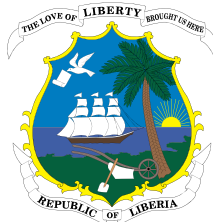




LIBERIA DTIS UPDATE

Leveraging Trade for Economic
Diversification and Inclusive Growth

September 2015



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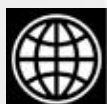
Currency Equivalents

Currency Unit = Liberia Dollar (LD)

US 1.00 = LD 80.00

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Metric System



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CONTENTS

- ACKNOWLEDGEMENTS vii
- PREFACE.....viii
- ABBREVIATION AND ACRONYMSix
- EXECUTIVE SUMMARY 1
 - I. Implementation of the 2008 DTIS Action Matrix..... 1
 - II. Four Key Messages from the Findings of the DTIS Update:2
 - III. Making the DTIS Update A Catalyst for Mainstreaming Trade3
 - IV. Conclusions and Recommendations 9
- CHAPTER 1: INTRODUCTION..... 17
 - A. Leveraging Trade for Inclusive Growth.....19
 - B. Implementation of the 2008 DTIS Action Matrix.....20
 - C. Rationale for Revised Interventions25
 - D. Conclusion28
- CHAPTER 2: TRADE PERFORMANCE29
 - A. Trade Performance.....29
 - B. Trade Openness, Composition, and Destination31
 - C. Perspectives and Challenges of Export Diversification.....35
 - D. Trade Policy Reform Initiatives.....39
 - E. Conclusions40
- CHAPTER 3: TRADE INTEGRATION: WTO ACCESSION43
 - A. Liberia’s Current Trade Policy Regime.....43
 - B. Alignment with ECOWAS-CET44
 - C. Accession to the WTO.....50
 - D. Negotiating Commitments on Trade in Services.....55
 - E. Conclusions and Recommendations.....57
- CHAPTER 4: CONSTRAINTS TO TRADE COMPETITIVENESS 59
 - A. Aligning Macro Incentives.....61
 - B. Improving Backbone Services.....75
 - C. Conclusions and Policy Options78
- CHAPTER 5: TRADE FACILITATION79
 - A. Customs and Cross-Border Management.....79
 - B. Infrastructure Condition and Performance86
 - C. Intra-Regional Trade.....95
 - D. Logistics and Freight Services95
 - E. Third-Party Use of Mining Transport Infrastructure for Trade Facilitation98
 - F. Conclusions and Recommendations103

CHAPTER 6: ASSESSMENT OF AGRICULTURAL VALUE CHAINS	107
A. Rice Subsector	108
B. Cocoa Subsector	113
C. Palm Oil Subsector.....	117
D. Rubber Subsector	120
E. Aquaculture Subsector	123
F. Marine Fishery Subsector.....	124
CHAPTER 7: ASSESSMENT OF THE REGULATORY ENVIRONMENT FOR TRADE IN SERVICES	125
A. Development Implications of Trade In Services Liberalization.....	125
B. Liberia’s Services Trade Performance: Constraints and Determinants	128
C. Regulatory Framework and Institutional Setting.....	136
D. Conclusions and Recommendations	151
CHAPTER 8: LEVERAGING FDI FOR ECONOMIC DIVERSIFICATION.....	155
A. The Role of FDI in Liberia	155
B. Potential Linkages Between FDI and the Local Economy	158
C. Barriers to Expanding Linkages	162
D. Policies and Programs to Support Spillovers.....	165
E. Recommendations.....	169
CHAPTER 9: TRADE POLICY COORDINATION AND IMPLEMENTATION	171
A. Trade Policy formulation Process	171
B. Capacity and Mandate of Trade Support Institutions.....	172
C. Trade Policy Coordination.....	175
D. Recommendations	176
CONCLUSIONS AND RECOMMENDATIONS.....	179
Effective Integration into the Global Economy.....	179
Export Diversification	180
Establishment of Linkages	181
Infrastructure Investment	183
REFERENCES.....	187

LIST OF FIGURES

Figure 1: Liberian Exports (US\$ millions), 2004–2013.....	29
Figure 2: Liberian Imports (US\$ millions), 2004–2013	29
Figure 3: Openness to Trade (2008).....	32
Figure 4: Openness to Trade (2011).....	32
Figure 5: Merchandise Trade (US\$ millions), 2008–2013	33
Figure 6: Merchandise Trade (% of GDP), 2008–2013.....	33
Figure 7: Export Concentration Over the Development Process, 2011	36
Figure 8: Percentage of Firms Exporting Directly or Indirectly (latest available year)	37

