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# LIBERIA: SMALL AND MEDIUM ENTERPRISE ASSESSMENT

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FINAL REPORT  
-- Executive Summary --

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

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

*Sponsored by: Private Enterprise Development Support Project II  
Project Number 940-2028.03  
Contract Number PDC-2028-Z-00-7186-00  
Prime Contractor: Coopers & Lybrand*

*October 1989*

## **Note**

Ernst & Young was the prime contractor for the Private Enterprise Development Support Project II (Project Number 940--2028.03) until October 1, 1991. On October 1, 1991, this project was transferred to Coopers & Lybrand, which is now the prime contractor. Because this report was produced prior to October 1, 1991, it may contain references to Ernst & Young.

## EXECUTIVE SUMMARY

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

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 Unpublished data was obtained from government agencies.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

### TARGET POPULATIONS AND PROGRAM DEFINITIONS

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

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

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

- o **SME Size:** Currently, the Government of Liberia and the National Investment Commission define small enterprises as those with an investment of less than \$25,000<sup>1</sup> and medium enterprises as those with an investment of less than \$50,000. In view of the *de facto* devaluation of the Liberian dollar in the market, it is recommended that the current limits be scaled up and doubled to allow for the potential to plan for growth. Such an investment definition also allows financial institutions to broaden and diversify loan portfolios to cover some overhead, offer clients differential interest and service charges, and possibly cross subsidize its operations. This is necessary for USAID funded financial institutions such as SEFO and PFP/L dedicated to specific small borrowers and not to large firms. Use of the figure \$100,000 for a medium sized enterprise is an approximate indication of size. Some "medium" size enterprises may need loans that exceed \$100,000 when considering the type of business and requirements such as working capital. Loans to associations benefiting several firms could easily exceed \$100,000.
- o **Informal Sector:** The Sector Assessment indicated that businesses with defined locations, including market women, are all recognized by a formal organization or are registered with the Ministry of Commerce. Itinerant merchants, some cottage industries operating away from the public, and mobile street vendors constitute the unregistered sector in Liberia. Even in the remote rural areas of Liberia, businesses with fixed locations are registered. In view of the almost universal registration of enterprises to be supported through SME programs, it is recommended that the term "informal" not be included for defining target groups.
- o **Target Populations:** Lebanese and Indian business persons are competing successfully in Liberia. Liberian residents from other African nations are doing well and do share some of the constraints faced by Liberian small and medium enterprises. It is recommended that priority consideration be given to Liberians and residents from other African nations. Other foreign nationals, however, should not be totally excluded from consideration. Depending upon the nature of the organizational structure and project or loan proposal, SME programs may find some merit in exercising flexibility in the support of SMEs.

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<sup>1</sup> Figures are in Liberian dollars unless noted otherwise

- o **Priority Business Activities:** Several factors should be weighed in supporting activities in "competitive" or "traditional" areas of business. Producers of products for export are generally within competitive markets and there is no excess of product being generated. Even market women may use SME loans and other support to create other markets or introduce technology changes. There are business activities that may be overdeveloped by SMEs. This is a judgement call and hard and fast rules should be avoided. SME programs may be selective in the types of activities to be targeted. General categories considered by the study team included export, manufacturing and processing, and linkages with extractive and agricultural products. Program preferences could be made for businesses in new industries, those utilizing agricultural and other Liberian raw materials, and those with other competitive advantages.
  
- o **Rural And Urban Considerations:** Business is customarily envisioned as a formal and urban activity. The primary economic activity of rural areas is agriculture and there is a tendency to distinguish between urban commerce and rural agriculture. Rural areas do have SMEs that support agriculture. In a definition of SMEs that emphasizes private ownership, small farms do qualify. For the purpose of defining the target populations and SME program priorities, the emphasis on rural and urban programs requires clarification. It is recommended that separate urban and rural SME strategies be developed and implemented.

## THE LIBERIAN ECONOMY

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

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

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

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

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

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

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

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

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

## THE FINANCIAL SECTOR AND SME DEVELOPMENT

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

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

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

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

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

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

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

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

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

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

- o For various reasons, not entirely under the control of these businesses, they have been unable to meet repayments on their debt obligations. External influences such as falling commodity prices or foreign exchange unavailability made it impossible for some to continue operating.
- o There has been a record of inability of the banks to collect their money or on collateral through the courts. There are excessive delays in having cases heard in court. Not only have these delays been unrealistic, but in the end the court invariably found for the debtor and banks have lost confidence in courtroom remedies to their credit problems.

