- PN-ABM-124

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USAID

LIBERIA FORMAL PRIVATE SECTOR STUDY

669-0135-C-00-2005-00

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NOVEMBER 22, 1982

THIS REPORT WAS PREPARED FOR THE

USAID MISSION TO LIBERIA

BY DEVELOPMENT CONSULTANTS

UNDER CONTRACT NUMBER 669-0135-C-00-2005-00

DEVELOPMENT CONSULTANTS

THIRD FLOOR
MILTON & RICHARDS BUILDING
152 CAREY STREET
MONROVIA, LIBERIA

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YOUR REF:

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1. Preface

1.1 The United States Agency for International Development in Liberia (USAID) and Development Consultants(DC) on September 22, 1982, signed contract number 669-0135-C-00-2005-00, which commissioned DC to

i. render a comprehensive description and analysis of the formal private enterprise sector in Liberia, its operational environment and the constraints which significantly affect its growth and development; and

ii. provide an assessment and prioritization of actions required to overcome these constraints, which might in part be met by assistance from foreign donor agencies.

1.2 Specifically, DC was required to

i. Prepare a "private sector profile" of enterprises in Liberia, preferably broken down by major SIC sub-groupings, including basic characteristics of each group of enterprises and the particular set of constraints each group faces;

ii. Analyze the operational environment (i.e., policies, taxation, regulation, labor market, productivity of labor force, cost of production, market structure, access to credit, access to public utilities, etc.) of each of the groups of enterprises in i. above -- and by predominantly foreign-owned and operated versus Liberian-owned and operated enterprises, if their operational environment are significantly different -- and how they interact;

iii. List existing investment incentives (for both foreign and domestic investment), including which agency administers them; identify possible contradictions/conflicts; and assess the actual implementation effects of these incentives on existing enterprises as well as on new investment;

iv. Analyze the relationships between commercial banks and the other private enterprise sectors, as well as current constraints which may hamper improved mutual growth and development;

v. Determine the needs to develop indigenous private sector management capabilities (production, finance, marketing, personnel administration, accounting, logistics, etc., including levels of operation and numbers required) in the short-term (0-5 years), the medium-term (6-10 years) and the long-term (beyond 10 years), and suggest institutional arrangement alternatives in which such management capabilities may be developed (national, regional, non-African); and

vi. Review the recommendations to Government made by the Parker Commission (1978) and the Tarr Commission (1981) as they relate to Government's relationships with the private sector, with a view to determine which recommendations Government has accepted, has acted upon and which it hasn't as well as possible reasons for Government non-acceptance and non-action.
In those cases where Government has acted, what have been the result?

Methodology

1.3 The exercise identified the problems, with their causes or sources, which constrain the formal private sector from effectively becoming the force it alone can be in the Liberian economy. The objective of the exercise was to design needs - or problem-specific measures which would impact the policy environment adequately to induce increasing resource flows and their effective utilization. The desirable policy environment to result would have the following characteristics.

One, capability to effectively articulate issues and thereby anticipate conflicts, Two, create a machinery for effective conflict resolution, and thereby prevent system breakdown . Three, create an energetic, internal force which would continually propel and rationalize these developments. An appropriate methodology for this type of exercise, given the environment, might be one of the followings.

1.4 First, the investigator may interview a representative group of businesses/ entrepreneurs across the country, so that the affected individuals would identify and rank their own problems, with likely solutions. We rejected this approach because, given the time available, one perceives that the marginal insights likely to be gained would not justify the effort. One might even raise expectations of those interviewed' expectations that may not be fulfilled.

1.5 A questionnaire approach was also discarded, for reasons similar to those associated with the rejection of the interview approach. Respondents would probably link the questionnaire with the USAID advertisement for the project which appeared in a local newspaper and such association, should the project not immediately impact tangibly the interviewees, could conceivably affect certain future relationships. Most important, one does not perceive that fresh additional insights into problems identification would result.

1.6 After a careful review of documents available to DC, and on the basis of our unique experience, DC adopted the following methodology. We processed raw data collected in 1981 by DC and one of its correspondents from both the concession sector, producer of 98% of net Liberian exports and the non-concession sector. The data had covered all formal enterprises, and all areas of the country. We then categorized the problems faced by the formal private sector. This information was supplemented with that obtained by interviews with a selected list of persons, Additionally, we reviewed the Parker (1978) and Tarr (1981) Commissions Reports and various reports on the Liberian economy, e.g., by the World Bank and the IMF. We also reviewed a 1982 Report on Trade Promotion Project, especially the volumes on rubber; iron ore; fruits and vegetables, fish and shrimps; coffee, cocoa and palm products, and timber. These sources were supplemented with a painstaking research in the Ministry of Commerce, Industry and Transportation's Business Registration Division.

Formal Private Enterprises Sector Defined

1.7 For the purposes of this Report, the formal private enterprise sector comprises all privately owned enterprises organized in accordance with Title V (Associations Law) of the Liberian Code of Laws (Revised), whether as a corporation, partnership or sole proprietorship. Existing under the provisions of the Associations Law means that the conditions and requirements specified for each such organizational form had been met. All organizations that may not have met the stipulated requirements, even if they regularly engage in private business activities are not intended to be covered by this Report.

1.8 Formal establishment in accordance with the Associations Law is presumed a necessary condition for the outline of external assistance that may be granted by foreign donor agencies. The assistance could not preclude a package or element that would facilitate such formal establishment, but the point being made is that at an early stage of a possible assistance, a private enterprise to qualify must satisfy the formal establishment criterion. We presume that other eligibility criteria, such as nationality of entrepreneurs organizing such enterprises, would be considered. In other words, to become eligible, an enterprise or its promoters might be required to satisfy eligibility requirements, primary among which would be legal existence.

1.9 There are no sources of organized information on the formal private enterprise sector. The Ministry of Commerce, Industry and Transportation by law is required to maintain a register of all enterprises engaged in business in Liberia. The Ministry, however, does not publish this information, Its storage and retrieval are archaic. However, we obtained a record of all firms registered with the Ministry in 1981, by international Standard Industrial Classification(SIC). We satisfied ourselves that the register is incomplete. For example, LAMCO and Bong were not registered. While Firestone (Cavalla) was registered, Firestone (Harbel) was not. For this reason, the profile is not by SIC sub-groupings, but by concession, non-concession foreign, and Liberian private sectors.

1.10 While preparing this Report, DJC had access to confidential memoranda and other documents whose acknowledgment would be inappropriate. Only published sources have been acknowledged. We have also maintained that identification of need-specific solution packages and the design of a framework of solution packages do not require indepth presentation and analysis of published data. The Report has been written with policy formulation and implementation in view.

Organization of Report

1.11 The following chapter summarizes our findings and conclusions. In Chapter III, the economy's basic characteristics are presented and analyzed. In Chapter IV, the tax and incentives regimes are discussed; our emphasis is on conflicts between tax laws of general application (LGA) and the fiscal provisions of concession agreements, on the one hand, and between concession agreements, on the other. Intrasector conflicts are also noted. In discussing the incentives regime, we focus on the failure of the system to identify goals or criteria to facilitate which incentives may be granted. The labyrinthine administrative procedures are discussed in detail. On the tax side, we singled out the perfidy of the system, its quality, conflicts, and cost.

1.12 Chapter V presents an analysis of the operational environment of Liberian private enterprises: material effects of this environment on foreign as compared with Liberian-owned enterprises are indicated. Moreover, we present in an outline form facets of the environment which affect all enterprises, irrespective of nationality of owners, or SIC sector. Then in Chapter VI we profile the Liberian formal private enterprise sector. Its three major components are analyzed in detail In Chapter VII, given banking sector liquidity and sector distribution of loans, we analyze the relationship between commercial banks and the private enterprise sectors.

2. Conclusions and Recommendations

2.1 The Liberian economy is dualistic, crucially dependent on iron ore and rubber, a factor which enhances the cyclical character of economic performance. Timber and other monetary agricultural output which make up the gross domestic product have low demand elasticity. The subsistence sector employs 75% of the people, but contributes less than one-third of total output. Trade is highly concentrated with respect to imports and exports structure.

2.2 Of a total potential labor force of about 900,000, perhaps not more than 200,000 are regularly employed in the monetary economy. Wage level in the concession sector is the highest, followed by the rest of the private sector: the public sector has a large manpower pool, whose productivity is assumed low. About 40% of managerial and technical jobs in the economy are held by non-Liberians, who make up 4% of total monetary employment. All types of skilled manpower is in limited supply and industrial discipline low.

2.3 The commercial banking system is in such serious difficulties that its health is questioned; the system is illiquid, and unable to guarantee convertibility of capital nor earnings. The banking system is perceived to have short-term horizons; besides the public sector, it extends loans to finance imports. The system has a high country exposure, given increasing public sector debts. The National Bank of Liberia, the central bank, is virtually insolvent, with 81% of its assets represented by GOL IOUs.

2.4 The outlook for the medium term (to 1985), is bleak; both rubber and iron ore are experiencing weak demand, due to the worldwide recession. Existing companies have postponed capital outlays, while some are disinvesting. This is primarily because the government is perceived by the private sector as unsympathetic and hostile to private investment; the government machinery is deemed not trustworthy, and the incentives offered only benefits profitable enterprises. The incentives regime makes no contributions to risks arising from the country's low level of development. There are too many taxes and the tax structure is revenue oriented.

2.5 The bureaucracy is confused and confusing. The environment is perceived as highhanded, especially to small (Liberian-owned) businesses. There are too many government agencies involved in the decision to grant incentives, each of which have individual and collective roles in the decision. The incentives package favors import substitution; is biased against domestic raw material usage, and favors assemblage, with low value added. There are no special programs for agriculture, although 75% of the population subsists on agriculture. There are no institutional assistance provided by the government, even to Liberian investors.

2.6 Facilities, such as the Free Zone, provided are very costly; there are no incentives to locate outside Monrovia, and so there is considerable spatial concentration in favor of Monrovia; the ownership concentration favors non-Liberians. While there has been little effort at providing subsidized capital, funds made available by external donors remain undisbursed because of low administrative capability and incessant inter-agency rivalries.

2.7 There are very few assets the banking system would accept as collaterals. Land is the asset most Liberians could offer, but often is unacceptable because there is a prohibition against land ownership by non-Liberians and the insecurity of titles. The court system is not perceived as effective, and therefore could not be relied upon to make land acceptable as loan collaterals, even if the prohibition was removed. It is not liquid and there is no developed real estate market. On the other hand, the government guarantees loans to the public sector, and therefore it has been favored. Unfortunately, the bank's exposure to the public sector, given foreign exchange crisis resulting from the slackened demand for iron ore and rubber, has adversely affected the financial system. The public debt structure and situation have worsened: defaults on certain public obligations have occurred and are continuing.

2.8 The commercial banks are not only short-term oriented, but seem uninterested in intermediation. They are often called "pawn shops" by Liberian entrepreneurs. They retort that Liberian enterprises are weak structurally, are seldom well managed, and seldom maintain reliable financial records.

2.9 The formal private enterprise sector has three elements; these are the concession sector, the foreign-owned non-concession sector, and the Liberian-owned private sector. The concessions dominate the economy: the typical non-concession firm is likely a Lebanese trading house. Its impact on the economy is probably negative, since they provide no employment, pay little taxes and undertake no training. The Liberian firm is likely a sole proprietorship engaged in petty trading. Liberians are on the periphery of their own economy and are not likely to have any meaningful role in it for the foreseeable future.

2.10 The objectives of any external donor assistance to the private sector should include the following elements. Firstly, it should design and install a mechanism capable to facilitate faster disbursement of funds, especially those already procured, such as that provided by the World Bank, etc., In the process, it should strengthen the Government's Small Business Guarantee Program. Secondly, the package must facilitate project identification, including such additional work as identifying likely sponsors. This process, together with management or advisory services, such as provided by Partnership for Productivity, or as SEFO is designed to provide, might be considered. The program should also identify sources of concessional seed capital, including securing the participation of co-financing institutions and the conditions for their participation. The local commercial banks should be involved in the process.

2.11 Since absence of skilled manpower is a major hurdle to private sector investment, an assistance program should include a program for development of indigenous needed skills and services. For example, this aspect might include arrangements with private or public existing institutions, to administer specially designed programs that would produce a stipulated number by category of skilled personnel.

2.12 The externally assisted program ought to focus on the bias against domestic resource utilization; by removing such bias, the enclaves might better be integrated into the national economy. This process might mean that the production of one sector might become useful to the production process of another sector. Local raw material utilization would then create domestic employment, especially if the focus is on agriculture and agri-business. The process would involve specification and establishment of domestic resource use and (rural) location as primary eligibility criteria for conferral incentives benefits.

2.13 The package should include extension and support packages that would be need-specific; the objective of each package would be to reduce the numerous technical, commercial, financial and administrative bottlenecks noted in Chapter V.

2.14 All of these objectives would be unrealizable in the absence of a politically and financially stable climate; an effective government bureaucracy indispensable. To an average investor, these qualities are absent now. To create such a climate is outside the provenance, we presume, of the private sector. In the words of one business executive consulted, the government must create the climate; the investor will assess its sufficiency, including its perceived fairness. While no society is free of corruption, its level might receive attention in the process to create an effective bureaucracy.

2.15 Given the preceding objectives of an externally assisted program, we propose that any attack on the problems identified begin with demonstrable improvement in the government bureaucracy, especially its perceived administrative capability. Public sector attitude to private ventures must be shown to be positive: demand for gratuities must slacken, as must the overall perception of stability, financial and political.

2.16 In the short term, a natural sequel to this project would be the engagement of a consultant to specify or elaborate need-specific packages, such as production of bookkeepers; electricians; plumbers, etc. The desired number by skilled category would be specified and the institutions to conduct such training identified with appropriate justifications. We recommend that private sector institutions be preferred. The program design should also establish the basis for selecting an institution, as well as establish the ground for determining goal achievement.

2.17 In order to determine needs and capabilities, there should be undertaken sector surveys, to establish current status and prospects by broad economic sectors, such as agriculture, agri-business, construction, etc., of manpower. The survey might also involve preparation of project profiles, with arrangements including promotional activities. (We are aware of one such arrangement, involving USAID and the Egyptian Investment and Free Zones Authority, and a private consultant.) These profiles, prepared by an acceptable private group, might have better credibility to private investors than if provided by government itself. Another aspect of the arrangement would be market surveys of specified products that could be traded in the Mano River Union States.

2.18 Given the performance records of the NIC, we recommend that project management assistance, including bookkeeping, quality control, production management, etc., be provided by a private consultant. The consultant might also identify suitable projects and sponsors and assist in the negotiation between the parties. Such arrangements would include costing of a project, determination of feasible loan repayment periods and assistance in procuring financing.

2.19 As information scarcity is a major hurdle, a short-term objective of an assistance package should also involve preparation and publication of a "How to Do Business in Liberia", which would contain information on practical organizing steps, including which agencies of government does what, etc. It would list types of incentives available, cost of utilities, where in Liberia utilities are available, and in what quantities, etc. The consultant should also design a mechanism for regular publication of private sector information, preferably by sector. The consultant's proposal should include an outline of publication content and how such information would be generated initially and on a continuing basis.

2.20 The work to be contracted to private groups would be designed so as to form the nucleus for private bodies, such as management institutes, etc. Thus, in contracting consultants, it would be highly desirable to have strong, private Liberian participation at the beginning; thus, it would be possible, after a reasonable initial period, for such consultancies to become the desired private bodies.

2.21 The second stage of recommendation is medium and long term. The Report has established that the major impediment to private sector activities in Liberia is low indigenous management capabilities, both in the public and private sectors. The problem is enhanced by factors such as a government structure that is monolithic due to the absence of a homogenous body politic. In all tribal dialects, "opposition" translates as "enemy" and policy contents are not analyzed nor options identified. Consequently, the decision-making is centralized, with roles and responsibilities overlapped. The system has no established mechanism for anticipating conflicts nor for resolving them. Decisions are made at the top, or not made at all; there is no delegation, and hence constant bottlenecks.

2.22 The legal system is a mosaic of imponderables. For example, land titles are indeterminable, and so land could not even be an acceptable collateral in financial arrangements, since the security of title is not insured. The long-term recommendations therefore aim at creating the basis for confidence, only then would private sector enterprise with longer than term horizons be established. We believe that until such is achieved, Liberian participation in their economy would remain peripheral, with returns to domestic factors remaining insignificant.

2.23 Restructure of the system is essential to enabling the Open Door Policy, for example, to become inward oriented. Presently, it is outward oriented, and high labor productivity in the enclaves only leads to increased imports or import substitution involving low domestic value added with continued failure to raise internal capital accumulation.

2.24 Towards improving the administrative capacity of the public sector, a commission of three experienced, respected Liberians should be established to review and rationalize the structure of government. The process should include a review of the number of agencies and their responsibilities; the machinery for formulating policies, etc. The Commission should have a secretariat, preferably staffed by contract persons. It should design systems as well as assist with their implementation.

