: The extent of the contact of these industries with the Liberian economy varies. A rough ranking, with the least contact shown first is as follows:

  - Timber
  - Iron ore and Diamonds
  - Cocoa and Coffee
  - Rubber

With favorable prices for export commodities, Liberia is in a period of economic expansion. This has been the case for the past two years.

B. Data Reliability and Limitations of Interview Material

In 1987, Summary Results of the 1984 Population and Housing Census of Liberia was published by the Ministry of Planning and Economic Affairs. Published data did not include employment by industry except for agriculture and non-agriculture. Population data was by county and territory and except for Monrovia, showed no data on other cities and towns. Preliminary data on foreign nationals does not appear to be complete (shows 154 U.S. citizens in Liberia).

In interviews, respondents showed a wide variety of business experiences which made generalizations from the data difficult. For example, one Lebanese merchant had a U.S. dollar account as well as a Liberia dollar account at his bank. A prominent Indian businessman made periodic trips to England to make U.S. dollar deposits. His Monrovia account was solely in Liberian dollars.

To portray a picture of the Liberian economy vis-a-vis SME development, reliance was placed on data and estimates available from international development organizations, research organizations and similar sources.

C. Foreign Exchange and the Consumer Price Index

As a result of the devaluation of the Liberian dollar, the U.S. dollar has substantially more purchasing power in Liberia in 1989 as compared to 1985, the year that the parallel market was created. In spite of possible price declines in prices of export commodities, the relative decrease in production and raw materials costs in Liberia can result in higher profit margins. Another result is a comparative advantage of the Liberian dollar vis-a-vis the overvalued CFA of much of West Africa.

Monrovia Consumer Price Index
1983-89

Year		Index	Percent Change
1982		376	---
1983		384	2.0
1984		388	1.0
1985		384	-1.0
1986		400	4.2
1987		420	4.8
1988		460	9.5
1989			
	Jan.	479	
	Feb.	478	
	Mar.	476	3.5

The weights and selected items were derived from a family expenditure survey conducted in Monrovia among a sample of wage earners and clerical employees households of two or more persons with monthly income not exceeding $250.00.

Source: Industrial Statistics Division
Ministry of Planning and Economic Affairs

In 1982, the Liberian 5 dollar coin was introduced. The inflation rate for 1983 as reflected by the Monrovia Consumer Price Index was 2.0%. After the attempted coup of 1985, U.S. notes disappeared from general circulation. In 1986, the inflation rate jumped to 4.2%. A parallel market for U.S. notes developed and in the past three year period, the exchange rate (unofficial) has fluctuated up to 2.28 coin to 1 note. The rate in May of 1989 is 2.0 to 1. For the two-year period after the attempted coup, the annual inflation rate was about 5%. In 1988, it increased to 9.5%. The index rate for the first quarter of 1989 indicates that the annual inflation rate of the year may be approximately 7%.

With the de facto deflation of the Liberian dollar, those export commodities with a substantial local labor component may be competitively priced even with decreases in the world market price. To the extent that there is available labor, and there is apparently a surplus of unskilled labor, export goods that require a large labor input may also be cost competitive. Some additional opportunities could exist for import substitution activities such as clothing which has shown a 30% price index

increase for the period 1983 to 1988 as compared to 20% of the overall consumer price index.

D. Repayment of Loans

A constraint often voiced by banks and formal lending institutions is the non-payment of loans by borrowers. In the experience of PfP, repayment is more likely where Farmer Development Associations and the Market Women's Associations are involved. In effect, membership in an association can facilitate credit reference checks.

It is also possible that small borrowers may have good repayment records overall. The Agricultural Cooperative Development Bank branch in Voinjama stated that small borrowers were paying back loans better than the largest borrowers. To assure repayment will require an investment in time to check general feasibility of business plans, conduct credit checks, monitor repayment and provide necessary counseling and technical assistance to borrowers.

E. Training

Many of the Liberian leaders in business, as well as other sectors, have been educated in the U.S. The general manager of PfP received his graduate training in economics and anthropology in the United States. Many of the new Liberian entrepreneurs who were interviewed were also trained in the U.S. Training programs could be instituted for personnel of the selected participating PVOs as well as for businessmen and entrepreneurs.