## DEVELOPMENT FINANCE INSTITUTIONS

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

- o Liberian Bank for Development and Investment (LBDI): The LBDI was established in 1965 for financing productive enterprises in manufacturing, agriculture, tourism and services. In the past, the Bank's form of lending has been medium to long-term loans with 6 to 10 year maturities, typically for the financing of capital assets. Presently, LBDI's loans are largely short-term working capital loans. Analysis of the LBDI Annual Report showed that in 1988, 33.6% of the approvals had maturities of under 24 months and the remaining 66.6% had maturities between 24 and 71 months. In recent years, most of LBDI financing has been for the trade sector dominated by merchants and this trend continues presently. The Bank argued that the lack of foreign exchange has curtailed its traditional financing of capital assets for industry. Beside the IDA credit, very little of financing went to the SME sector.
- o The Agricultural Cooperative and Development Bank (ACDB): The ACDB was established in November 1976 to a) provide agricultural credit either directly and/or through co-operative societies; b) develop rural areas and c) provide technical assistance to farmers/cooperatives. ACDB, of all the financial institutions in Liberia, has the most extensive branch network. It has eight branches including the main branch in Monrovia. The remaining seven branches are located in rural areas.
- o The National Housing and Savings Bank (NHSB): The NHSB started operations in 1976. It is fully owned by the Government of Liberia with paid up capital of \$5.0 million. Its main objective was to deal in housing mortgage loans and personal loans. NHSB's charter authorizes it to undertake commercial banking. Since 1979, after several bad loans to the housing sector, the bank stopped making loans to that sector and got involved in commercial loans. Presently, commercial loans account for 80% of total loans portfolio compared to 15% for real-estate mortgages. The NHSB did not participate in the IDA credit for SME financing.

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

#### THE PARTNERSHIP FOR PRODUCTIVITY (PfP)

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

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

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

## CONSTRAINTS TO SME DEVELOPMENT

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

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

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

### System Characteristics

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

## Organization

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

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

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

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

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

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

## LIBERIAN GOVERNMENT AGENCIES

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

- o Ministry Of Commerce And Industry (MCI): The MCI is responsible for promoting, developing, and regulating all commercial and industrial activities in the country with three major bureaus: Commerce, Industry and Central Administration. The Ministry is currently monitoring the activities of almost 4,000 businesses in and outside of Monrovia with a staff of only 230 persons and inadequate logistical support for surveying the market and for reaching businesses to properly monitor, promote, and regulate their activities. As an incentive for small businesses to register, MCI has lessened the annual registration fees from \$200 to \$100 for the small entrepreneur. As yet, the Ministry has no other specific policies for developing the SME sector. Consultations have been held with an advisory mission of the United Nations Industrial Development Organization to assist in developing a program for expansion of this sector. MCI has requested reexamination of the Investment Incentive Code to accelerate industrial growth and development as well as to encourage the promotion of SMEs.
- o Ministry Of Finance (MOF): The primary function of the MOF is the fiscal operation of Government including revenue collection, expenditures, and debt management. The Revenue Department of the MOF consists of three bureaus: Internal Revenue, Customs & Excise, and Income Tax. Through the various divisions of the Revenue Department, the MOF collects revenues from the private sector in the areas of real estate and realty leasing, national identification cards, motor vehicles, income tax, corporation and partnership, national reconstruction, health, development & progress revenue, customs duties, transshipments, special releases & bonds, rubber sales, royalties on the gross sales of iron ore, diamond & gold, dividend and profit sharing revenue, and miscellaneous taxes. The MOF monitors the activities of Concessions in the Mining, Agricultural, and Light Industry Sectors. Trends in production, prices, and exports for Liberia's natural resources of iron ore, rubber, forestry, and oil palm are studied in the mining and agricultural sectors.
- o Ministry of Planning and Economic Affairs (MPEA): The MPEA is the overall monitor for the various Government Ministries. The three bureaus are Sectoral Planning, Rural Regional Planning, and Economic Affairs. The activities of the MPEA are in the basic areas of research and statistics, monitoring of agreements and specific projects, and overseeing budget allotments for the various Ministries of Government. The MPEA is responsible for the drawing up and implementing the 3-year and 5-year economic development plans for the country. It is the responsibility of the MPEA to monitor the development projects set by each Ministry, to approve their quarterly allotments, and to ensure that their quarterly achievements are within the overall national development plans. The MPEA has identified the

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

- o Ministry Of Agriculture (MOA): The agricultural sector has the potential to accelerate the economy of Liberia. Approximately 70% of the country's population reside in the rural areas and more than two-thirds of the country's population depends on agriculture and related activities for their livelihood. Given the national objective for agricultural development, the dependency upon agriculture in the rural areas, and the contribution agriculture can make to the Liberian economy, the role of the MOA is important, directly and indirectly to the development of SMEs. MOA is situated to serve as a catalyst for the private sector and research institutions, like the Central Agricultural Research Institute (CARI) and the University of Liberia College of Agriculture and Forestry, to provide services to farmers and cooperatives, and rural enterprises. MOA could also provide incentives to producers to export crops in order to maximize their returns from the world market prices for themselves and for the economy as a whole.
- o National Investment Commission (NIC): The NIC was created by an Act of the Legislature in September, 1979 to coordinate the investment policies of Liberia and to efficiently promote a more effective conclusion of investment agreements related to all sectors of the economy. The Commission receives, evaluates, and processes all investment agreements in collaboration with relevant Ministries and Agencies of Government. The NIC is a semi-autonomous agency which reports to a Board of Directors from the Ministries of Commerce, Finance, Planning & Economic Affairs, and from any other Ministry or Agency related to the particular sector of investment (i.e., Agriculture, Mining and Forestry). It is the only agency of Government to guide and monitor investment proposals. The SME Department of the NIC was instituted by Government approximately 6 years ago to help develop the SME sector. Currently, this department is catering to those who have requested project assistance in the areas of woodworking, carpentry, blacksmithing, animal husbandry, and restaurants. NIC/SME activities are primarily in the areas of Industrial Extension Service and Training, and Product Marketing. Investment proposals are screened and appraised in accordance with the Investment Incentive of Liberia. Evaluation reports are prepared for the review of NIC's Board of Directors and technical committee. The NIC is focusing more attention to provide managerial and technical assistance in an effort to promote indigenous businesses. For the period covering 1988, the NIC headquarters in Monrovia reported that out of 36 applications submitted, 14 projects were evaluated and approved. Six out of the 14 projects were implemented to a total investment of \$6.4 million.
- o Liberian Industrial Free Zone Authority (LIFZA): LIFZA was established in 1975 to induce foreign investment, promote exports, increase employments and improve industrial technology through the usage of local raw materials. LIFZA is a semi-autonomous agency headed by a Chairman, General Manager, and directors who collectively are accountable to a Board of Directors. The rules and regulations governing the admission of