2.25 As a means to more realistic assessment of public sector capability and future potentials, the first activity of the Commission might be a manpower survey, covering both the public and private sectors. Such surveys should project for each five year periods, of the number of jobs likely to be created by skill categories, etc. On the basis of the survey findings, the Commission should design a program for effective manpower development.

2.26 While it may be argued that this is not a proper role that scarcity of indigenous managerial personnel is a major factor in the problems we have identified.

2.27 Another activity should be review and rationalization of the tax structure. The basic objective of such an exercise would be to minimize the necessity of sui generis arrangements which task an already weak tax administration machinery beyond its capacity. The review might also include the design of an appropriate incentives regime, with the machinery for its effective implementation.

2.28 These efforts would be the essential first steps; their success would be conditioned by improvement in public sector management, especially fiscal administration. In the absence of a perceived improvement in that capability, investors confidence may not be built, for the system will be perceived as hostile, capricious, and unfair.

3. The Liberian Economy

3.1 During her Century of Survival, 1847 to 1947, only three events of continuing economic significance transpired: (1) Liberia survived European colonial attempts to eclipse her independence; (2) she contracted relatively large external debts under dubious circumstances, and (3) she granted concessions to the Firestone Tyre and Rubber Company, the Liberia Mining Company (LMC) and the International Trust Company (ITC), affiliates of transnational corporations (TNCs). Each of these agreements established a sui generis fiscal regime.

3.2 These three events continually recur. In 1981 and 1982, unable to discharge her obligations, independent Liberia negotiated re-scheduling of her public debts. She has been unable to meet her commercial bank obligations, and is in default on them. Confirming the historicity of the whole thing, her current debt situation has deteriorated, with debt service rising from 38% to 56% of export earnings, or from 24.6% to 31.9% of gross domestic product between 1974 and 1978. In 1982/83, debt service payments claim about 6% of GDP, or 24% of revenues. The structure of the debt also deteriorated significantly between 1976 and 1979, lowering the share of concessional credit. Included in these debts, for example, are credits provided by Rappaport, of Asian Bubble fame. Today, the economy suffers from its worst liquidity crisis, and the share of suppliers' credit and non-institutional debts in total obligations is rising.

3.3 The welcome extended to private foreign capital, at least in law, today continues but inconsistency between public statements and administration has brought into question whether or not Liberia welcomes private investment. Moreover, the nature and pattern of the relationship established by those first successful agreements continue to characterize succeeding governments' relationship with the private sector, which is tense at the same time that it is cordial.

3.4 The economy is structurally dualistic, with an extreme dependence on raw material exports, produced by foreign-owned concessions in iron ore, rubber and logging. She imports virtually all goods, including food, manufactures, machinery and transport equipment. In 1981, imports structure was as follows: consumption goods, 28.2%; investment goods, 16.3%; raw materials, 55.5%, meaning oil (27.1%).

3.5 Liberia's trade is highly concentrated, with respect both to destination of exports and origin of merchandise imports. In 1981, the industrialized market economies received about four-fifths of her merchandise exports, and provided about 90% of her imports. Even as the three principal export commodities were hit by the world recession, their share of exports remains in excess of four-fifths.

3.6 The Liberian economy is highly dualistic. An agricultural sector, including monetized agriculture, contributing about a third of GDP but employing two-thirds of the people, co-exists with a foreign-owned enclave sector, dominated by iron ore, rubber and forest products. The relative productivity of foreign-owned rubber plantations is such that since 1975, Liberian-owned farms, with half of the 297.9 thousand cultivated acres, yield 593 lbs/acre, compared with 1,246 lbs/acre on the concessions.

3.7 Another characteristic of the economy is its high degree of openness, as measured by the admittedly simplistic trade to GDP ratio: during the last decade the ratio did not fall below four-fifths. Imports, in fact, accounted for 57% of 1981 GDP. Secondly, iron ore, the major export, has a derived demand; the cyclical patterns of demand for steel enhances the system's tendency to instability. Thirdly, although iron ore and rubber dominate the economy, Liberia's output of either relative to world production is negligible, thereby denying her any meaningful role in commodity producers/consumers' price negotiations that have become commonplace.

3.8 During 1976-81, domestic revenues averaged 22.4% of monetary GDP. The major domestic revenue sources are tax on international transactions, contributing 34.3% of domestic revenue per year during the period: taxes on income and profits, accounted for an average 35.2% a year. Taxes on domestic production, mainly of the excise variety, averaged 8.9% per year during the same period. These sources contributed 91.7% of total revenues. Maritime revenue accounted for an average 6.8% per of total revenues.

3.9 On the expenditure side, the budget deficit increased during the 1976-81 period. Total budgetary expenditures rose from 21.5% to 36% of monetary GDP. The deficit averaged 27% of expenditures over the past five years.

3.10 The cornucopia that is the Liberian economy has (1) a private sector, which may be subdivided into the concession and non-concession sub-sectors, and (2) the public sector, which includes various levels of government proper, and public corporations, including private assets confiscated in 1980 following the Coup. The non-concession private sub-sector itself may be further divided into the informal, marginal activities, such as "side-walk" garages, tailor shops, street peddlers and an organized business sub-sector: the latter is dominated by Lebanese and Indians.

The Structure of Gross Domestic Product

3.11 The private enterprise sector of the Liberian economy has two sectors: these are the monetized sector, which is dominated by transnational corporations (TNCs) and referred to as the concession sector, but includes also a non-concession sector, and the subsistence sector. The concession sector is dominated by TNCs exploiting iron ore, rubber and timber. In terms of share of GDP, iron ore makes the largest contribution. Since 1965, it contributes about 30% of GDP, and accounts for over three quarters of total export earnings. Iron ore production today accounts for approximately 52% of total export earnings, after falling from its peak in 1975. Between 1975 and 1980, iron ore production was on average 23% below the 1975 level. Thus the mining sector's share in output fell from 33% in 1971 to 29% in 1974; its share was 28% in 1981. The enterprises exploiting iron ore are joint ventures owned by Liberia and affiliates of foreign TNCs.

3.12 The second component is the rubber sector; it accounts for around 15% of export earnings. While Firestone among the large producers contributed about 37% of total 1980 Liberian rubber export, down from 54% in 1970, participation in this sector by nationals is extensive. The sector's contribution to GDP has declined over the last decade and was around 6% in 1981. Third is the forestry sector; it grew dramatically in the late 1960s and early 1970s. Its contribution to GDP is about 4%.

3.13 The subsistence sector employs over 75% of Liberians, but contributes only 30% of GDP. Over the past 15 years, this sector's output grew at an estimated 1.5% per year; between 1960 and 1976, its share in GDP suffered a slight decline. Data inavailability makes it impossible to analyze what is happening to it: however, per capita income in the sector is estimated at $160 per annum.

3.14 The non-concession private sub-sector contributes around 2% of total net exports; its share in GDP at factor cost is probably below 5%.

3.15 The public sector which for the purposes of this Report includes all levels of government, as well as public enterprises, including confiscated assets, contributed about 14% of GDP in 1981.

3.16 Table III-1 presents the sectoral origin of GDP at 1971 prices for 1980, the last year for which data are available.

Table III-1

Sectoral Origin of 1980 GDP at 1971 Prices (Monetary Economy: %)

Economic Activity	1980
Agriculture, forestry & fishing	16.2
Mining & quarrying	30.3
Manufacturing	7.1
Electricity & water	2.3
Construction	4.1
Wholesale & retail trade, hotels & restaurants	6.8
Transport, storage & communication	9.6
Financial institutions & real estate	8.2
Other services	4.6
Producers of Government services	10.8
GDP at 1971 prices	100.0

3.17 The financial services sector includes several insurance companies, mostly branches/subsidiaries of companies such as LLoyd's of London, American International Group of New York, etc. Their impact on domestic liquidity and the provision of investment capital has been minimal. However, the Government has attempted to require each insurance company to invest 30% of its gross premium in Liberia. As yet, the policy remains unimplemented as the insurers argue that in view of their reinsurance treaty obligations, compliance with the policy would make their operations uneconomic.

Employment

3.18 Perhaps less than 30% of Liberia's estimated two million population live in urban centers; population growth in these centers, however, is around 8% per year. The average annual population growth rate is around 3.3%. About 42% of the population is under 15 years.

3.19 Dependency, the ratio of persons under 15 years and over 65 years to those between 15 and 65, is over 70%. This means, of course, that 70% of the population can consume, and not make contribution to production. The concentration is in the below 15 years old group, thereby emphasizing the need for schools, hospitals, etc.

3.20 The country's potential labor force [1/] is estimated at 900,000. It is expected to grow at about 3.3% per year during the next decade.

3.21 Monetary agriculture accounts for around a third of the about 150,000 - 220,000 Liberians employed in the monetary sector. The Government employs about 17% of total monetary sector labor, and the mining sector (including diamonds, gold and other minerals), 10%. Expatriate employment accounts for nearly 4% of total monetary sector employment.

3.22 About 70% of expatriates working in Liberia are employed in professional, managerial and technical occupations. Expatriates make up less than 4% of total monetary sector employment, but occupy about 40% of all decision-making jobs, and another 15% of other technical and professional jobs.

[1/] The apparent discrepancy between the potential labor force and the dependency ratios traditionally defined is due to the fact that because 15 year old kids are not in school, they must work.

3.23 The occupational classification of those employed in the monetary sector is as follows: around 20,000 in managerial, professional and technical fields other than teaching. About 7,000 Liberians are employed in pedagogy. Another 60,000 or so of monetary sector employees fall in the clerical, sales or service workers category. Around 70,000 persons are employed as agricultural or production workers.

3.24 TNCs employ about 60% of the private sector's labor force, or 30% of monetary employment. The average benefits package is bigger in the concession sector, followed by the entire private sector. Note, however, that the government's wage bill claims over 50% of budgetary expenditures.

Income Distribution

3.25 Income distribution is highly skewed. Per capita income is around $558, with the upper 10% of recipients receiving nearly 60% of total income. Per capita income is estimated at around $160 per year for 70% of the population that resides in the rural areas. For the 30% monetary economy employees, per capita income is estimated at around $930. TNC employees, as a subgroup, received about $1600 per capital in 1978; other monetary sector employees received about $780 per head.

Table III-2

Liberia: Distribution of Income (1980)

Dominant Population	Income Group		Million People	Av. Annual Per Capita Income($)	Annual Income ($M)	Share in Income
Rural	Lowest	40%	0.76	175	133	12
Rural	Next	30%	0.57	200	114	11
Lower Income Groups in Monrovia	Next	10%	0.20	480	96	9
Urban groups in counties	Next	10%	0.20	520	104	10
Middle class in Monrovia	Next	5%	0.10	2400	240	22
Business class	Top	5%	0.10	3900	390	36
		100%	1.93	558.0	1077.0	100.0

Source: MPEA

The Banking System

3.26 The Liberian banking system consists of five (5) commercial banks, three specialized banks, two non-banking financial institutions and the National Bank of Liberia (NBL), the Central Bank. The NBL regulates commercial banking operations, as well as acts as the Government of Liberia's bankers. It is not a bank of issue. As far as we can determine, the Government of Liberia does not plan to issue a national currency. However, Government recently minted and is circulating twenty million dollars in $5 denomination (coins). The impact of this development on the investment climate, especially the rate at which it is being released into the system, has been deleterious.

3.27 In 1981 net foreign assets, including U.S. currency holdings and claims on foreign banks, declined reflecting reactions to a coup in 1980. Private sector deposits averaged $115.3 million over 1977-81. These deposits have been declining over the past two years by an average of $25.6 million per year. In 1981, private deposits amounted to $91.8 million, compared with $143 million in 1979. 1982 probably is seeing further decline.

3.28 Private sector loans and overdrafts grew steadily until 1979 but declined thereafter. Loans to the private sector averaged $136.45 million per year over the period. It dropped from $182.1 million in 1979 to $122.9 million in 1981 and averaged a decrease of $29.5 million per year over the last two years. In 1982, total sector loans are expected to be lower, reflecting the banking system's liquidity crunch.

3.29 Following the 1979 riots, there was substantial capital outflow. The reduced deposit base of the commercial banks continue to constrain their ability to lend.

3.30 The banking system's liquidity is portrayed in Tables III-3 and 4. The continued, and growing, negative reserves position of the NBL poisons the prospects for private sector investment, since it brings into question the system's ability to allow unrestrained earnings and capital repatriation and convertibility. Also, this growing illiquidity of the system has apparently created an inauspicious money creation mechanism. The commercial banks find their resulting exposures to the GOL increased. It is reported that some of the major commercial banks have over 30% of their balance sheets represented by excess over the required reserves which the NBL cannot transfer. Since the reserve requirement was raised since the coup, the share of every dollar of deposit available to lend is further curtailed by this situation. In fact, in Table III-4, one notices that at December 31, 1981, total commercial bank loans outstanding were only 68% of their 1979 level. It is also interesting to note that even in 1979, trade, hotels and restaurants received the lion share of loans; their pre-eminence remained in 1981.

Table III-3

Foreign Reserves of National Bank of Liberia

	1976	1977	1978	1979	1980
			($ Million)		
Foreign Assets	17.2	27.3	18.0	55.0	4.0
Foreign Liabilities	-3.6	-0.9	-5.0	-67.4	-75.9
Net Reserves	13.6	26.4	13.0	-12.4	-71.9

Source: National Bank, Annual Report, 1981.

The Economic Outlook

3.31 The Liberian economy experienced serious continuous difficulties during the 1970s; during the last six years, its growth declined significantly. The decline was due to a halt in foreign private investment, a result of deterioration in the investment climate. The deterioration in climate was itself due to the growing budget deficits, a riot in the streets of Monrovia, the coup and its aftermath, and worldwide recession.

3.32 During the last half of the 1970s, Liberia's GDP at factor cost increased at an average annual rate of less than two percent, compared to an average growth rate of six percent during 1964-70, and four percent during 1970-1974. GDP grew at an annual 1.7% during the First Plan Period, 1976-80, compared with the programmed 6%. During the Second Plan Period, 1981-85, the programmed growth rate is 3.3%. The target growth rate accepts the fact that per capita income would remain constant during the period, since population is also projected to grow at 3.3% per year. The economy stagnated in 1979; in 1980, GDP declined by 4.7%, and in 1981, by 5%. In 1982, the negative growth rate is expected to be higher than 5%.

Table III-4

Commercial Bank Loans Classified by Economic Sectors 1979-81 (Percent)

	1979	1980	1981
Agriculture	8.7	9.5	9.2
Rubber	(1.1)	(0.9)	(2.3)
Forestry	(5.0)	(3.9)	(2.7)
Fishing	(0.7)	(0.3)	(0.1)
Other Ag	(1.9)	(4.5)	(4.2)
Mining & Quarrying	0.5	0.2	0.1
Iron Ore	(0.3)	(-o-)	...
Quarrying	(0.2)	(0.2)	...
Manufacturing	6.5	1.7	1.9
Construction	6.9	7.9	10.6
Transportation, Storage & Communication	1.3	0.9	15.6
Transportation	(1.3)	(0.9)	(15.6)
Storage	-o-	-o-	-o-
Communication	-o-	-o-	-o-
Trade, Hotels & Restaurants	42.8	30.3	26.6
Trade	(41.4)	(30.3)	(26.6)
Diamond Trade	(1.2)	(-o-)	(-o-)
Hotels	(-o-)	(-o-)	(-o-)
Restaurants	(0.1)	(-o-)	(-o-)
Services	0.4	2.6	1.4
Personal	7.0	7.4	4.1
Government	1.5	2.2	3.1
Others	24.4 1/	5.9	2.2
Home Improvement	(4.1)	(-o-)	(-o-)
Miscellaneous	(20.3)	(-o-)	(-o-)
Public Corporation	-o-	31.4	25.2
Total Loan ($000)	184.9	130.8	126.8

1/ Includes Public Corporations

... Less than .1

Source: MPEA, Economic Survey of Liberia 1981, Table 5.

3.33 Actual performance of the economy during the Second Plan Period may differ materially from projection. There is not likely to be any domestic savings for investment. In the absence of domestic savings, external assistance commitment even if made, might remain undisbursed, as in most such cases, 25% local contribution is required.

3.34 For per capita income at the end of 1985 not to fall below the 1980 level, the following projected sectoral growth rates must be achieved during the Second Plan Period:

(1981 Prices)

	1982/83	1983/84	1984/85
Agriculture	4.0	4.0	4.0
Industry	2.5	3.0	3.5
Service	2.5	3.0	3.0

It does not appear likely that these programmed sectoral growth rates could be achieved, for the following reasons:

3.35 The international economic situation could not suggest that the magnitude of resource flow programmed could be achieved. Also, immediate recovery of the industrialized economies would possibly not impact the Liberian economy under six months; thus if Liberia's principal trading partners were to recover such that steel production capacity utilization in Europe was improved to 75% by late 1984, iron ore sales might not pick up before mid-1985. Besides, late into the second full year of the Plan Period, the document remains unpublished. Its herculean assumptions about policy formulation and implementation remain untested. In addition, annual external assistance to GOL during the first two years of the Plan seem within the projected range of magnitude, but remains unutilized. For example, more than 50% of Lome I resources remain undisbursed because of slow project implementation. There has been little action in respect of Lome II, as project profiles have not been prepared. Further, GOL has been experiencing difficulties meeting her external obligations, so that recently the African Development Bank, for example, suspended disbursement of loan proceeds. Finally, external assistance being provided by the IMF and the United States Government has been used to pay for oil following the collapse of the oil facility, and the public sector wage bill.