F. Health and Education

Liberia, (according to the 1984 Census), has an illiteracy rate for the population aged 10 years or older of 68.6%. Vocational education and related skills such as computer operations may be in scarce supply for SMEs requiring these special skills.

In summary, SME development has traditionally focused on financing, entrepreneurship development, technical assistance in obtaining funds and management services, technology transfer (not usually well-defined), and identification of business opportunities (market and feasibility studies). Programs can contain several of these elements as in the case of incubator programs

which can provide inexpensive working space, training, financing, and technical assistance in management.

Even in the health and education components, opportunities exist. The drilling of wells for safe water supplies can be accomplished by SMEs. In education, opportunities exist in uniforms, school materials, and furniture. Uniforms and school materials are primarily imported and present possibilities for import substitution.

The health sector has needs for goods and services that can be produced by SMEs. According to a respondent, printing of medical forms, health posters and similar materials can be done by local firms. Furniture is needed for clinics and hospitals. Medical equipment, supplies and pharmaceuticals might best be imported. Glucose, however, is now being produced by a few hospitals. This might be produced at a lower cost by a single firm. Nurses uniforms are needed. Special surveys could uncover other requirements such as oxygen or selected drugs.

G. Selected Studies

There are risks associated with SME development and the SME program can take steps to minimize such risks to entrepreneurs, investors, credit institutions and employees. Risks may be associated with expectations for high returns. Market and feasibility studies can be studied to determine constraints and opportunities for SME activities.

Such studies, in isolation, can be academic. With the involvement of investors, product-oriented associations, entrepreneurs, and appropriate organizations, the study methodology can be adapted to address key questions for feasibility and of concern to potential participants. Additionally, these organizations and individuals would be involved in analyzing information and can be better prepared to make business decisions and choose courses of action.

H. Institutional Development

The Small Business Administration (SBA) of the U.S. Department of Commerce is responsible for encouraging SME development in the United States. SBA also implements preferential programs to provide U.S. government contracts to small business and assists in developing policies at the national level to support small business development. SBA provides grants and contracts to

institutions and organizations to support small businesses.

In the absence of a comparable Liberian agency, USAID/Liberia is faced with the challenge of identifying or supporting the development of organizations to implement SME programming. Existing organizations that may take on new programs related to SMEs include: PfP , SEFO, NIC, Chamber of Commerce, Associations of SMEs, CIP, and the University of Liberia among others.

Institutional or organizational development takes place in urban and rural settings. The Nimba County Rural Development Project is encouraging the Development of Associations to represent farmers at different levels. Farmer groups of up to 20 farmers have been organized. The groups are encouraged to participate in Farmer Development Associations. The next level is Clan Marketing Associations to include several Farmer Development Associations.

The PfP has worked with Farmer Development Associations and Clan Marketing Associations for the Saveway Program and the Loan Program. The Associations can serve as credit references for individual loans. Loans are also made to the Associations to allow them to purchase crops from the farmers for subsequent delivery and sale to LPMC.

SME institutional and organizational development in the urban setting may, similarly, rely on associations of producers (woodworking, textile). Of necessity, such organizations may be more complex and the first step would be the establishment of an agency to formulate the strategy for institutional development.

VI. REGIONAL CONSIDERATIONS

Heading northeast and then to the northern most part of Liberia from Monrovia are the key towns of Kakata, Gbarnga and Voinjama (at the Guinea border). Up to Gbarnga, the road is well paved. To reach Voinjama, the road from Gbarnga is unpaved. Continuing northeast from Gbarnga on an unpaved road, the major towns are Ganta (Gompa City), Sanniquellie and Yekepa (at the Guinea border). From Ganta, one can travel southeast on a paved road to Harper on the ocean at the eastern edge of the country near Cote d'Ivoire.

For the three county area of Bong, Lofa, and Nimba, the key towns are Gbarnga and Ganta. Gbarnga is at the apex of a two-legged journey from Monrovia to Voinjama. Ganta is on the way from Monrovia to Yekepa and is the apex of a two-legged journey from

Monrovia to Harper. Gbarnga and Voinjama are collection points of LPMC for rice, coffee and cocoa. Gbarnga is the collection point for the Rubber Corporation of Liberia, the major quasi-governmental agency for rubber export. Alan Grant, another major rubber export firm that purchases from independent Liberian farmers, is located close to Gbarnga.