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

## FINDINGS AND CONCLUSIONS

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

### Economy

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

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

### Finance

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

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

## Constraints

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

- o There is a shortage of skilled workers and managers and a low demand for their services.
- o Training or technical services in business planning, management and related entrepreneurial skills are not generally available for persons seeking to start businesses.
- o SMEs face strong competition in many domestic markets from larger expatriate firms and other SMEs.
- o Liberian SMEs often encounter discrimination when marketing their goods and services.
- o Technology *per se* is not a major constraint. Training is the main component in productivity, technology upgrading, and adoption of new technologies.

## Government and Other Institutions

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

- o Government policy to stimulate SME development exists and is generally not being implemented.
- o Rent seeking and rent giving exists for all levels of government and business.
- o Private associations of enterprises and individuals are important for SME development for the exchange of business information in pursuit of common interests and potential for political recognition of business requirements.
- o PFP and SEFO can play important roles for SME development.

## Program Strategy

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

- o Opportunities exist for linkages of SMEs in agriculture, labor-intensive manufacturing, and export goods.
- o SMEs with fixed and public locations are registered with the Ministry of

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

- o There are relevant distinctions for the methods of production and marketing practices in the urban, rural and concession components of the economy.
- o A few rural counties experiencing economic decline contribute to the increased population for Monrovia. Rural outmigration is not spread throughout the country.

## PROGRAM RECOMMENDATIONS

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

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

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

### Credit

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

- o Operations and follow-up support costs are associated with SME lending programs and should be explicitly recognized.
- o SME lending programs should lend at interest rates tied to the market.

### Technical Assistance, Technology Transfer and Training

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

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

### Institutional Development

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

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

### Policy

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

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

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

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

## PROJECT RECOMMENDATIONS

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

### Entrepreneurship Development

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

### Entrepreneurs International

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

## Training and Development

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

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

## Self-employment for Technically Qualified Young Persons

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

## SME Special Studies

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

- o Market and Feasibility Studies: International market studies can identify and study principal markets for the product groups in North America and Europe through desk and field research. Importers, potential partners and level of interest can be determined. Technology sourcing and infrastructure requirements should be identified. Policy, finance and investment factors should be considered.
- o Liberia Industrial Free Zone Authority (LIFZA): LIFZA was established in 1975. Although the GOL policy favors export oriented foreign investments, promotion of exports, the Free zone has been a dismal failure and remains greatly underutilized. The export oriented manufacturing strategy will depend on the revitalization of LIFZA. It is recommended that USAID may undertake a study aimed to improve the performance of the

### **Free Zone Authority.**

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

### **Institution Development**

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

- o **Strategy and Coordination:** For the next 4 to 8 years, a USAID sponsored SME Project could serve to provide research/development and coordination of services. Such a project would provide USAID officials with resources to assure attention on the following areas of need identified by the SME Sector Assessment.
- o **Small Enterprises Financing Organization:** SEFO has gone through very difficult times organizationally and financially. The affairs of the agency appear to be stabilizing. The loan portfolio is becoming reliable, application appraisal systems are more sound and the repayment rate is improving. SEFO has a small and dedicated field staff. Their activities are limited to client investigation, loan appraisal, approval, follow-up and some technical assistance. It is recommended that USAID review the small industry development strategy in Monrovia and determining what role SEFO may play. If SEFO has two distinct objectives (development and promotion of SMEs and credit delivery), separate criteria need to be established for evaluating SEFO's performance. Cost recovery or self-sufficiency should not be expected for the development task.
- o **Partnership For Productivity/Liberia:** PFP has been working in the Nimba County for more than a decade and focuses on providing rural credit and generating savings. The loan portfolio includes loans for agricultural operations, retail operations undertaken by market women, and a variety of establishments such as pharmacies. Some productive and manufacturing units are also recipients of loans. PFP is doing very useful work and has an extremely dedicated complement of headquarters and field staff. After a decade of pioneering work and in view of the proposed plan to extend

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

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