3.36 Regarding the utilization rate of World Bank and African Development Bank resources available to the public sector, as a general rule, only an average of 32% of such resources is utilized five years after the grant of a loan. It is problematic that the absorptive capacity is there to effect greater utilization.

3.37 Finally, we discuss likely prospects for new or reinvestment in the private enterprise sector. The major components of the predominant concession sector are previewed in brief.

3.38 The iron ore sector remains problematic. Development of LAMCO's Western Area, a project which would require new investment in Liberia of at least $400 million, has been shelved indefinitely. Exploitation of the Guinea side of Nimba, a project requiring an investment of over $1 billion, around $300 million of which would be in Liberia and therefore give impetus to the Western Area Project as well as enhance the economics of LAMCO itself, hangs; needless to say, its realization could have a significant impact. While it may not be dead for reasons of ore consumers' desire to diversify sources, its prospects also are tied to recovery of the developed economies. NIOC's rehabilitation schedule seems to have run into difficulties, both on account of management and additional capital requirement. But even if these two difficulties were overcome early, the 3.25 million tons production could not replace planned reduction by LAMCO, especially if LAMCO reduces output of finished product from the current 11.2 million tons to under six million tons in 1983. Bong's desire to mine the LAMCO western deposits, and transport it over a 102 kilometer rail costing an estimated $90 million to Bong, may not be commercial. The Bong main ore body would be depleted by 1984/85, with the remaining ore harder and therefore requiring more energy to process.

3.39 The rubber industry, due to the world recession, has a bleak immediate future (perhaps to mid-1984). Firestone is agitating to close shops, but even if she does not, the revision of the concession agreement she wants, under which GOL would assume social costs such as education and hospital in addition to waiving various taxes, including income tax payable by expatriate employees, would increase the government's need for external assistance to meet its current needs. The twin impact would be further erosion of the tax base, enhanced by increased public sector expenditure.

3.40 While the concession sector of the rubber industry has problems stemming primarily from slack demand and differences between Government and industry on perception of nature and extent of problems, Liberian-owned rubber industry has a more fundamental problem. There is no program of technical nor financial assistance to Liberian farmers. It is estimated that over 75% of Liberian farms have stopped production since 1980. While the concessions have agreements which grant certain of them relief such as exemption from the rubber export sales tax, Liberian farmers are subject to the tax laws of general application, and pay it. The program designed to encourage re-planting and acreage expansion, under the Liberia Rubber Development Unit, has been ineffectual: acreage replanted or newly planted has been below plans.

3.41 There is not yet discernible a public policy to aid the manufacturing sector. The import substituting industries, such as cement and flour, have recently curtailed activities as import of competing products have apparently been facilitated. In the case of paint, for example, rather than improve the existing company which is owned partly by the Government or accepting a private offer to acquire the government's share, GOL has granted license to establish another company. That new company has begun importing mixes, which thereby probably endangers the prospects of the existing company. As for companies with export potentials, which are very few, there have been no programs of assistance to them either, nor a package designed to enable more companies to export. For example, the GOL has not implemented Mano River Union Declaration pursuant to which member states were to provide some export insurance scheme.

3.42 The logging industry remains depressed. Appropriate tax policies and effective monitors remain undeveloped. Its future, even if the world economy recovered would be hampered by the failure to implement existing policies under which round logs would be processed domestically -- leading to increased value added. Inefficient forest management practices may eclipse the sector's potentials further.

3.43 The tree crops that in the late 1970's were identified as likely fulcrum for diversification may not succeed. Coffee and cocoa real price prospects, as with oil palm, are problematic. Domestic processing of these local raw materials as import substitutes is hindered by the absence of a long-term policy framework, for example, that would discourage importation of refined edible oil.

3.44 The overall investment climate has probably worsened, due to the liquidity problems of the financial services sector. Reduced export earnings aggravate matter and result in the inability of the banking sector to convince potential investors that their earnings and capital will be repatriated and convertible. These fears have been enhanced by the virtual bankruptcy of the National Bank of Liberia, 81% of whose assets today are represented by GOL IOUs.

3.45 Also, the substantial production capacity of the public sector (public corporations, including confiscated assets) remain underutilized. The World Bank's efforts to privatize/rehabilitate a significant number of these enterprises in order to activate full production has been slowed by indecision.

3.46 The outlook of the economy for the medium term is therefore bleak. The objective of public policy must therefore be to assist the leading sectors - export oriented industries - to survive and regain their financial health. Public policy should also encourage domestic raw material processing, especially of the agro-industry. Import substitution industries with high value added must be assisted

4. Taxation and Incentives

4.1 A full evaluation of the tax system is outside the scope of this Report; this Chapter analyzes the tax system with particular emphasis on apparent built-in impediments to its rational development. The chapter identifies inconsistencies in the tax laws of general application (LGA); between the LGA and fiscal provisions of concession agreements, and those between such agreements, in order to identify the adverse impact these inconsistencies have on private investment, foreign or domestic. The chapter also reviews indirect taxes and user charges, basically as cost of doing business. Within the context of the tax structure, we assess and analyze the incentives regime. The failure of the tax system and the incentives regime to encourage (discourage) desired (unwanted) activities form the basis of the critique.

4.2 Liberia's index of tax effort, like her efficiency of capital utilization as measured by the incremental capital output ratio (ICOR), is low. Yet, she has one of the highest per capita tax burdens in Africa. The paradox of low index of tax effort and region-high per capita taxation is explained by the economy's structural characteristics, especially the dependence on few foreign-owned TNCs, and customs duties.

4.3 Analysis of the index of tax effort, given the growing budget deficits and the related liquidity crunch, might be useful to a design of policies to raise resources to finance public sector activities, to lower the ICOR, and to create an atmosphere attractive for private investment.

The Tax Regime: An Overview

4.4 There is no provision in the LGA specifying criteria the effective satisfaction of which entitles an investor to certain specified tax incentives. (See, however, the section below on incentives.) This basic limitation explains the plethora of special fiscal regimes. For example, Liberian tax laws neither encourage nor discourage desirable/undesirable acts. Under Ghanaian laws, by contrast, savings banks interest income is exempt from taxation - an expression of the desire to raise the domestic savings rate and encourage financial inter-mediation. Differential treatment is granted by Sierra Leonean law to influence investment location decision.

Special incentives and incentive procedures are developed for pioneer industries; the profits of pioneer industries may be exempt from tax. There is no pioneer industry legislation in Liberia. Ghanaian and Nigerian laws contain detailed rules for income allocation between a resident entity and its non-resident affiliates, specifying in the process rules to prevent transfer pricing.

4.5 Neither the LGA nor concession agreements contain any rules for the treatment of loans to shareholders, although deviation of the terms of such deals from arm's length transactions appear a potential drain on tax revenues. Leaving the development of the rules to a pressing situation increases uncertainty. Pricing of inter-company transactions, except for a generalized framework, is also not covered by the agreements nor the LGA. These generalizations, not explained by detailed rules, inhibit consistency of interpretation, a fact further enhanced by frequent changes in personnel.

4.6 Technically speaking, the scope of fiscal provisions of contracts are modern compared with the tax LGA: they, however, seldom award Liberia any rights to tax. As an example, take taxation of capital gains. While Liberia does not tax capital gains per se, Section 11.2(c) of the LIRC includes "gains from the disposition of property ..." in gross income. Capital gains, however, are not deemed income to the concessions, but capital losses are allowable deductions in the computation of income.

4.7 The LGA levies a withholding tax at rates on such distributions differentiated on the basis of normal business of payee.

4.8 Nearly all the mining concession contracts permit depletion allowances as a proper charge against income but does not tax capital gains.

4.9 The statute laws limit charitable deductions to 15% of taxable income; no concession agreements impose a limit on charitable deductions.

4.10 Differential length tax holidays are granted by agreements. As discussed below, grant of tax incentives is not based on conformity to criteria such as location, value added or type of industry.

4.11 The development of public awareness of tax issues is hindered by the prevalence of illiteracy, preference for administrative over judicial handling of tax matters, and by the absence of professional bodies. The absence of regulations amplifying the statutes also inhibit development of an acceptable atmosphere.

4.12 GOL, as a practice, does not issue discussion drafts; laws and regulations are developed in secrecy.

4.13 A law introduced in 1977 provided for the refund of overpaid tax. In practice, however, no overpaid taxes are refunded; instead, tax credits are granted. Not only does this departure injure the basis for the law, but a credit is usable only to profit making enterprises. Since losses are allowed to be carried forward chronologically, tax credits in lieu of tax refund reduce the attractiveness of the provision.

4.14 Taxpayers are divided into two classes: "residents" and "non-residents". A "resident" is (i) an alien regularly residing in Liberia: (ii) a citizen of Liberia whether or not actually residing in Liberia; (iii) the estate of a Liberian citizen or resident, and (iv) a Liberian corporation, partnership or trust. However, if the Liberian corporation, partnership or trust is 75% owned by "non-residents" and does not regularly engage in business in Liberia, it is a "non-resident".

4.15 In general, "residents" are taxable on their worldwide income whereas "non-residents" are taxable only on income derived from Liberia. However, a Liberian citizen who does not maintain a home in Liberia and is not present in Liberia for at least 30 consecutive days during the year, will not be taxed on his foreign income until it is remitted to Liberia. Similarly, expatriates regularly living in Liberia will be taxable on their foreign income only when remitted to Liberia.

4.16 "Non-residents" are taxed on income derived from Liberia. The tax applies at the regular progressive rates to net income derived from business operations regularly carried on in Liberia. Other types of income derived from Liberia, such as interest, dividends, royalties, etc., are subject to a flat withholding tax applied to the gross amounts paid, the rate being in respect of the status of the payee. Payments to financial institutions are taxed at the lowest rate. Additionally, compensation for services are deemed to be derived from Liberia if it is paid by a Liberian person and either the services performed in Liberia or the result of such services is intended to be used primarily within Liberia.

4.17 There is double taxation of income, as a corporation is subject to tax as an entity, with dividend distributions also taxed to the shareholder. Intercorporat dividends are subject to tax at the regular rate. However, the Minister of Finance may allow the taxpayer to select the stage at which the tax may be applied.

4.18 Partnerships are subject to tax at the rates applicable to individuals. In addition, partners must include in their tax returns their share of the partnership' income and receive a credit for their share of tax paid by the partnership. However, if the partnership's tax rate is higher than the rate applicable to a particular partner, the partner is not entitled to a refund of such excess. Similarly, if the partnership has a loss, the partner is not entitled to deduct his loss against other income. The net effect is that a single tax will be paid at the individual's rate or the partnership's rate, whichever is higher.

4.19 The fiscal provisions of concession agreements, even those provisions that violate the LGA, or conflict, retain their validity. Section 2.3 of the Revenue and Finance Laws authorizes taxation of income of persons who have agreements with Liberia, which agreements are duly approved by the legislature and explicitly cover taxation, only in accordance with such agreements.

4.20 The investor's need for certainty and his desire to minimize discriminatory and capricious taxation, against an unsophisticated personalized attitude to taxation, created a dual tax system in Liberia. In the one case, the fiscal provisions of concession agreements in form approximate the basic tax laws of developed countries, but the LGA remains skeletary, and with no accompanying rules. Regulations amplifying statutes remain unissued; the courts have not been requested to rule on a tax case! There is no judicial history or experience.

4.21 Besides the undeveloped tax LGA, the associations law, commercial code, and bankruptcy laws are skeletary; the judicial experience remain uninformed. The significance of judicial experience is that in addition to precedence setting, it amplifies contentious statutory provisions and administrative rules, thereby providing a frame and reliable yardstick for future decisions.

4.22 The corporate income tax regime has a duality which makes tax administration difficult: the effect of non-reconciled sub-systems on the development of a rational tax regime without competent, independent practitioners has been adverse.

4.23 The dual tax system, given the low socio-political level of development, has apparently constrained efforts to improve quality of domestic inputs and created a system of taxation and tax incentives not based on rational economic and social decision criteria.

Indirect Taxation

4.24 The objective of Liberian indirect taxation is revenue, not protection; except for customs duties and excise on domestic production, however, the yield of all other indirect levies is insignificant. Therefore, since customs duty drawbacks and exemptions form the basic incentives regime, their impact on the cost of doing business or on the attractiveness of the investment climate can better be assessed as incentives. To recover customs revenues waived when duty exemption is granted, an excise system was devised. These levies on domestic production often are not waived even for assisted firms and must be paid from the date of initial production.

4.25 The excise structure violates all basic principles of excise taxation; for example, instead of levying the tax selectively, the number of products subject to excise has mushroomed. The excise rate structure has also become complex, as various products are taxed at differentiated rates. The growing number of products subject to excise tax, as well as the complicated rate structure, enhance administrative difficulties. For the investment climate, possible differences in effective collection may affect competitive position of firms and real cost. Also, imposition of the levy reduces the overall attractiveness of any incentives package concluded between an investor and the Government of Liberia.

User Charges

4.26 There are numerous fees imposed by the Government of Liberia. These include documentary stamp duties, business registration fee, residence permit fees, professional and businss license fees, etc. The addition to cost of doing business due to these fees probably is insignificant; in fact, their share in domestic revenues is normally lower than 2%. This fact however, enhances the nuisance value of these levies.

The Incentives Regime

4.27 A relevant incentives scheme for Liberia must expressly aim at import substitution or export stimulation; if the objective is dual, the package must expressly distinguish between the forte of each. It ought to recognize possibility of conflicts between pursuit of the goals of local entrepreneurial development and foreign capital attraction. It ought also to recognize that in the resource allocation sense, import substitution and export promotion might conflict. Public policy should seek to reconcile these likely internal conflicts through careful analysis. The need exists for an incentives regime capable of increasing domestic production, utilizing local raw materials, reducing spatial and ownership concentration of productive factors, and raising returns to domestic factors, without adversely affecting investment climate for foreign capital.

4.28 To assess how suitable the existing regime is, we assess the Investment Incentive Code of 1973, as amended, and the code of 1982 (Draft).

4.29 The economic structure described in Chapter III was shaped by several factors, including incentives Liberia offers; these are "very liberal compared with the policies of some other African countries, and in several respects more liberal than that of Singapore..."1/ In this section, we describe the scheme, the incentives which it bestows and how the regime is administered.

4.30 The benefits conferred include promised freedom of capital and earnings repatriation, a guarantee against expropriation (of foreign capital), and, for larger enterprises, specially negotiated fiscal regimes. (Note, however, that presently severe liquidity constraints have affected this benefit. Note also that the basic provisions of Liberian law confer similar benefits on domestic capital, but such laws were not regarded after the coup, when Liberian-owned enterprises were confiscated. At this time, therefore, special arrangements would have to be made to induce Liberians to invest in Liberia.) For small and medium sized operations, the regime grants variable tax holidays, (usually five years but often longer), which may be renewed, usually for an additional two years. The assisted enterprise is exempt from 90% of import duties; sometimes tariff and quantitative restrictions are imposed on competing imports. Duty drawbacks may also sometimes be allowed on the exports of domestic production. The surcharges may or may not be waived.

1/ (OPIC, "An Evaluation of Liberian Foreign Investment Policy, Regulations, Practices and Incentives", October, 1979, P.1).

4.31 There is no subsidized capital; funds made available by external donors remain undisbursed. Except for the Monrovia Industrial Park and the Liberia Industrial Free Zone Authority, there are no programs under which sites, improved or not, are provided. Note, however, that the Park and the Zone are without basic infrastructures. In the Park, undeveloped land rents at $1000/acre per year: GOL sells public land in fee simple within ten miles of Monrovia at 50¢/acre. Annual rental for the smallest factory in the Zone is around $27,000. The incentives package does not include support services, such as project identification and management; planting materials; vet services; storage facilities, subsidized transport, etc. Expenditures on manpower development are not given any special encouragement; electricity, where available, costs more than 10¢/kwh. Its flow is erratic. Telephones are impossible to obtain; when installed, they don't work. Telexes, which rarely work, are luxuries. Water is difficult to procure. The minimum wage rate is not affected by location: there are no incentives for location in depressed nor labor surplus (rural) areas. In short, tax holidays and customs duty relief constitute the incentives package. Thus since a venture must be profitable before income tax exemption is useful, the package is not of much use.

4.32 The incentives scheme is available to all investors, including Liberians; however, low domestic income and, since the coup, fear of expropriation has frightened Liberian capital away.