The above listed towns also have regional markets. Market days are usually once a week and the rotation allows for market women (also includes men) to journey from market to market to display and sell their goods. Each of the above communities also has a permanent market.

In many developing countries, there has been a substantial exodus from rural areas to urban centers. This has not been the case for Bong and Lofa Counties. The 1974 to 1984 population growth rate for these two counties was 40% and 37% respectively as compared to the overall Liberia population growth rate of 39%. Nimba County had a 25% growth rate and there may have been some net outmigration during that decade. In contrast, the two lowest counties in terms of population growth were Bomi (adjacent and to the northeast of Montserrado) at 6.9% and Sinoe (on the coast halfway between Monrovia and Harper) at 11.3%. Seven of the 15 counties/territories had growth rates lower than the nation as a whole. Six had comparable rates and two, Montserrado and Marshall Territory (two contiguous areas), were substantially higher at 69% and 50% respectively. The seaports with access to the interior are (from the northwest to southeast) Robertsport, Monrovia, Buchanan, Greenville and Harper. A 150-mile railroad links the Lamco iron ore mine in Yekepa to the port of Buchanan. The ports of Greenville and Harper are in the least populated area, the southeast region encompassing more than 30% of the land area and having less than 15% of the population. In contrast, Lofa, Bong and Nimba, with almost 40% of the land area, has approximately 40% of the population.

VII. SME DEVELOPMENT STRATEGY

The SME development strategy could be envisioned as having three major components, each with its own defined business environment and opportunities and with different target groups. Examples are presented below for the "traditional" rural component, the formal/modern or extractive/enclave component, and the urban (Monrovia) component.

A. Rural Component

The rural traditional sector has expanded from subsistence upland rice production to include tree crops and other produce for marketing. Some farmers are adopting an integrated approach that includes swamp rice, cash crops, livestock, and fisheries. The major collection points for the cash and export oriented crops of small farmers are LPMC (coffee and cocoa) and Rubber Corporation of Liberia and Alan Grant Company (rubber). From these proceeds farmers have coin for purchase of inputs, domestic goods and savings. The local markets include Liberians and other Africans who sell goods that compete with those sold at retail by Lebanese and other expatriate merchants. Goods in these markets include products from countries around the world.

At Ganta, there is a wholesale market in peppers, groundnuts, and onions. Purchasers come from as far away as Monrovia to purchase at wholesale for resale in their communities. Much of the pepper is brought to Ganta from Guinea. In upper Lofa County, Liberian farmers are now producing pepper for wholesale.

The new "traditional" agriculture sector is managing to feed itself (approximately 60 to 70% of the Liberian population). The regionally imported foodstuffs (canned goods, coastal fish, meat, rice) are paid for from proceeds resulting from cash crops.

The expanding urban population in Monrovia is not attributed to a mass exodus from the rural areas. The abundance of surplus labor in Monrovia may be immigrants from neighboring Guinea and Ghana. To the extent that farmers expand their production of rice (swamp rice as compared to upland rice), livestock, tilapia, and tree crops in an integrated farm setting, there may be even less of a tendency for outmigration in certain rural areas.

Among the key factors affecting this sector are:

- The development of rural roads in the 1970s;
- Government emphasis on agriculture (Green Revolution);
- International assistance in rural areas including USAID and Peace Corps;
- Tree crops as cash crops as linkages to exports,
- Regional market towns and local markets for agricultural produce.

The constraints include:

- Lack or absence of credit, and;
- 'Transport"
  - Badly maintained country roads
  - Need for new feeder roads
  - Private transport vehicles for off the main roads
  - Maintenance and construction of bridges

The rural development strategy followed by PfP to date has been highly successful and is built upon listening to the needs of rural persons and responding in partnership with them. The several PfP program components were built gradually and have proven successful. All were internally developed as responses to rural needs as contrasted with canned solutions.

The success of PfP in Nimba County should be appropriate for Bong and Lofa Counties with personnel adjustments that recognize county political and economic environments. Relocation of PfP headquarters to Gompa City (Ganta) would facilitate intercounty coordination and monitoring. It is recommended that PfP continue to be the basis for SME development in rural Liberia.