4.33 The incentives scheme is biased in favor of import substitution, in that it fails to identify domestic resource based industries as preferred candidates for assistance. The scheme confers as much benefits on a gambling casino as it does on hotels development, or on clay block manufacturing. It encourages concentration of assisted enterprises in urban areas, since there is no assistance provided to lower cost of transportation, utilities, or provide storage.

4.34 The Code of '73 has certain inherent shortcomings. These are its failure to prioritize desired industry by type and its failure to confer incentives on the basis of defined objectives such as local resource utilization, location, employment, foreign exchange earnings, etc. However, the cumbersome administrative apparatus is its major weakness. The procedures are not clear and involve the applicant in jurisdictional criss-crossing: respective sectoral ministries retain their legal responsibilities so that even as members of the National Investment Commission, they may veto decisions of the NIC. In cases such as licencing for exports, the investor must visit as many as four agencies before he obtains a permit. It has too many stops for the investor and too many participants in the decision-making.

4.35 But perhaps the most difficult problem for Liberian entrepreneurship is the Government's reluctance to buy from Liberians. She imports aluminium desks, cupboards and chairs; she imports ready made uniforms. Thus the tax holidays remain unrealizable, since the business may never become profitable. In short, GOL does not assist the entrepreneur with the costs - and risks - of a venture due solely to low socio-economic development.

4.36 The Code of '73 does not stipulate domestic value added required before an enterprise may qualify for inclusion. Thus, import substitution, especially of the assemblage variety -- matches made from imported, processed wood and phosphorous; beer brewery, cigarettes from imported cut tobacco; cement block manufacturing; note pad bindery, etc. constitute the manufacturing sector. Petroleum refining, which before the financial crunch was the largest element of the manufacturing sector, is a special case.

4.37 The Code of '73, cross referenced with the Liberia Industrial Free Zone Authority (LIFZA) legislation, appears to confer acceptable incentives on export industries. Note, however, that LIFZA's physical facilities remain undeveloped; the factories are not built, nor adequate utilities and other infrastructures developed, although there is a modern Administrative Building! The smallest factory is targeted to rent for $27,000 per year, not really a pittance!

4.38 The Code of '73 has been revised, and although the "New Investment Incentive Code of the Republic of Liberia", (draft: August, 1982), is not yet law, our comments on it evaluate the extent to which it overcomes the shortcomings of the Code of 1973.

4.39 The new code has a wider coverage and overcomes certain of the deficiencies of the Code of 1973, but it retains most of its basic shortcomings. For example, it discusses investment only in terms of external capital; while it stipulates a value added criterion, Section 3(1) grants incentives to projects that "process, fabricate, manufacture finished and semi-finished goods from raw materials and/or assemble finished goods from component parts ..." Section 3(2) then states, as if an afterthought, that "Incentives may also be granted to sponsors undertaking other Investment Project(s) in Liberia", such as:

(a) Agriculture, forestry and fishing, or
(b) Mining and quarrying or
(c) Building and construction.

4.40 The New Code gives the clear impression that the conferral of benefits on domestic raw material usage is an afterthought.

4.41 The New Code exempts approved enterprises from customs duties, stamp fees and surcharge on approved imports of machinery and equipment, spare parts, raw and auxiliary materials, etc., an improvement over the Code of 1973. But the New Code does not contain any provisions granting interest or transportation subsidy, or provision of support services. The costs and/or risks of under-developed social infrastructure must be borne by the investor alone.

4.42 While locational criteria are introduced for the first time, Section 5(e) extends 100% benefits conferred on "small Liberian-owned industries with fixed capital investment not exceeding $50 thousand and located in any part of Liberia". Given the uneven distribution of infrastructure (roads, utilities, storage, literate personnel, banking facilities) and since the limit set by this section is considerably larger than investment in over 98% of Liberian-owned enterprises, the design of locational criteria might effectively have been nullified.

4.43 Section 5(3)(e), by granting automatic duty exemption for all new machinery and equipment for production purposes, obviates the labor bias that the New Code seemed to have conferred.

4.44 Section 5(3)(c), which grants "reasonable market protection in the form of restriction on imports" raises the protection and economic efficiency argument. The New Code seems to favor import substitution as compared to export promotion.

4.45 The greatest weakness of the New Code is, however, procedural. To whom shall the investor apply? In the case of mining ventures, jointly to the Lands & Mines Ministry and the NIC; in the case of agricultural and agro-industry, to Agriculture and the NIC. It obviously would be easier for the NIC to handle every aspect of an application, since technical matters, should they arise, could be referred to the relevant agency of Government by the NIC as an internal matter. This confused line of communication and overlapped responsibilities, would as usual, always delay project implementation.

4.46 As the concessions locate at resource sites, their location is not likely to be influenced by public policy. For the non-concession private sector, however, there is considerable spatial concentration. Thus, for example, in 1976-77, the only years for which data are available, 83% of all establishments employing five or more persons were located in the Monrovia area. The New Code is likely to perpetuate this trend. See Table IV-1.

Table IV-1

Share of Monrovia Area in Sectoral Distribution of Establishments, Gross Monthly Payroll and Employment (%).

Sector	Monrovia Area Establishments	Monthly Payroll	Total Employment
All Sectors	0.82	0.47	0.31
Agriculture	0.21	-o-	-o-
Forestry	0.27	0.10	-o-
Wood Industry	0.82	0.70	0.66
Fishing	1.00	1.00	1.00
Mining	0.40	-o-	-o-
Manufacture	0.93	0.92	0.94
Construction	0.77	0.96	0.90
Transport	0.91	0.93	0.91
Commerce	0.89	0.97	0.93
Services	0.83	0.83	0.79

Specially Negotiated Regimes (Concessions)

4.47 The incentives provided the concessions are significant; these revolve around low tax rates, tax holidays, or election to share in profits as a partner, rather than tax income. There has been allowed accelerated depreciation, and other facilities to improve cash flow and shorten capital payback period. The GOL's agreement to share in profits, in lieu of tax, is an incentive provided by GOL; since all customs duties and related taxes are normally waived, the impact of this arrangement is to improve the cash flow of the venture.

4.48 In the iron ore sector, except for NIOC, the pattern and content of the incentives package were limited to selection of profit sharing in lieu of income tax, together with exemptions and waivers. In the case of the NIOC, GOL not only invested cash at an early stage, but has additionally guaranteed the company's loans, thereby reducing its riskiness. For the logging and other concessions, the package contains tax holidays, exemption from customs duties and waivers or reduction of certain user charges.

4.49 The incentives granted concessions have to be seen in the context of resource location: iron ore is mined in Liberia because ore is found there. It might reinforce the evidence that the marginal impact of incentives on industrial location is slight. Besides, the infrastructural development that the concessions undertake -- roads, railroads, ports, hospitals, schools, police -- might be weighed in to balance the picture.

Special Finance Institutions

4.50 Four financial institutions, wholly or partially owned by the GOL, provide a range of services to private enterprises. In this section, we briefly discuss the role of each of these institutions in the incentives scheme.

National Investment Commission (NIC)

4.51 The NIC is headed by a Chairman who is a member of the Cabinet; all its members are cabinet ministers. For our purposes, the NIC has two departments: one, which monitors the activities of the concessions, as well as undertakes promotional trips abroad. The second department is the Small and Medium Enterprises Department (SME), whose functions are to encourage and promote small and medium size investment by nationals especially.

4.52 The NIC has not achieved much; its monitor of the concession sector, because it shares that responsibility along undefined lines with several other ministries, has not seen much light of day. In respect of courting private investment, the NIC has been unsuccessful, for several reasons. It does not have a package to sell; for example, it does not prepare project profiles, including at least preliminary documentation which potential investors could assess. Perhaps also contributing to its failure thus far is that the Chairman of NIC is also Co-Chairman of the Bureau of Re-acquisition, the entity set up after the coup to confiscate and manage confiscated assets. The apparent conflict in roles does not seem to have been realized.

4.53 In its efforts to develop SME, the NIC has had its worst failure. About $4 million made available to the NIC since 1979 remain undisbursed. The NIC has been unable to identify suitable projects and sponsors inspite the provision of logistics and technicians by the World Bank, UNIDO, FMO, etc. to assist it do that.

4.54 In sum, the NIC has had little impact on the investment climate, either as a provider of subsidized capital, or of persuading investors to consider Liberia. If one considers its association with the Bureau of Re-acquisition, it probably has scared investors away.

Small Enterprise Financing Organization (SEFO)

4.55 SEFO was conceived around 1979, primarily by the Forestry Development Authority (FDA) and the Liberia Bank for Development and Investment (LBDI), in cooperation with the Netherlands FMO. At conception, its objective was to facilitate local processing of forest products. Since unprocessed logs fetched a reasonably good price to induce exporters of logs to domestic processing and more value added and to earn and save foreign exchange. At the time, the GOL had agreed to reduce the tax burdens of entities which gradually reduced logs export. It was also felt that this benefit was likely to accrue mainly to non-nationals with superior access to capital; also, that to enable Liberian carpenters and other craftsmen to benefit from the package, they needed additional incentives, as well as the means. To enable Liberian marginal operations to realize some of the benefits and enable them to enlarge their volumes of operation and produce quality products, means were to be created whereby they would acquire the requisite equipment and space for production. Consequently, the FMO, the LBDI, the World Bank and other institutions provided about $4 million to the SEFO as seed capital.

4.56 SEFO would provide project management, including bookkeeping; identify projects and project sponsors, and provide the capital needed to set up or expand a business. The assisted enterprise would repay the debt, including interest and other charges, from earnings, over an agreed period, 4.57 The concept was later revised to include other sectors; after a long period of inter-agency rivalries and indecision, SEFO was legally established in 1982. It is too early to determine what its impact will be, but in concept and organization, it seems to have a good beginning.

Partnership for Productivity (PFP)

4.58 The PFP concept was an outgrowth of the early 1970s: Liberianization. At the time, Liberianization was thought to have three elements. These were identified as (1) upward mobility of Liberian employees; (2) increased role of GOL in LAMCO activities, and (3) integration of this enclave into the economy, by ensuring that the provision of goods and services to the concession community would be undertaken by Liberian entrepreneurs, independently of the concessionaire, PFP basically was aimed at the third element of Liberianization.

4.59 PFP, founded by LAMCO and an American organization with the same name, was established to identify productive areas in LAMCO, then serviced by LAMCO, that could be serviced by Liberian entrepreneurs. The PFP provided management and advisory services, after identifying an activity that could be undertaken profitably by a private party. The activity was being performed before, so there was a reasonably good idea of the size of cash flows. This cash flow was the basis of the contract between the newly established firm and a third party, usually LAMCO; such contract provided the basis for borrowing to finance working capital. Where equipment owned by LAMCO was taken over by the new firm, the contracted cash flow provided the basis for repayment.

4.60 Unfortunately, PFP's success record was marred by one basic shortcoming: certain senior officials of LAMCO and of the GOL were not barred from owning the assisted enterprises.

Liberia Bank for Development & Investment(LBDI)

4.61 After several name and focus changes, the LBDI today provides capital to private investors to finance projects in Liberia, irrespective of nationality, LBDI loans are made at lower than commercial bank interest rate, and for all sectors. Its major shortcoming appears to be that it does not aggressively identify potential investors; it does not provide management nor accounting services to its creditors. In fact, it expects its borrowers to have the capability to identify and document projects; after the loan is made, it expects the borrower to be capable of managing the project.

4.62 The inability to collect loans made to persons affected by the Coup of 1980 have hurt its liquidity, as these loans remain in default and the assets financed were confiscated by the government, without any consideration for the liens on them.

4.63 Finally, there is as much ownership concentration as there is spatial concentration; the ownership concentration favors foreign investors. Both the spatial and ownership concentration reinforce each other, thereby disabling the economy to create linkages between sectors and geographic areas. Assisted industries, if they survive beyond the incentive period, never increase the domestic content of their output; the package was not designed to induce utilization of local material. Thus the returns to the economy remain dubious, at best."

4.64 The grant of relief from import duties enhances differential implications for production structure, effective protection, prices, and profit, due to the differential impact of such relief on capital goods, raw materials, and intermediate goods required in production. Given that not more than 10-15% of Liberian labour force is regularly employed, a basic objective of relevant incentives required might be increased local resource utilization, including employment generation. Thus, given the relative greater scarcity of capital, policy instruments should not contribute to distortion of factor proportions in favor of scarce capital. However, the limited applicability in reality of this view must be recognized, since factor substitutability in the Liberian case is constrained by market size; that is to say, the elasticity of substitution is low, hence the possibility of factor proportions distortion is itself limited."

4.65 The system design might, however, distinguish between import substitution and export promotion. An investment incentive system for export promotion may differ in importanc respects from that for import substitution, the differences becoming material if the basic objective of the system is stimulation of production and processing of domestic raw materials for local consumption and export. Obviously there are important economic and political considerations, both domestic and international, which would need be taken into account. Incentives to stimulate domestic consumption might consider a distribution system, including a road network, storage and other infrastructures, incentives to shift tastes from preference for imported products to traditional consumables inspite of presumption that local foodstuffs, etc. The incentives regime designed to stimulate export of processed domestic raw materials might also contemplate all of the above, in addition to mechanisms for quality control, reliable supply, etc. Value added as the return to the economy would be greater in the export promotion scheme, thereby justifying the more elaborate scheme.

4.66 A system designed basically to spur import substitution would need to focus on the size of the market, the level of income and its distribution, etc. Since up to 75% of Liberia's two million people in fact may not regularly receive any cash income, and with 10% of the population receiving 60% of the income, import substitution industries aided, may become "monopolies" and produce above the trough on the average cost curve. Further, extreme disparity effectively excludes 75% of those regularly receiving cash income from demanding industrial products.

4.67 In short, the cost to Liberian society for assisting these industries in fact is understated by the traditional measures of protection. The low value added means the social returns are lower than cost, including cost revenue foregone.

4.68 Perception of the investment climate is affected both by the regime's content, as well as by investors' assessment of it. We shall analyze the operational environment in Chapter V, below; however, one basic limitation of the system is that over all, it is not trustworthy. Banking, indeed, all financial activities, is based on credit, derived from the Latin word for "belief". The system has been untrustworthy because it reverses pronouncements with predictable regularity. An investment incentive contract may provide that competing products shall not be imported, but as there is no effective monitor, such goods are not barred. The agreement may provide, as in the case of the National Flour Mill or Cemenco, that those goods will be kept out; but they were not. The system has failed to know that, as the Parker Commission pointed clearly:

> "Performance... becomes the most important and significant basis for comparing the attraction of one nation over another for investments. In judging performance, potential investors give greater credence to the behavior of Government investment patterns rather than what Government says it will do. In today's world speeches, pronouncements, brochures, special newspaper editions, etc., are so commonplace that most investors consider them meaningless and only influence the inexperienced and naive."

4.69 We summarize the preceding analysis as follows. Both Liberian tax structure and incentives regime are revenue generation oriented. The incentives regime favors import substitution; is biased against domestic raw material usage, and favors assemblage. The regime does not confer any special benefits on agriculture nor agribusiness; it does not provide any institutional assistance, such as project management, bookkeeping, or project and sponsor identification. The regime provides no incentives to locate outside Monrovia. There are no insurance schemes to facilitate financing exports. Most important of all, while subsidized capital is not normally provided, even the two institutions which have received seed capital from external donors have been unable to disburse such funds; in one case, more than four years after these funds became available, they remain undisbursed.

5. The Operational Environment

5.1 Liberian laws expressly and implicitly favor freedom of choice and the supremacy of the individual; the Constitution and Statutory laws protect private property and the right to acquire and enjoy same. Since its founding, the free enterprise philosophy has characterized the legal frame and structure of Liberian public policy. All Liberian institutions accept and subscribe to the free enterprise system. Yet, the private sector that dominates the economy is foreign-owned, insular, exploitative; its full potentials remain unrealized. The domestic policy environment has prevented the creation of linkages that would integrate the enclaves.

5.2 In this section of the Report, we analyze the operational environment of private enterprise in Liberia; we assess its impact on the framework for public goals identification, policy articulation and formulation. This overview seeks to enable the reader to answer questions such as: how does Liberian society make choices? How does it clarify alternatives? How does it set forth choices and select criteria for action? Who makes what decision? What parameters enter into the process, and how? Why may certain decisions be made, in preference (or ignorance) of others, and how does the process work? In short, this overview of the operational environment of private enterprise seeks to identify the means to evolving the structural elements of national policies on which the principal actors may be in essential agreement in order to spur national development.

An Overview

5.3 With the suspension of the Constitution following April 12, 1980, the Government of Liberia(GOL) retained its basic division into an executive department, headed by the Chairman of the People's Redemption Council(PRC), and a Judiciary, head by the Chief Justice, except that the PRC is both an executive branch instrument as well as a deliberative body or legislature.

5.4 The day to day affairs of government are supervised by twenty (20) executive departments, each headed by a cabinet minister. In addition, there are eight (8) autonomous bodies, the head of each reporting to the Head of State. Members of the PRC at various times have had individual oversight responsibilities for executive agencies; at other times the responsibilities are collegial and diffused.

5.5 Economic management is provided by the relevant cabinet agencies, the PRC, and the Executive Mansion, as well as the heads of nearly thirty (30) enterprises owned by the State and four public financial institutions. The State owned enterprises are management in form and manner like the executive departments. In addition to their respective chief operating officers (managing directors), functional reporting duties criss-cross, as each has an executive officer (chairman of the Board of Directors) who may be a member of the cabinet, or other government functionaries. Each of these persons reports to the Head of State or those with whom each might feel disposed to align himself.

5.6 Under the various concession agreements, the GOL plays significant roles in the management and operation of the concession sector. Specifically, as the A shareholder in each of LAMCO and Bong, but essentially because she is sovereign, the GOL plays a pre-eminent role in the management and operation of these enterprises. Besides, the GOL runs the National Iron Ore Company (NIOC), the smallest of the three iron ore companies.

5.7 The non-concession private sector, whose major component is non-Liberian and changes each time new political alliances become necessary, is also unduly influenced by the public sector. (86.7% of all private enterprises registered with the Ministry of Commerce was established since 1971.) The Liberian-owned formal private sector is both subject to the fortunes of "godfather" politicians, like its non-Liberian-owned counterpart and is alleged to be incessantly harassed by petty functionaries of government. For example, registration is impossible to accomplish as payments are made to one agency and the physical registration done elsewhere. In fact, only the Central Office of the Commerce Ministry in Monrovia can register a business. Often, an inspector from one, two or more agencies alternate days on which to inspect. Besides, the

Liberian-owned private sector is composed primarily of petty traders, craftsmen, and mini-enterprises, most of them producing inferior goods or services with income inelastic demand. The larger Liberian-owned firms produce goods - e.g., toilet tissue before the coup which sell not because quality is acceptable, but political alliance and ban on imports.

5.8 The statutory responsibilities of the executive agencies are not always clearly defined, and therefore may confuse and subvert coordination. For example, FDA assess and collects forestry related taxes, which then are forwarded to Finance. But Finance approves all negotiable instruments, e.g., duty free papers, as part of its administration and monitor of concession agreements. If tax payment is not current, then approvals may be withheld. At the same time, the Executive Laws as well as the Revenue and Finance Laws empower the Finance Ministry to collect all government revenues and taxes. Another example might also be cited. The Ministry of Commerce licenses certain exports, except minerals, which must be licensed by the Ministry of Lands & Mines, and forest products by the FDA. The procedural arrangements are neither the same nor is it logically established why it is presumed that non-commercial technical expertize is required for export licensing.

5.9 There is another basic area of confusion for the investor. Concessions are subject to a legal regime different from that prescribed in the laws of general application. The non-concession sector is, meanwhile, subject to the laws of general application.

5.10 It appears that there is no reliable basis for determining before hand who will decide which issues. The various ministerial committees would invariably refer a decision to the Head of State, who may refer same to the PRC, or constitute another committee to review the report. Sometimes, as in the case of the Agriculture Task Force, the rationale for a committee nor its desirability might not originate from the affected agency. The General Services Agency designed the terms of reference for the ATF. At other times, a committee of private/ public members may have its report ignored. For example, the Hilary Dennis report on banking was never reacted to by the Government. In other instances, a report may not be finalized because certain key personnel were changed in mid-stream as for example, was the experience of the committee to review the labour laws.

Just before its report was to be finalized, the then Minister of Labour was replaced; the new Minister did not pick up the matter. It is still suspended. The Chamber of Commerce worked with the Ministry of Commerce to review the latter's procedures for price control. The completed report was shelved by a new Minister.

5.11 Also, issues may not be resolved but left to hang. The Tarr Commission Report was shelved after its recommendations on tax reduction were accepted. The review of government structure and decision making remains to be tackled.

Price Control

5.12 The Ministry of Commerce regulates the prices of all including prices of unprocessed agricultural produce. The Ministry supposedly reviews the production cost of a commodity, in case of domestic production, and then stipulates the price at which it ought to be sold. In the case of imports, the invoices are reviewed, and then the price stipulated. In either case, the prices are regulated irrespective of whether the commodity is a luxury or a necessity. While the inconsistency between this practice and the proclaimed free enterprise philosophy has been noted, repeatedly in certain reports, as in both the Parker and Tarr Commissions Reports, the Commerce Ministry retains its power to regulate all prices.

Industrial Discipline and Labor Productivity

5.13 Discipline and productivity are inter-related, and at least the latter is affected by education, training and health. The acute shortage of suitably qualified manpower, especially at the middle level and in the trades, is reported by all industries. Low functional literacy also adversely affects productivity, as does a protein deficient diet. All of these negative factors have been enhanced by low industrial discipline. Since 1980, at least, workers believe their kingdom has come to earth. Supervisors are disobeyed and, especially in the days following the coup, supervisors were replaced when they enforced discipline. Also, many unions or branches of unions were established to preach the gospel: all past and future wrongs will be corrected, for the masses are in power. There has not, therefore, been any evidence of industrial discipline, and correspondingly, labor productivity probably has fallen.

Socio-Cultural

5.14 The operational environment of the private enterprise sector is bounded by certain socio-cultural habits or attitudes; the norms affect business, whether or not Liberian-owned, large or small. Their impact probably affect industrial discipline, labour productivity, commercial acumen, etc. We briefly discuss a few such habits in this session of the Report.

5.15 Until the coup, a non-white collar career was perceived as demeaning; a career in government was preferred. In fact, white collar jobs outside government was only a second best situation. The educational system has always catered to this mentality, as it does not provide a core training in business: the trade schools, such as BWI, trained academic plumbers and electricians, who would later enter college. Thus vocational school graduates, often as not, know formulae and scientific theorems, but could not unclog a toilet or wire a house.

5.16 Because teachers at all levels of the educational system were ill-prepared, the schools emphasized memorization and regurgitation, but discouraged creativity; students learned early that you don't ask the teacher many questions. In effect, therefore, the science and mathematics programs became shallow. The society aided this phenomenon by its reward system: today, medical doctors in government service earn less than clerks in the government.

5.17 The society is highly centralized; in fact, while it is liberal western in theory, in practice it is hierarchical. Elders (i.e., those higher in the hierarchy) are not to be contradicted: they should not be questioned. In school and in tribal settings, one is taught to be respectful: don't question authority. Moreover, differences of opinion between elders and you are not tolerated. In the tribes, in fact, the word "opposition" has only one literal meaning: enemy. To oppose one is to be his enemy. In a way, this factor explains the administrative pattern of government which discourages analysis of policy contents. An elder is supposed to know, and even if his decision contravenes what the available information suggest~~s~~ it should be done, then the analyst must reconsider, or accept that time will educate him.

5.18 While there is an apparent willingness, or necessity, to consider opportunities provided by the private sector, there is is a basic lack of appreciation for and familiarity with management tools and techniques by the literate population. Most literate Liberians lack a meaningful commercial experience. In fact, historically, Liberians who go into business usually are first generation Liberians or offspring of naturalized Liberians. The tentative Liberian entrepreneurs are likely to have had a traumatic experience in their youth, such as the tragic loss of one or both parents.

5.19 Another socio-cultural factor which affects the private enterprise sector is a Liberian's concept of time. The tribal Liberian concept of time enhances an apparent predilection to loitering, effect of which is low productivity. The apparent basis of this predilection seems to be the prevalent tendency of Liberians to presume that those well of in the society obtained their wealth dishonestly, and that their employment of others, given the inequality in income distribution, affords an employee the right to correct the inequity. Thus, the wage an employee receives must exceed the value of the marginal effort exerted. Hence we have frequent "pay day sickness".

5.20 Put differently, loitering is an apparent rebuttal to the concept of a target income. Instead of a target worker, we seem to have a situation where the worker does not withdraw himself from the market after a targeted level of income is achieved; instead, he guages the effort exerted so that his (low) real wage is equated to or below his efforts. He does not work intensely during a short period, but lowers the intensity in order to lengthen the time on the job. The daily wage is payment for time spent, (more days, more dollars): the employee feels no obligation to raise his output per man hour. Time at work is not only an opportunity cost of leisure and therefore irksome, but minimum productivity is perceived as a transfer or equalization measure. The employer/employee relationship is a zero sum game.

5.21 Whatever else may explain this phenomenon, recognition should be accorded the fact that time as a continuous motion is a strange concept to tribal Liberian culture. It is difficult to conceive segments of time, for time is reckoned in terms of events; frequency of occurrence of each such identifiable event is never measured, for the duration of events are not measured in uniform time moments. Thus a year is reckoned in terms of the sequence of events comprising activities between brushing farms and harvesting crops. Size differentials of the areas brushed and cultivated are ignored; measurements are ordinal only.

5.22 This lack of appreciation of time affects labor productivity. Not appreciating that the passage of each time segment is an irretrievable loss of the output achievable during it, workers loiter.

5.23 Among socio-political factors which discourage development of an entrepreneurial class is the incessant pressure to contribute funds to a myriad of social and political causes, these include wakes; funerals, weddings; birthdays, self-help projects; church or sunday school programs, recognition dinners, etc. The lack of commercial experience and business education helps to confuse cash flow with business profitability, in a society where social status is measured in terms of number of persons subject to one's personal control. Access to cash ensures such control, or creates the impression that there is control. The marginal existence of group members causes no concern, because a higher standard of living had not been experienced before; besides, one can pretend and convey the impression that he is well off. These factors interact, increase consumption, reduce domestic savings and forestall creation of future productive capacity.

5.24 To conclude this section, we present a topical summary of the character and needs of the operational environment. We categorize the scheme into four broad groups: administrative, commercial, financial and technical needs which must be met if the private enterprise sector is to become functional. These problems or needs were identified after lengthy discussions with several businessmen, foreign and local, from all sectors. The essence of such discussions, summarized in the topical schemata, is that the operational environment is confused and confusing. The government bureaucracy is perceived as highhanded and hostile to business, especially to small and Liberian-owned businesses. There are too many government agencies with overlapping responsibilities which a businessman must go to for a single issue. The workforce is indisciplined, and has low productivity. Skilled labor is scarce. The extended family system encourages consumption. Finally, the system is riddled with inconsistencies, such as refusing LIFZA agricultural machineries produced in the Free Zone to enter Liberia duty free, when the customs law of general application exempt agricultural machineries from duties.

Chart V-1

Summary

Needs and Characteristics
Operational Environment

Technical

- skilled manpower not available
- basic repairs too costly and unreliable
- quality control - no apparatus; no personnel
- reliable raw material supply for small market difficult
    - non-use of local raw materials because no incentives
    - reliability of supply of domestic raw materials low
    - unit cost too high
    - knowledge of alternative sources for imported raw materials limited
- transportation
    - underdeveloped local transport network
    - more costly between MRU capitals - sea, road or air - than any MRU capital and Europe/USA
    - availability not reliable
- spares for all types of machinery too costly; not available when needed
- basic repairs - too costly; facilities not available
- manpower
    - virtually all managerial functions handled by one person; supervisors poorly trained
    - supervisors constrained by extended family system (fear of reprisal by relatives of subordinates punished, even if justifiably - personalized decision making)
- Low functional literacy
- Work force insufficiently adapted: low productivity
- Work force not motivated: perceives employer/employee relationship as zero sum game
- Production Cost
    - high cost of energy
    - high labor cost relative to productivity
    - low level of technology
    - obsolete equipment

- lack of organization in production process
- high manufacturing cost
    - high cost of procurement of raw materials
    - high cost of waste (insufficiency of process)
- Inadequate project documentation and preparation

Financial

- No insurance against expropriation/incovertibility
- Reduced liquidity since April, 1980
- Subsidy or insurance (pre- and post-shipment) not available
- No export finance guarantee scheme
- Export credit financing unavailable
- Absence of banking services outside Monrovia/concession areas
- Cash transactions predominant
- Ill-health of banking system
- High default rate on loans
- Credit information unavailable; credit facilities not available
- inadequate financial records
- Mingling of personal/business finances
- Misapplication of loan proceeds
- No collaterals
- Accounting and other services too expensive
- Prohibition against alien ownership of real property, hence not attractive collateral
- High cost of money; most sales cash
- Limited financial market/market activities
- Taxes too many and too high
- Utilities too costly; not reliable
- Project management capability low; too costly when provided by CPA firms
- Produce pricing expedient (short-term) but neither rational/economic

Administrative

- Time consuming immigration formalities
- Too many Government agencies handling investment application
- Insufficient private sector data
- Transportation too costly; availability not reliable
- Investment promotion too general; project profiles not available
- Perceived unsympathetic attitude of GOL to business
- Government, donors don't "buy Liberia" first - goods and services
- Tax structure discourage certain activities/honesty; emphasis on revenue generation
- Cost of services - electricity, telex, telephone too high; services sporadic; records forever inaccurate
- Manner of public sector administration perceived not fair
- Public sector decision sprung on affected sector - no prior discussion or consultation
- Absence of storage facilities/distribution network
- Non-symmetry of ministerial actions
- Liberianization not defined; institutions not producing desired manpower
- Skilled manpower unavailable
- High absenteeism (frequent payday sickness)
- Lack of coordination of investment procedures
- Unreasonable delay in processing investment applications; records regularly lost
- Highhandedness of officials/petty functionaries
- No reliable monitoring services
- Officials requiring unlawful compensation/equity
- Non-systematic investment guidelines/criteria for accord of incentives
- Court system tedious; justice not apparent
- Official attitude not suggestive of competition for investment dollar
- Lack of appreciation for need of investor to make reasonable profit
- Lack of systematic procedure in contract awards, etc.
- Lack of continuity and consistency in administration and interpretation of policies and regulations
- Customs officers not aware of developments, e.g., Mano River Union protocols on goods of local origin not respected; difficulties of allowing drawbacks

- Incentives not designed to achieve stipulated objectives
- Lack of uniformity of treatment for business entities
- Presumption that passage of law identical with its implementation: therefore, no follow-up
- Existing industries not aided; their problems not appreciated
- Investors/industrialists already in-country not used as goodwill ambassadors; often abused
- Projects not documented; high cost of engaging professional services
- Expectations (demand) for gratuities: difficulties or registration: forms "lost" by receiving agencies
- No legal sanction to force use of accountants, because weak tax administration: no history of tax court cases
- Receipting/processing procedures for documents by agencies not regularized

<u>Commercial</u>

- One man operation
- Products/services not advertised
- No sources of commercial information
- No market nor product surveys: ignorance about other markets
- Market too small
- No extension/support services
- Cost of governmental services not related to cost of production: e.g., forms

6. Profile of Formal Private Enterprise Sector

6.1 The formal private enterprise sector in Liberia has three constituent elements. These are the concessions: non-Liberian owned, non-concession enterprises and Liberian-owned and operated firms. We profile and analyze each of these elements in this section of the Report.

6.2 The term "concession" is used loosely in the Liberian context. Its generalized characteristics are a limited liability company, owned, controlled and managed by non-Liberians, it has a contract with the GOL which contains a fiscal regime covering tax accounting, etc. All concession agreements are approved by the Legislature (PRC). There are no stipulated criteria, such as size of investment, sector of activities, geographical location, total employment, minimum contribution to public finances, etc., which an enterprise must satisfy to be granted a concession. A concession, then, is any enterprise that has concluded a contract with the Government, which contract defines the rights and obligations of the investor, and of the Government: the rights and obligations are conferred for a specified period, but the length of such periods differ, and may be renewed.

6.3 There are no available statistics on the number and economic sectoral distribution of concessions: there are also no known enumeration of the number of concessions operating in the country. There are iron ore, rubber, and timber concessions; there are casino gambling concessions, as there are for gold, oil, uranium, etc. We discuss the sector in terms of the characteristics of the iron ore, rubber and timber concessions, because they predominate.

The Concession Sector

6.4 The Concession sector has a long history. During its Century of Survival, Liberia granted several concessions. In 1869, for example, she granted a charter to the Mining Company of Liberia, conferring thereby special rights to exploit gold and other minerals. As the country was to continually experience, the MCL's inability to raise the required funds prevented it from exercising its rights. The MCL was, however, later reorganized as the Union Mining Company and sought to sell shares, but again failed.

6.5 By 1880, the sad state of the economy and the apprehension surrounding the Loan of 1871, which would soon mature ., necessitated public debate over the implications of granting concessions: it was felt that the grant of concessions was the surest means to developing the country's resources. The focus of this discussion was whether such grants should be limited to mineral resources or cover mining and collection of wild rubber as well.

6.6 In January, 1884, H. R. W. Johnson, then the first person born on Liberian soil to become president, announced in his Inaugural what Tubman would later term the Open Door Policy. He committed himself, among others, to (i) retrench the public sector in order to increase the surplus, and thereby repay the Loan; (ii) grant concessions to development the country's resources. He would grant

> "Concessions for exporting timber, arrangements for developing mineral resources, leases of large tracts of land for agricultural purposes, on more liberial terms than heretofore, especially if the concessionaires bring into the country civilized Negro immigrants to assist in working these lands -- some or all of these, with whatever may be saved from the revenue by economy, would, in time, go far towards extinguishing the debt, if indeed, they did not altogether put an end to it."