The rural sector strategy can embrace the total range of economic activities from inputs to agricultural production to food processing, marketing and distribution. To cushion the rural area from periodic changes in world prices for coffee, cocoa, and rubber, SME development can assist in diversification to other products and provide support to firms that can supply inputs and create value added to farm products.

Nimba, Lofa, and Bong Counties constitute 52% of the population outside of Montserrado County [1986 Estimate, Ministry of Planning and Economic Affairs]. These three counties can constitute a subs of rural Liberia for purposes of USAID SME programming.

B. Urban Component

Montserrado County which includes Greater Monrovia has 26% of the estimated 1986 population. Greater Monrovia has 21% of the population. Monrovia, in addition to being the major port and

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commercial center of the nation, also is the seat of Government. Other key activities are the military, education and health.

The development of an SME Urban Sector strategy can benefit from the experience of PfP in Nimba County. SME programs for Monrovia should respond to stated needs of promising businesses and small entrepreneurs. In effect, a partnership with the private, for profit sector should be cultivated. The costs of providing appropriate programming, that is the cost of core staff, should be recognized.

The following outlines general recommendations to address SME needs in Monrovia:

- Form an SME Development Project (SMEDP)

- An SME Development Council can serve as the governing board for SMEDP with a representation that reflects existing and potential organizational interests in SMEs

  - PfP
  - SEFO
  - University of Liberia
  - NIC
  - Chamber of Commerce
  - Selected Associations

- Develop the following components of SMEDP to respond to constraints and opportunities identified in the Sector Assessment:

  - Outreach to SMEs and local associations, inform public of SME objectives, technical assistance and programs. Provide technical assistance including identification of sources for business loans and information on development of business plans;

  - Training for SMEs various Liberian Businessmen Programs, Entrepreneurship Development Programs,and special workshops;

  - Research and Development including feasibility studies, technology transfer, SME business data,and relations with GOL agencies and Monrovia business organizations;

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- Staffing for SMEDP should rely on local persons and should be sufficient to make a difference in the Monrovia business environment. For the sake of comparison, PfP has a staff of over 40 persons to deal with rural development in Nimba County which has 15% of the Liberian population. Monrovia has 22% of the population and has a more complex SME business environment, and;

- Activities for SMEDP, including contracted research and training services, should take advantage of local consulting resources and institutions such as the University of Liberia.

C. Formal/Extractive/Concession/Modern Enclave Sector

The economic literature treats the "modern enclave sector" as the other part of the "dual economy." In Liberia, there are varying degrees of contact between the "traditional rural sector" and the various industries of the enclave sector. Iron ore production has engaged up to 5,000 employees that constitute a market for locally produced agricultural goods and personal services. Farmers now grow tree crops (rubber, coffee and cocoa) which were originally produced solely by foreign-owned plantations. Timber may be the most isolated of the enclave industries.

While these export products are important to the national economy, there appears to be little opportunity for SME development in terms of backward and forward linkages. Some additional rubber processing may be possible (latex) although the market for grade 20 rubber may be better according to one source in the industry. The establishment of a tire factory, seen as a possibility in the earlier part of the decade, could open up some possibilities for SME development.

A risk associated with mining industries is the eventual depletion of deposits of ore in effective concentrations. The Lamco mine has been scheduled for closing in the Summer of 1989. At the end of May, 1989, with iron ore prices increasing, it appears that some solutions or alternatives may be developed.

SME programming is powerless to cope with such situations depending on external factors such as world market prices. The classical solution in plant closings is to find another firm with

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the need for similar facilities, equipment and personnel. Discussions have been held by Lamco with a potential European buyer of the Lamco operations.

To the extent that there is little contact of the national economy with the extractive industry, there is less of a negative impact. Whatever the eventual result of current negotiations on LAMCO, there may be some negative impact in terms of employment for Liberians and services and goods supplied to employees. In April of 1984, the NIOC Mine at Mano River was closed. To get a sense of the possible negative impact of mine closings, a review of the economic situation there could be obtained through selected interviews.

D. Program Priorities

By and large, the enclave sector is the lowest priority for SME development. Possibilities do include furniture manufacturing and other opportunities may be identified with additional study. The rural component for SME development is being addressed by PfP and is recommended as the second priority for USAID attention. Monrovia should be the number one priority for SME program development.