6.7 Re-elected in 1889, Johnson sought to induce American capitalists to invest in Liberia; in that year, a concession was granted for the construction of a railway; F.F. Whittekin of Pennsylvania was given rights of control, duty-free privileges, etc., but naught came of it. The Johnson Administration in 1886, granted a concession to Benjamin L. Thompson of London to gather India Rubber. Several other concessions were granted, noticeable among which was that granted Sir Hilary Johnston's Liberia Development Corporation. The LDC was authorized to explore and exploit minerals, other natural resources, as well as undertake agricultural projects. As would often recur with historical regularity, most of these dreams did not materialize.

6.8 There are several general observations on the pattern of concession rights that Liberia has granted. First, at the time of negotiation of each epochal concession, her financial conditions have been such that she had to be more interested in immediate cash flow than long term benefits, or equitable distribution of returns. For example, when the Firestone concession agreement was signed on October 2, 1926, a Firestone subsidiary, the Finance Corporation of America, created for that purpose, on that date granted a loan of $500 thousand to GOL which enabled the government to retire the balance outstanding on the Loan of 1871. Secondly, concession rights often were conferred in respect of depletable minerals and other natural resources: there was never a case of a manufacturing or procession concession. When it was in respect of agriculture or forestry, as for example, wild rubber, the activity was likely to have a definite terminus. Thirdly, each concession was clothed in special auras, perhaps understandably, and therefore treated more favorably than other enterprises. Moreover, their respective status and rights precluded steps being taken to integrate each concession into the national economy, and thus no forward nor backward linkages were created. Importantly also, these special treatments and environment were a natural basis for antipathy on the part of nationalists and demagogues.

6.9 As a rule, all concessions are subject to <u>sui generis</u> tax regimes; although the tax laws of general application may be incorporated by reference, usually each concession agreement contains fiscal provisions which detail relevant issues, including tax accounting and pricing of inter-company transactions.

6.10 The concession sector experienced its spectacular growth during the Tubman Years. In January, 1944, Tubman had rephrased the Johnson ideas and labeled them his "Open Door Policy". Between his days in the Senate and January, 1944, Tubman obviously had a change of heart, for the Senator had been less than an enthusiastic supporter of the Firestone deal: in fact, the Firestone Cavalla Plantation was believed built in Maryland County as a payoff to Tubman.

6.11 Be as it may, by the 1970s, Liberia showed an unsually high per capita foreign investment. Between 1969 and 1976, 12% of total African investment was in Liberia, with only 0.3% of the continent's population.

6.12 Liberia developed a concession sector that today dominates its economy. Each concession is likely to be subsidiary or affiliate of a multinational European or American company. The capital invested per employee is higher than the national product per head; it uses advanced technology, both in terms of machinery used in its operation or in the production process itself. Not coincidentally, all senior management positions are likely to be held by expatriates; also the technical positions are filled by non-Liberians, although there are a sprinkling of Liberians, but especially of other Africans.

6.13 Today, total fixed gross investment by foreign-owned concessions is estimated at $550 million in iron ore, $100 million in rubber, and $50 million in timber. The sector's share in GDP in 1980 was estimated at 28%; it contributed one-sixth of total public sector revenues. About 15% of all Liberians are employed in this sector. This means that a quarter of those permanently working in the modern sector of the economy is employed in the concession sector, which contributes 60% of value added in the economy.

6.14 The share of every dollar of output generated by the sector remaining in Liberia has improved over the years. In 1980, the average retained value was 32¢, up from 22¢ in 1975. Rubber's share was much larger, at 57¢, while iron ore's was 16¢.

6.15 The sector dominates the economy. In 1980, concession exports was 18% of total exports; net foreign exchange earnings amounted to 53.3% of the sector's output. Employment, which stood at 22.8% of total modern sector employment in 1980, was down from 32.5% in 1965. In 1978/79, the sector contributed 16.5% of total government revenues, down from 28.6% in 1965. The sector's value added as a share of total domestic value added was 46.6%.

6.16 LAMCO and Bong are the two iron ore concessions: in 1982 ownership of the NIOC changed from 50/50 Liberian/foreigners to over 80% GOL, and hence might not properly be called a concession, although there exists an NIOC concession agreement. However, in all other respects the NIOC is a concession. The Wollogesi, Putu and Bie Mountains contain iron ore, and rights to those deposits have been granted pursuant to concession agreements, either to one of the existing companies, or to others. As these ore bodies are not been operated, there would be no further references to them as concessions.

6.17 The shares in employment, foreign exchange earnings, contribution to GDP, provision of social facilities such as schools, hospital beds, etc., contributed by the iron ore concessions makes them the largest sector of the Liberian economy. The iron ore sector, however, has the most conspicuous absence of linkages; it is capital intensive and has the largest number of alien managers/technicians employed. The iron ore concessions also pay relatively higher wages than other concessions and provide better housing and other facilities to employees. Expenditures by these enterprises per head on education, health, recreation, etc., are considerably higher than the national average. However, comparison of wages and benefits needs to be twofold: between Liberians and their countrymen either employed in the money sector or not and between Liberians and other nationalities also employed in the sector. As seen already, the disparity between iron ore sector employees average income and the national per capita income shows extreme disparity; between Liberians and non-Liberians in the sector, the disparity is also considerable.

6.18 The iron ore concession sector exports its output unprocessed. In the early 1970s, up to 15% of total iron ore exports had consisted of pellets but the increase in energy cost made pellets production uneconomical. In fact, except for one of Bong's two pellets plants, pelletization of Liberian ore has been stopped.

6.19 The rubber companies export latex and unprocessed coagulated rubber. The processing involves drying, cutting and baling. There is no further processing, as for example into soles for shoes or sports goods.

6.20 The timber concession exports round logs, although the value added is more than tenfold if sawn and dressed. A law passed in 1973 or 1974 which provided for the gradual decline of round logs as a proportion of total logging products exports was ignored, mainly by the Government-owned Liberia Timber & Plywood Company; as a result, although significant processing capacity was installed, round logs still constitute the overwhelming share of wood exports. As for minerals such as gold and diamonds, these are exported in their natural states.

6.21 As overseas shareholders, creditors and regulatory agencies require it, the concessions maintain better financial records, more reliable and regularly audited by independent auditors. For these reasons, the concessions, by and large, are better tax payers and better corporate citizens.

6.22 The concessions have access to domestic and international credits, both on their own accounts and on guarantees, when needed, provided by parents or affiliates. While the easier access to credits could result from better financial and production records, as well as the measurability of associated risks, the concession sector having better access to credits is perceived by the non-concession sector as indication of the financial institutions, themselves affiliates of multinationals, being prone to take care of their own.

6.23 These enterprises own their own infrastructures, such as roads, hospitals, schools -- academic and vocational -- utilities, including electricity, telephone and water/sewerage. The ownership of these is usually imposed by the concession contract, reflecting the limited social infrastructure available in the country. That is, the self-contained nature of these enterprises enhance their appearance as a state within the state, and hence contributes to the heat generated by their isolation. This is maintained by the contractual nature of their existence and guarantees that each must remain an enclave.

6.24 The labor force of the concessions, by and large, are organized, often affiliated with a national body. There are regular, usually annual, negotiation of contracts between a union and a concessionaire. The union does not have as much capability to collect, analyze and present information in support of its demand, and since it would be at a disadvantage in a normal negotiation with the concessionaire, she instead builds political alliances, negotiates its demands in a manner that emphasizes its rights, such as demand for parity of salary and benefits between Europeans and Liberians.

concession
6.25 To confirm their state within a state status, _/ contracts as often as not, may empower them to import duty-free their consumer goods. These enterprises also often are empowered to import recreation equipment, such as those for golf, boating, etc., on which the non-concessionaire is liable for a prohibitive duty.

6.26 Even if the major enterprises that make up the economy are concessions, differences between industries, and even within industrial groups, must be recognized. Therefore, while the preceding generalizations describe the concession sector, we describe the iron ore, rubber and timber sub-sectors in more details below.

6.27 At the end of 1981, LAMCO, Bong and the NIOC shipped 20.4 million long tons for a value of $325.4 million. Iron ore contributes 61.5% of total merchandise exports. The sector employed 9,200 persons in 1980 or 25% of concession sector employment.

6.28 Wages in the sector are higher than in rubber ($288 vs. $166, for unskilled), but the Liberian share of total wages is lower than in rubber. Also, housing, education and medical facilities provided to staff are better than provided by rubber. The iron ore concessions' expenditures on hospitals, schools, and training program was about 12% of GOL's 1980 recurrent budget.

6.29 Measures of labor productivity in the sector are not available; however, we are aware that at least one of the companies recently raised its truck hauling efficiency back to an earlier level. This might suggest that since 1980, there has been problems of low labor productivity.

include
6.30 The rubber concessions _/ Firestone, started in 1926. With nearly 85 thousand acres planted in 1980, Firestone is the largest rubber concession, producing 68.5 million pounds, or 37% of total Liberian rubber. Also in 1980, Firestone purchased 34 million of the 51 million pounds of rubber produced by Liberian farms. The Liberia Agricultural Company(LAC), with 22 thousand acres planted, and producing 26.1 million pounds, is the second largest rubber concession. In 1980 it purchased very little rubber from Liberian farmers, however. The LAC has relatively younger trees, having been started in 1960s. The Guthrie Plantations (Liberia), Inc., formerly BF Goodrich, was granted a concession in 1959; in 1980, it had rubber planted on 16,400 acres, and produced 18.3 million pounds of rubber. Its purchases of Liberian rubber in 1980 amounted

to 2.8 million pounds. Alan Grant, which is only a processing company, without its own plantation, bought 10.4 million pounds of rubber from Liberian farms in 1980.

6.31 The Salala Rubber Company has 6,400 acres planted in rubber, and in 1980, produced 6.8 million pounds. Liberia Company, established as part of the Stetinius Associates in the 1940s, produced 4.6 million pounds of rubber from 6.1 thousand acres.

6.32 Rubber concessions employed 61.9% of concession sector labor force, or 14.2% of total modern sector employment. In 1978/79, government revenues amounted to 9% of total sector sales, compared with 4.8% in iron ore, and 25.5% in forestry. The sector's major impact was on value added: the 62.3% contributed by the sector was higher than the 43% made by iron ore, or the 40.2% added by forestry. The sector is a net foreign exchange earner.

6.33 Productivity is higher on the concessions than on Liberian-owned farms; in 1980, concession output per acre was in excess of 1200 pounds, compared with about 650 pounds per acre on Liberian farms. It ought to be noted, however, that productivity differences between concessions are material. Firestone has shown the greatest decline during the past decade, as shown by the decline of its share in total Liberian rubber from 54 to 37%. This sharp decline was due to several factors, including productivity gains by Liberian farmers, during the early 1970s, but there was actual decline in output by Firestone, from 95.2 million pounds in 1971, to 68.5 million pounds in 1980. The Salala Rubber Company has the best productivity records among the rubber concessions.

6.34 Differential care and maintenance by the concessions, including differences in rate of fertilizer and other chemicals application as well as different age profile of trees, are noticeable. During the last ten years, Firestone among the major rubber concessions reduced its rate of chemicals application and the general care of trees and possibly also of the whole property. However, even after accounting for such differences, labor productivity in the Liberian rubber concessions is lower than in the Far East; the average yield per tapper per day in Liberia is said to be 25% higher in Malaysia.

6.35 In 1981, the rubber concessions contributed 16% of total merchandise exports. The sector's relative share in exports has fluctuated over the years; during the first half of the 1970s, it was 13%, but rose to 15% during the second half of that decade.

6.36 The sector's contribution to public finances has declined, from 10% in 1965 to just under 6% of total revenues in 1980.

6.37 As a group, the rubber concessions are older, and employ more people per dollar of investment than the iron ore or forestry concessions. Having encouraged outgrowers, the rubber concessions have had more linkages that the other elements of the concession sector. About two-thirds of the sector's value added is retained by Liberian factors. In this labor intensive sector, labor's share in gross value added is considerable; during the past few years, wages and salaries amounted to 50% of the value added, 90% of which accrued to Liberian labor. The sector also purchases substantial local output, including paint, fuel, cement, etc.

6.38 Severally and as a group, the timber concessions, of the three industrial groups constituting the concession sector, are newer and form the smallest group. There are at least 30 logging concessions, scattered across the country, but more or less concentrated in the North East and South East of Liberia. With minor exceptions, the lumber concessions are likely not associated with respectable companies abroad, and, as a result, do not maintain reliable, independent financial records. Most of them probably evade taxes, in addition to providing very little social services to employees. They undertake no training, and do not provide housing nor educational facilities for staff. Poaching and irregular practices of timber concessions pillage the forest; there has been little effective and continued effort at reforestation, and hence the Liberian forest, not unlike other African forests, is being depleted.

Foreign-owned Non-concession Private Sector

6.39 Liberian laws, both organized and statutory, do not discriminate against foreign capital; in fact, they discriminate in its favor. For this reason, non-concession, foreign-owned enterprises play significant roles in the economy. Non-concession private ventures such as LIBTRACO, Jantzen, OAC, PZ and CFAO have had long histories in Liberia. At earlier times, OAC and other European-owned entities provided the only banking services available. In addition, they traded in camwood, wild rubber, piassava, palm oil, and other raw materials, and provided the shipping services that moved the goods. These firms earned the foreign exchange which paid for imports: they sold these imports at isolated trading posts along the coast.

6.40 As was the case in the concession sector, investors and venture capitalists came from diverse countries and regions. The foreigners who participated in Liberia's non-concession private sectors often were Europeans and traders. They established few manufacturing enterprises, but undertook no agricultural activities. In that sense, a preference for short-term horizon was noticeable during the early years.

6.41 Non-concession foreign investment in Liberia was usually managed by the investor. The investor/manager indicates that the scale of operations was small: it also reflects the scarcity of requisite manpower and has contributed to its continuing scarcity.

6.42 One basic reason for the diverse nationality of foreign private capital invested in Liberia is that Liberia does not discriminate in favor of a European or American nationality. Liberia's long historical relationship with the United States has not interferred with the right of other nationals nor their perception of the welcome extended them. Thus, in the early days German, Dutch, British, French, and Spaniards among others came; recently, Swedes, Lebanese, Indians and Chinese have come. In the words of a present day European resident, a particular advantage for locating in Liberia is that while, say, the Ivory Coast might grant special favors (or appear to grant special favors) to French nationals, and Nigeria, British, in Liberia, there is no favored nationality. There are no in-built favors or prerogatives accorded any nationality.

6.43 Against this background, we profile the foreign-owned non-concession sector of the Liberian economy, which presently is dominated, in terms of number of registered enterprises, by Lebanese; these are followed by Indians, other Africans and then Europeans. The "average", registered non-concession private enterprise, likely a Lebanese trading concern, employs between one and five persons, and invested under $10 thousand. (See Table VI-1.)

6.44 Where the concessions are highly visible, the non-concession firm is private, and in a sense, non-visible and anonymous. No study of the formal private sector has ever been undertaken, and official statistics are not available. We have no measure of its size, the number of firms comprising it, nor the characteristics of its sectoral distribution. (Note, however, that the Planning Ministry has in press an Atlas that shows existing investment, public and private, by district.) While its share in total output is perhaps around 3%, its employment, contribution to public finances, productivity, etc., are unknown. By every available indication, these are not large.

6.45 While the law requires all companies operating in Liberia to register with the Ministry of Commerce, Industry and Transportation, painstaking research in that agency yields only incomplete and unsatisfactory records about the private sector in general and the non-concession sector in particular.

6.46 The meagre information available on the formal private sector is confined to the concession sector. While the non-concession sector touches the lives of the masses as perhaps the concession sector never can, yet the sector is unknown; its size, beneficial owners and other relevant characteristics of even the major companies are not available. The information is probably supplied by the concerns to the relevant agencies of government, but such information is neither published nor accessible. As there are no disclosure requirements nor effective regulatory agencies, what we were able to learn about the non-concession private sector is skeletary. The information obtained is summarized in Tables VI-1, VI-2 and VI-3.

6.47 It excludes both the concession sector and several large trading houses, the cooperatives and some major non-concession sector companies. Regarding major non-concession sector companies not represented, their registration forms could not be retrieved; the Cooperatives Development Agency refused to give us the information we requested. Table VI-1 presents the non-concession private sector. The following generalizations present themselves. Nearly 87% of the companies were only established since 1971; about 65% employ five (5) or fewer persons, and 69% are single proprietorships.

Registered Private Enterprises: Year of Establishment: Employment Distribution by Size/Form of Organization

SIC CODE	01	02	03	04	05	06	07	08	09	10
Year Established										
1979-81/82	17	17	82	62	17	655	15	31	67	13
71-78	11	10	81	16	34	429	15	27	78	9
61-70	6	4	19	5	8	150	10	20	29	5
51-60	2	1	2	3	3	32	1	10	5	1
1950 and before	2	–	2	–	–	5	3	–	3	–
Not Given	–	–	–	–	–	3	24	–	7	–
Employment (#)										
1 - 5	8	17	95	60	9	1019	17	35	62[1/]	9[1/]
6 - 10	3	3	36	17	15	158	5	17	13	5
11 - 20	5	1	20	5	10	56	11	9	17	2
21 - 40	2	1	16	3	11	23	13	7	31	4
41 - 75	4	1	7	1	7	7	4	4	21	2
76 - 100	2	1	2	–	2	–	–	2	20	–
101 - 500	8	–	8	–	5	4	3	3	1	–
501 - 1000	3	–	–	–	–	–	–	–	19	–
Over 1001	3	–	–	–	–	–	–	–	–	–
NA	–	8	2	–	3	7	30	11	–	6

Form of Organization

SIC CODE	01 SP	01 P	01 C	02 SP	02 P	02 C	03 SP	03 P	03 C	04 SP	04 P	04 C	05 SP	05 P	05 C
Liberians	6	2	2	17	5	2	83	–	13	70	1	6	22	2	6
Lebanese	–	1	6	–	–	–	15	4	13	–	1	2	2	3	3
Indians	–	–	–	–	–	–	6	–	2	–	–	–	–	–	–
Other Asians	–	–	–	–	–	1	–	–	1	–	–	–	–	–	–
Other Africans	–	1	–	–	–	–	16	–	1	1	–	–	1	–	1
Europeans	–	–	15	–	–	–	4	–	14	–	–	3	–	1	12
Americans	–	–	1	–	1	2	–	–	9	–	–	2	–	–	–
Joint Vent./ Lib/Aliens	–	–	1	–	3	1	–	2	1	–	–	–	–	1	8
Others	–	–	2	–	–	–	–	–	4	–	–	–	–	–	–

SIC CODE	06 SP	06 P	06 C	07 SP	07 P	07 C	08 SP	08 P	08 C	09 SP	09 P	09 C	10 SP	10 P	10 C
Liberians	474	10	42	9	2	12	9	2	18	70	8	17	8	–	1
Lebanese	325	91	27	1	–	2	3	2	2	27	13	13	10	–	1
Indians	81	14	32	–	–	–	2	–	3	1	7	9	1	1	1
Other Asians	2	1	1	–	–	–	–	–	–	–	–	–	1	–	–
Other Africans	126	5	9	1	–	4	–	–	1	8	–	–	1	–	–
Europeans	9	6	10	–	–	15	3	1	19	3	3	9	1	–	1
Americans	–	–	2	–	–	1	–	1	10	1	–	–	1	–	–
Joint Vent./ Lib/Aliens	–	–	12	–	–	1	–	–	10	–	1	–	–	–	–
Others	–	–	5	–	–	–	–	–	4	1	–	–	–	–	–

See Page 67 for symbols and notes.

Table VI-2

Registered Private Enterprises; Companies Established 1950 or Before

SIC CODE	Year Established	Nationality of Owner	Form of Organization	Location
01				
Firestone (Cavalla)	1926	American	Corp.	Maryland
Liberian Company	1947	Am/British	Corp.	Nimba
02				
None				
03				
C. F. Wilhelm Jantzen Ltd.	1906	German	Corp.	Monrovia
United States Trading Co.	1949	American	Corp.	Monrovia
04				
None				
05				
None				
06				
OAC	1855	Dutch	Corp.	Monrovia
Ketters Ltd.	1920	Liberian	SP	Monrovia
Hotel de France	1935	Lebanese	SP	Monrovia
H. Abraham & Co.	1946	Lebanese	Partshp	Maryland
Joseph Barkal	1950	Lebanese	Partshp	Bong
Mohammed A. Gindi	1950	Lebanese	SP	Grand Gedeh
07				
French Cables	1913	French	Corp.	Monrovia
Pan American Airways	1941	American	Corp.	Monrovia
Monrovia Industrial & Marketing Corp.	1948	French	Corp.	Monrovia
08				
None				
09				
CFAO (Liberia) Ltd.	1916	French	Corp.	Monrovia
Elias Brothers Co. Ltd.	1948	Lebanese	Corp.	Monrovia
CLC Bookstore	1950	British	Corp.	Monrovia
10				
None				

Table VI-3

Registered Private Enterprises: Size (Employment) of Liberian Firms

No. of Employees	01	02	03	04	05	06	07	08	09[1/]	10[1/]
1 - 5	5	15	64	58	6	492	11	13	-	-
6 - 10	1	1	18	15	9	25	6	6	-	-
11 - 20	1	1	8	4	5	10	13	4	-	-
21 - 40	-	-	4	-	6	4	5	4	-	-
41 - 75	1	1	3	-	3	1	2	-	-	-
76 - 100	1	-	1	-	-	-	-	-	-	-
101 - 500	-	-	8	-	-	1	2	-	-	-
NA	1	7	-	-	1	2	21	3	95	9

NA = Not available

1/ Employment not provided

Notes to Tables

SIC Codes

01	Agriculture, hunting, forestry and fishing	06	Wholesale ane retail trade and Restaurants, and hotels
02	Mining and Quarrying	07	Transport, storage and communication
03	Manufacturing	08	Financing, insurance, real estate and business services
04	Electricity, gas and water	09	Community, social and personal services
05	Construction	10	Activities not adequately defined

SP = Sole Proprietorship

P = Partnership

C = Corporation

NA = not available

1/ Capital, rather than employment. Ranges are in $000.

NB. The quantities may differ between Tables due to incompleteness of registration forms.

6.48 The youth of this sector raises certain questions. Were there not private firms in Liberia during the Century of Survival? Why did older concerns die? Would a youthful sector be aggressive? Or, would it suggest to potential, serious investors that Liberia prefers short-term activities?

6.49 Table VI-2 presents by standard industrial classification (SIC) nationality, form of organization and locations of registered companies "first established" in Liberia in 1950 or earlier. While it does not appear that CFAO, C.F. Wilhelm Jantzen and Pan American were established in Liberia on the dates indicated, the OAC was probably established in Liberia in 1855. Note might also be taken of the five Lebanese companies established in Liberia in 1950 or before, all except Hotel de France are trading concerns; only three operate outside of Montserrado County.

6.50 One curious fact is that while 87% of all enterprises are located in Montserrado County, nearly a third of the older firms are located outside Montserrado. It must also be noted that only five of the 565 Lebanese-owned firms registered with the Commerce Ministry were established in 1950 or earlier.

6.51 Since 69% of the companies registered are sole proprietorships, it is not surprising that their life spans are short; it is also understandable that their contribution to employment is very little.

6.52 The registered non-concession private sector enterprises is dominated by the Lebanese, in terms of number of firms (565), followed by other Africans (176), and Indians (160). There are 129 registered European-owned firms and only 29 American. Joint ventures, firms in which Liberians and other nationalities cooperate, number 43, and joint ventures between foreigners, doing business in Liberia and registered, number 41.

6.53 Lebanese-owned firms normally employ five or fewer persons; these firms, however, are found all over Liberia. While Indian firms are likely to locate in Monrovia or Harper, Lebanese firms are found in places without roads, electricity, etc. Other Africans, on the other hand, tend to concentrate in the suburbs of Monrovia, and in places such as Gompa City, Gbarnga or Sanniquellie. The tendency of "Other Africans" to locate in border cities suggest that these proprietors cross the arbitrary boundaries of African states and locate where members of tribes are found.

6.54 Except for American and European firms, the majority of firms registered with the Commerce Ministry are in petty trading. In fact, overall, 62% of registered firms are in SIC Code 06, trading.

6.55 The non-Liberian, non-concession private sector probably provides no net economic benefits to the country. When they manufacture, domestic value added is negligible, since they basically assemble. Their employment is likely to be of family members and hence provide no training to Liberian citizens. Their employees, when Liberians, are likely to be under a personal-indentured type of relationship. Productivity in these firms by all account, is low, as are wages and other benefits paid to employees. The Lebanese as a group do not maintain balances in local banks, so they might even worsen liquidity.

6.56 The typical firm in this group is likely to be family run, with one person assuming all management responsibilities; there is no delegation of authority and all functions are halted if the boss/head of family is absent. For obvious reasons, the goal is short-term; these operations have no long-term interest in the future of Liberia. With the immediate period as the concern, the average non-Liberian private sector (non-concession) is dominated by trading operations, although some services, such as hotels, garages, restaurants, etc., are represented.

6.57 The limited size of the Liberian market is of little concern, since they don't have capital to expand. Export potentials are not exploited, because of the limited capital and because milking one country is sufficient. This is basically because quality controls and other long-term investment would have to be made to exploit export potentials; however, since the majority of concerns in this group apparently flaunt the laws and regulations, each is likely to be allied to a politician. An index of their corporate citizenship is their low tax payments.

6.58 The non-Liberian, non-concession private sector enterprise is likely to be, albeit loosely affiliated with a family concern abroad. For example, all its purchases abroad are usually through a network of friends or families; proprietors who might have sold their firms and relocated elsewhere, usually buy for their successors. Its basic characteristic is that, firstly, family or clan members assist each other and secondly, nationals assist their own kind.

6.60 With their preference for short-term benefits, these businesses have always had easier access to credit from the domestic financial institutions. Table III-4 confirms this pattern.

6.61 We might in concluding this section make several remarks specific to the financial institutions. The major ones are affiliates of major foreign banks. Chase, Tradevco, and Citibank have been in Liberia since the 1960s, and in all respects except in law, belong to the concession sector. Although each of these institutions has no concession agreement, the quality of service, level of wages and benefits paid, training opportunities for staff, Liberian share in total wages and salaries, compare favorably with those in the concession sector.

Liberian-owned Private Sector

6.62 While the private foreign-owned non-concession sector is comprised of enterprises first established in the 1970s, most employing five or fewer persons, registered Liberian-owned and operated firms are younger, smaller, sole proprietorships. Of the 920 Liberian-owned firms with the Ministry of Commerce in 1981, 83.5% was sole proprietorships, 4% partnerships, and 12.4%, corporations. Only 2.2% employed more than 40 persons.

6.63 The Liberian-owned firm is likely to be in retail trade and was often found to be in petty trading; it is capitalized at $5,000 or less. However, there was exception in the services field, especially in the practice of medicine. The occurrence of partnerships and corporations was more frequent than in other activities; also, the number of persons employed by the partnerships and corporations was usually more than five. In the construction industry, there were more joint ventures: corporations or partnerships between Liberians and foreigners.

6.64 The Liberian-owned sector has a strong "Other Africans" appearance; that is, although firms' ownership is indicated as Liberian, the names strongly suggest that the proprietors originated in Nigeria, Guinea, Ghana, or elsewhere. This seems to confirm the observation that Liberian entrepreneurs are likely to have been naturalized or the children of naturalized parents.

6.65 The Liberian-owned enterprise is likely to be run by a person without any prior experience in commerce; in fact, the enterprise itself is likely to be a second vocation run by children or wards, with the sole proprietor, usually the family head, normally managing the venture. He returns to it after his normal training in accounting or any business discipline, and is likely to lack appreciation for need of financial records.

Personal and business funds are mingled; he confuses cash flow with profitability and hence perpetuates a marginal operation, always low on cash. The low cash situation prevents the Liberian-owned enterprise from growth opportunities, such as when sales cannot be made because inventories cannot be acquired nor financed.

6.66 This starts a vicious circle. Without records, traditional sources of credits are effectively closed to him: he must pay for his purchases with cash so he cannot extend credit and cannot create a reliable clientele. His purchases must be small and therefore sales volume low.

6.67 The proprietor is likely to have no external affiliates, and he is likely not to receive support or credits from Lebanese concerns with whom he competes directly or indirectly. If the Lebanese extends him credit, the terms are likely to be outrageous.

6.68 There are few Liberian-owned concerns, such as Corniffe Printery, the rubber farms and logging operations, etc., that are not in petty trading. We profile such concerns in the following terms. The principal investor in such ventures are likely not to possess technical expertize in the areas of investment. The concerns also often receive his partial attention. Quality of financial records and management may not differ from what we saw in petty trading unreliable or inadequate records; funds are likely to be mingled. Production is likely to be at high unit cost, quality sub-standard and therefore not likely to be exported. As the domestic market is severely limited, production occurs at high points on the unit cost curve which again begins another circle. In fact although there are Liberian-owned import-export firms, these basically import goods, pre-ordered, for government agencies or public corporations. In such case firms are likely to have well-connected individuals as silent partners.

6.69 There is clearly a lack of organization and failure to pool resources. While the preference for sole proprietorships reflects this failure, it also show lack of knowledge of the resources that could be pooled. Thus, Liberian firms do not utilize legal, financial and market research services available to them. As the government's regulatory capability is low, professional services are not used and so realisable opportunities are not identified nor pursued. However, the cos of such services are high, relative to the volume of business. So weak tax administration, for example, reinforces the preference not to engage specialist services and therefore ignorance continually hurts such business.

6.70 What we have, then, are Liberian-owned enterprises being at the periphery of the Liberian economy, and it does not appear that they will impact their own economy in the foreseeable future. Why has this situation come about?

6.71 Liberian entrepreneurship, especially in the 1860s but during the Century of Survival, was competitive with its counterpart. There were the Cheesemans, Hill and Moore, Reginald Sherman, King, etc., who in the 19th century realized $100 thousand or more annual turnovers. Even in the early 20th century, Dennis and Cooper, Bright, York, Samuel Smith and others maintained businesses larger than most now operated by Liberians. We suggest several reasons below why the average Liberian-owned enterprise is likely to be a petty trader, on the periphery of the economy.

6.72 The first apparent reason is that the goods produced/traded were inferior goods, in the economic sense: demand for them was income inelastic. Secondly, the absence of infrastructure made production, collection or trading in them lose their cost competitiveness. Thirdly, technological advancements displaced these goods and the prevailing low educational level did not allow development of substitute goods that could retain their competitiveness. Fourthly, the Open Door Policy, in its success in inducing foreign capital inflow, and being biased against indigenous entrepreneurship, made civil service career worthwhile. By shuffling papers especially after the 1950s, one could earn higher than average income and maintain a standard of living that encouraged importation or at best import substitution with low domestic value added. It made civil service careers more rewarding than business, which would fold without political connections.

6.73 Opining that the Open Door Policy was biased against domestic entrepreneurship needs substantiation, as one ought not to rule out the possibility that the bias was unintended. It could have resulted from the failure to analyze a policy fully and inability to anticipate undesired but likely outcomes. However, in view of the political history of the era, especially in view of Tubman's apparent desire and need, early in his administration, to enlarge his power base vis-a-vis the "Rock Town People" (i.e., citizens of Montserrado), it could also be that Tubman designed the policy to stunt the growth of the middle class in order to prevent diffusion of political power, which could result from economic independence. As obvious, Montserrado citizens were better placed to gain from such diffusion economic independence.

6.74 Lastly, the socio-cultural habits of the literate elites and rural dwellers alongside the maintenance of the extended family system fostered envy and distrust. In addition, delegation of responsibility and economic division of labor was also discouraged. Even the firms that were successful at one time, as sole proprietorships, could not continue, much less prosper, after the proprietors died, because death not only removed such forceful personalities, it also shuffled the political cards.

6.75 The Mesurado Group of Companies merits special mention. The company was started as a joint venture, principally between Stephen Tolbert and Tibor Rosenbaum. Around 1971, when William Rolbert became President of Liberia, Rosenbaum's influence, and apparently shares, in Mesurado declined. After Stephen Tolbert died in 1975, William Tolbert reportedly increased his holdings in the company; by 1980, the two principal shareholders were Mrs. S. Tolbert and W. Tolbert. Consequently, following the coup and the confiscation of W. Tolbert's property, Mesurado became a mixed enterprise: about 70% owned by GOL, and 30% by S. Tolbert heirs.

6.76 Mesurado, prior to the confiscation, was the largest Liberian-owned operation; in fact, its corporate structure was complex, for the group included "resident" and "non-resident" units. For the purposes of this Report, Mesurado is not a formal private enterprise.

6.77 Enterprises jointly owned by Liberians and others, we note in concluding this section, employed, on the average, more persons than Liberian-owned firms or non-concession, foreign-owned firms. The average employment of the 43 joint ventures registered with the Ministry of Commerce was 45.

6.78 The issues of inferior goods, lack of infrastructure making Liberian exports non-competitive, and the role of technological advances in lessening demand for traditional Liberian exports seem fairly obvious, and might not require extensive discussion. Suffice it to note that the product were collected from widely separated towns and villages, lacking a road network or river transport system and subject to high cost. In the case of piassava, for example, used to make brooms, the development of plastic substitutes reduced demand for it. Also, the reliability of quality supply of these exports presented problems for the buyers. As long as there were no substitutes, the European importers could pay the price. Camwood, used for dye production, was no longer in demand following development of commercial processes for producing dyes. In a way, then, the death of Liberian entities that traded in these goods followed the trend documented, say, in the Asian trade for spices.

The Open Door: Deleterious for Liberian Entrepreneurship?

6.79 The proclamation of a policy of invitation and welcome to foreign capital was in response to depressed local economic conditions. From its early beginnings, the view was that investment capital would originate abroad, given the low domestic income level. As President Johnson's idea, it was meant to increase production so that Liberia would repay the Loan of 1871. For Tubman, the apparent aim was to repay the Firestone Loan. This view apparently hindered thoughts as to how the modalities of attracting foreign private capital could conflict with domestic entrepreneurial development, especially in the event of differential conferral of benefits. Since it was presumed that local capital would not be available, it was apparently thought that such conflicts would not arise. Besides, those conferring benefits often were themselves investors. The tradition in Liberia has always been that the responsible government officials, who might not be disinterested in business ventures, believed that out of an institutional framework, he would take care of himself and his friends. Nkrumah may be the only African Head of State to verbalize it, but others implement what he preached: seek ye first the political kingdom, and all other things shall be added unto you.

6.80 As there was no attention paid to the potentials for conflict, the conferral of these rights on foreigners created an atmosphere in which personalized political decision making flourished. Thus, as political life and business prosperity always seemed to reside in the same group, changes in one sphere contributed to the transiency of the other. Perhaps this is why Liberian-owned business did not survive their original principals.

6.81 The Open Door Policy also adversely affected Liberian entrepreneurship in the sense that it created a false sense of wealth. High income growth made it possible for elites to develop who could enjoy better than average income. Worse, as long as foreign private capital inflows continued, the above average income for the elites would continue, and incentives necessary to undertake productive activities were removed. The need to intensify centralization of decisions developed; at the same time, it was acceptable to widen the assimilation process, but establish a reward-punishment mechanism for those who might bolt the system.

6.82 This development allowed, indeed thrived on the provision of public relations services by Liberians to foreign-owned enterprises, bogus legal and consultancy services and import-export firms. Since at least the Tubman Administration, well connected individuals have established firms engaged in these activities, only for such firms to vanish after their pharoah has disappeared.

6.83 The Open Door Policy is outward looking and virtually excludes internal capital mobilization. Its benefits were conferred on external capital, and exclusively, was biased in favor of depletable resource exploitation or plantation development resembling colonial administration regimes. This outlook even today fits in with a system that does not articulate policy options.

6.84 Finally, impressive output growth, even if from insular entities lacking linkages with other sectors of the economy, removed the pressure which would otherwise have ignited the drive for domestic entrepreneurial activities and for socio-political development. The phenomenal growth in income facilitated substantial investment in social amenities and capital, so even if their distribution was skewed, it required time before the inequity would become sore spots. While it lasted, increases in educational expenditures, rapid growth in available hospital beds per head, an expanding road networks and concrete structures become symbols that initially passed as indicators of development. It was only the virtual cessation of foreign private capital inflow in the late 1970s that created the need to question the efficacy of the Open Door Policy, as designed or rather, as evolved without direction and analysis of content. The Parker Commission Report was the first formal statement of this concern.

Preference for Sole Proprietorships

6.85 Now, as in the past, Liberians prefer to organize businesses as sole proprietorships. As observer, this means that resources are not pooled and the life of the enterprise is limited to that of the proprietor. While the case of Ketters Limited established in 1920 and still existing as a sole proprietorship is unusual, this view is confirmed in Table C. This preference could not reasonably be ascribed to ignorance about the advantages of the corporate form of business, such as tax advantages, perpetuity of existence, etc. One could not be convinced that the stringency of regulatory agencies, such as requirements for public sale of stocks, financial reporting, etc., were perceived as disadvantages against the corporate form.

6.86 Interviews with a wide range of knowledgeable Liberians suggest that Liberians tend to prefer sole proprietorships because they don't trust each other. The distrust is said to be due to several reasons. Confidentiality is always respected. Since, in a village type community, the elites often compete in the church, army and government, exposing one's business to others might enhance his opponent's prospects.

6.87 Those consulted were of the view that the evidence supported the situation. For example, earlier attempts at pooling resources in business ventures were listed, and in each case it was suggested that one or more parties converted firm resources to personal use, or proved otherwise untrustworthy.

7. Other Specific Tasks

7.1 In this section of the Report, we analyze the relationships between commercial banks and the other private enterprise sectors, recognizing the economic situation described in Chapter III. Then, recalling the operational environment discussed in Chapter V, we propose a framework for developing indigenous private sector management capabilities. In the absence of a manpower survey, the framework is heuristic and conceptual, not a manpower development plan. The section ends with a survey of the status of Parker and Tarr Commission recommendations, presuming that it is the probable basis for anticipating the likelihood for implementing actions recommended for removing the hurdles to private sector development that this study has identified.

7.2 Historically, the concession sector does not borrow from Liberian institutions; loans made to concessions, even by banks with branches in Liberia, are booked offshore. Loans to the Government and it agencies also are booked offshore. These formalities understate the size of financial resources used domestically. Loans booked offshore, however, are taken into consideration in setting lending institution's country exposure, and therefore affect size of resources available to the private non-concession sector. In the current situation of a severe liquidity crunch, and the dim prospects of improvement in the demand for iron ore and rubber, lending institutions' growing public sector exposure has reduced not only the total credits available, but the suitability of sector for loans as well. Given these considerations, how do other private enterprises relate to the commercial banks?

7.3 From the perspectives of other private sector enterprises, the size of facilities extended concessions and the public sector is criticized, although for different reasons. In case of loans to the concessions, Liberian-owned enterprises seem to feel that they are discriminated against. They perceive that one group of multinationals would take care of another. Regarding loans to the public sector, the view seems to be held by all sectors of the business community that the commercial banks assist in the creation and continuation of unproductive activities. It is felt that their portfolios could be re-arranged, so that with the overall exposure unchanged, loans to private enterprises could be made, thereby ensuring more productivity.

7.4 Liberian entrepreneurs also complain about the distribution of the remanents of loans extended the private sector. As seen in Table III-4, the major share of loans finance imports, meaning Lebanese and Indian concerns. The commercial banks, in the eyes of Liberian borrowers, discriminate against them.

7.5 Commercial banks are also perceived as short-term oriented, again in view of the sectoral distribution of their loans. The argument is often made that the banks are "pawn shops", for they finance very little else outside of trade. They provide no medium to long term facilities and require excessive collaterals.

7.6 The question of an acceptable collateral was often raised by Liberian businessmen as well as the banks themselves. In the absence of a developed market for real estate, and in view of the prohibition against real estate ownership by non-Liberians, the only asset most Liberians own and could offer as collateral are unacceptable, either because it is illiquid, or because there is no market for it. In the case of Liberian-owned trading concerns, the inadequacy of their financial records, their likely status as sole proprietorships, etc., were said not to enhance their perceived creditworthiness. Also, there are not public assistance package, such as an export insurance scheme, which would reduce the risk of the banks' exposure.

7.7 The commercial banks were castigated most for their perceived inactivity in intermediation. Branches of banks which in New York compete for deposits via all kinds of gimmicry, sit supinely, seeming to discourage new accounts. They take no lead in the creation of economic activities that would enhance the feasibility of projects from which they and such projects would benefit.

7.8 Towards increasing commercial banking activities, the need exists for an acceptable collateral; to satisfy that need, the government's liquidity and financial management situation must improve, for it is GOL as insurer that would have to be sold. Beyond that, efforts at creating feasible financial activities, acceptable collaterals must be found. The government must also share in, if not assume risks due purely to the low level of development. These included provision of subsidies in connection with infrastructural development, police protection, and manpower development. To this end, more than tax holidays would be required.

7.9 Facilities intended to be provided by the Monrovia Industrial Park and the LIFZA should not be self-liquidating: the economic, rather than financial, returns to them should be sought. The achievement of this and numerous similar goals require, most of all, careful policy design and analysis. Thus, for example, projects ought not be undertaken purely for the presumed importance of the sponsor, legal or otherwise, but upon objective determination that its implementation achieves or facilitate achievement of stipulated objectives. These objectives must themselves first be established, with all possible internal conflicts, if not reconciled.

7.10 As will be outlined in the last chapter, neither legal restraints nor antipathy to private enterprise, foreign or domestic, has disabled the private enterprise sector from attaining its capabilities. Rather, the contributing factors coalesce around the inability of recent administrations to modernize the socio-political system. In what remains an essentially tribal society, diagnosis of problems to yield suggestions for policies is discouraged. The structure of government consequently remains unwieldly, with personalized decision-making decreasing objectivity and increasing personal aggrandizement. Reality is perceived through prisms colored by a false sense of patriotism. Lines of communication and responsibilities criss-cross and confound. The tribal elder as presiding godfather remains beholden to.

7.11 The need to develop indigenous private sector management capabilities has been demonstrated in Chapter V. The relevant question is not to establish whether such needs exist, but if it can reasonably be fulfilled. This section proposes a frame for providing such management capabilities.

7.12 The records available are insufficient to form the basis for a manpower development plan. We are unaware of the categories of jobs that would be available, by sectors, say by 1985. An exercise of that nature was undertaken by the Government in the 1970s, but its assumptions would now be invalid, and its projections dated. There is also not available an inventory of currently available manpower, either by level of training or by fields of specialization. Both of these exercises must be undertaken, if a realistic private sector indigenous management capability determination is to be undertaken. Assuming that such an exercise might be considered within the framework of asistance that external donor agencies might provide, we propose below a framework for satisfying the needs that would be so identified.

7.13 In Chapter V we indicated that indigenous management capacity, both in the public and private sector, is low: we suggested that the problem was caused by the educational system, in addition to other socio-political factors. In respect of the educational system, the main factors identified were the recency of the introduction of a core business program. Also important is the weakness of the educational system, in its science and mathematics programs. Additionally, the attrition rate is very high and the functional literacy rate is probably not higher than 25%. Since the society looks askance at analytical queries, it may not be surprising that management capability is low.

7.14 Then there is the question of middle level operational people. The supervisory force, if found, hesitates to discipline, because of fear of reprisals. Labor discipline itself is low and personnel records are not maintained; under such a system, merits and productivity are not encouraged.

7.15 Graduates of trade schools and vocational institutions have been disinclined to practice the trades in which they were trained, because the reward system discourage them. As a result, the supply of mechanics, plumbers, carpenters, electricians and bookkeepers is severely limited. Without special concern as to the required number of personnel to be trained at given intervals, we believe the framework for providing the needed skills must consider alternative training arrangements. Such an arrangement must first evaluate the performance of relevant existing institutions: BWI, Arthur Barclay, Tubman, and the trade schools of LAMCO and Bong. In terms of capability to perform after graduation, which of these institutions have been superior? Why? Given the conclusions derived, it might be useful to determine whether training in the trades, and in bookkeeping, might not be provided by private sector bodies. For example, would garage of an automobile dealership more reliably train mechanics than the W.V.S. Tubman College of Technology? What is the relative weight to be assigned academic training in the overall scheme, as compared with ability to undertake the specified functions?

7.16 Assuming that it was found desirable and acceptable to have responsible private enterprises conduct such manpower development, using their own facilities, the scheme might consider arrangement with each such private enterprise, to develop a specified number of, say, electricians. The external donor agency assisting might then contract a consultant to design the syllabus for each such course, including specifications for determining the level of required skill to be gained. The consultant might then specify or elaborate need-specific packages; for example, on the basis of projected needs, determine the number of secretaries, plumbers, bookkeepers, electricians, etc., to be produced in a year. He would select the private firms to implement each such program. The basis for selecting firms to undertake the training to be preceded by assessment of the firms capability, including the size and quality of existing facilities. The consultant would pre-establish the criteria and level of acceptable performance required for certification.

7.17 The scheme would approximate boards such as found in the British system, and the consultancy arrangement could be designed so that it becomes the basis for private bodies that would certify competence in the trades prior to practice.

7.18 While the preference would be for private enterprise firms to undertake the manpower development, public institutions need not be excluded. Such institutions, in a resource starved world, have considerable resources which if utilized, could limit project cost to acceptable levels. What should not be done, however, is to have them design and administer the programs. Their involvement should be solely on the basis of assessed capability. If it were determined that a particular government institution had the better facilities, material and human, to implement need-specific Package A, the desirable arrangement might be for such an institution to enter into a contractual arrangement with the donor agency, through the consultant, just as the private enterprise would. The contractual terms would be negotiated and post-performance assessment would be made.

7.19 There are two questions about this framework we might raise in concluding this section. Firstly, there is a question even in our own minds as to whether governmental relations can be handled by private proxies? While it is not for us to answer such a query, we might note that past failures require novel tests. Secondly, would it be effective? Given that the Liberia Electricity Corporation, for example, has LIBTRACO train certain of its manpower, perhaps there is a basis for measuring the proposal's likely "success quotient".

7.20 To conclude this section, we review the status of recommendations made by two commissions appointed by the Government of Liberi- 1978 and 1981. While the Parker Commission (1978) was appointed to design measures for improving private investment possibilities in Liberia, the Tarr Commission (1981) was set up to propose public sector measures that would bring relief to the Liberian people.

The essential difference between them was the focus; both commissions consulted the public and private sectors, including the banks, and postulated that public confidence was essential and paramount for an improvement. Both concluded that such confidence was waning. Both Commissions defined confidence to mean the manner in which the government is perceived, especially in the face of disparities between beautiful pronouncements and behavior pattern. Where the behavior pattern or performance records, either due to design, incompetence, or what have you, and the statements diverged, investors would give greater credence to what they felt rather than what they read.

7.21 The Parker Commission noted "limitation in the compilation and analyses of sufficient current statistical private sector data, it is difficult to measure in any precise statistical manner the overall trend of private sector ... There are no indices, nor systematically established indicators reflecting the current state of private sector economic affairs." The problem not only remains, but as public sector data also have become scanty and not reliable, it has intensified.

7.22 The Parker Commission noted that "private investment is stagnated or the rate has actually declined". That observation is truer today than it was at the time it was made.

7.23 The Parker Commission noted the poor communication between the government and investors, and called it a major constraint in attracting investment. The Commission concluded that "the fundamental constraint to the attraction, promotion, expansion and advancement of private sector investments within ... Liberia is the unsysmpathetic attitude, due to the total lack of experience, resulting in lack of confidence and credibility in ... ministers ... to the approaches and problems of private investors". The government was then perceived as hostile to private business; as not distinguishing respectable businesses from "fly-by-niters", etc. Corruption was also mentioned as a major impediment. In our study, all of these impediments were found not only to continue to exist, but to have grown, since now the liquidity crunch has imposed a restraint on earnings and capital repatriation and convertibility.

7.24 The Tarr Commission (1981) recommendations focused on the need to structure the government bureaucracy to facilitate effective decision-making; it sought to design a basis to facilitate policy analysis, in order to provide a basis for spotting conflicts and ensuring their resolution, through articulation. Most importantly, the Tarr Commission argued that until public sector fiscal management improved, private sector investors would continually loose confidence, and private sector investment would remain unattracted.

7.25 The discussion in Chapters III and V establish that private investment is waiting to see if the government would put its house in order. With the collapse of the Oil Facility and GOL's inability to meet public sector payroll, the signal for a private investor is that he might better seek his fortunes elsewhere. Besides, the stability of the financial system has been questioned, given the liquidity crunch, and the existing defaults, be they on commercial debts or temporary suspension of disbursement by the World Bank and the African Development Bank. Investors are unprepared to assume the risk of inability of the banking system to guarantee future convertibility of their earnings and capital.

7.26 In late 1982, private sector investment has stopped: moreover, many significant divestitures are in process. The cases of Firestone and the mining companies had been mentioned. But even Guthrie, which acquired the BF Goodrich Rubber Concession after the Coup, has indicated that it is reconsidering its investment in Liberia. The reason given is that the climate is, contrary to belief at the time of the acquisition, hostile and unfriendly. There are firms, Liberian and foreign-owned, that have shelved all plans for capital investment.

7.27 Inevitably, we must advance reasons for government non-acceptance of the Commission s recommendations and her non-action. Without much elaboration, we proceed to that aspect of the exercise.

7.28 The Government of Liberia appears to operate on the assumption that if a problem is left unattended long enough, it will not fester as would a wound, but self-destruct or vanish. To GOL, all missions are possible: time makes all missions possible. In fact, time combined with inattention speeds up the exit of a problem. This view seems rooted in Liberian sociology and history. During the Century of Survival, both against European sovereigns and an inhospitable climate, hadn't Liberia survived to become a beacon of hope to the independence movement? This view translates into a peculiar nationalism: not ever colonized, even if the public wage and fuel bills are being paid by a benefactor, there is presumption of independence. The view is enhanced by a fatalistic resignation to or a tribal society's belief in the will of the unknown: "If the Lord wills". Unlike other cultures in which if "God wills" is followed by activity, Liberia is apocalyptical; the resignation is total and complete.