Figure 9: Trade Initiatives.....	39
Figure 10: Three Pillars of Trade Competitiveness	59
Figure 11: Regional Electricity Tariffs in 2009 (US cents per KWh).....	76
Figure 12: Typology of Liberia’s Trade and Transport Facilitation System.....	80
Figure 13: Number of Containers Handled at Port of Monrovia: 2009–2012.....	88
Figure 14: Number of Vessel Calls at Port of Monrovia: 2011-2012.....	89
Figure 15: Container Dwell Time (days) for Liberia and Selected African Ports.....	89
Figure 16: Total Container TEUs Handled at Liberia and West African Seaports	97
Figure 17: Performance of Key Agriculture Value Chains in Liberia: Thousands of Tonnes	108
Figure 18. Liberia Rice Value Chain	110
Figure 19. Liberia Cocoa Value Chain.....	114
Figure 20. Liberia Palm Oil Value Chain	118
Figure 21. Liberia Rubber Value Chain	122
Figure 22: Renewal Internal Water Resources, Per Capita per Year	123
Figure 23: Share in value added of services in GDP vs. GDP per capita: 2005–2007 and 2010–2012.....	129
Figure 24: Share of exports and imports of commercial services in GDP vs. GDP per capita, 2005–2007 and 2010–2012.....	130
Figure 25: Total services export and import shares by region, 2007	132
Figure 26: Services Export Sophistication: 2004 and 2009	133
Figure 27. Human Development Indices in West Africa	134
Figure 28. Governance in West Africa.....	135
Figure 29. Liberia’s Doing Business Ranking.....	139
Figure 30: Global rankings of West African countries, and Liberia’s progress.....	140
Figure 31: Sector-specific restrictions on investment in services sectors	143
Figure 32: Share of Potential Jobs from FDI Contracts by Sector (2008–2013).....	155
Figure 33: FDI Inflows–Liberia v Regional Peers (2000–2013)	158
Figure 34: Framework for Assessing FDI Spillovers.....	163

LIST OF TABLES

Table 1: Implementation of 2008 DTIS Action Matrix Score Card	22
Table 2 : Sectoral Composition of Liberian Exports (US\$ millions), 2008 & 2013	34
Table 3: Sectoral Composition of Liberian Imports (US\$ millions), 2008 & 2013.....	34
Table 4: Market Composition of Liberian Exports and Imports (2008-2011)	35
Table 5: Comparing Liberia’s 2012 Applied Import Tariff with ECOWAS CET	47
Table 6: Comparing Liberia’s 2012 Applied Import Tariff with ECOWAS CET	48
Table 7: Comparing Liberia’s Import Tariff with ECOWAS Common External Tariff	49
Table 8: Products with Tariff Waivers in 2012	50
Table 9: LEC Generation Capacity Scenarios, 2012-2030.....	77
Table 10: Status of Prs1 (2008-2011) Deliverables In Miles.....	92
Table 11: Prs2 Deliverables in Miles: 2012 To 2017	93
Table 12: Trends of Rice Production, Acreages and Yields.....	109
Table 13: Formal Horizontal Restrictions to Services Trade	137

Table 14: Impact of horizontal administrative practices in services trade..... 141
Table 15: Restrictions Affecting Tourism 149

LIST OF BOXES

Box 1:Trade Data in Liberia 30
Box 2: WTO Accession—Special Treatment for LDCs 51
Box 3 : Liberia’s Non-Tariff Barriers and the WTO’s National Treatment Principle 52
Box 4: WTO Institutional Benefits, Using the WTO to Halt Special Interest Demands ... 54
Box 5 : Post-war Recovery of Exports and Economic Growth in Mozambique 60
Box 6: Export incentives and WTO compatibility 72
Box 7: Case Study Example: Maputo Port PPP (Mozambique) 101
Box 8: Modes of Services Supply 126
Box 9: The Channels of Spillovers from FDI 157
Box 10: Regional Harmonization of Mining Policy in ECOWAS..... 161
Box 11: Local content policies and the WTO 166
Box 12: Local Content..... 168

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PREFACE

This Diagnostic Trade Integration Study (DTIS) Update was carried out at the request of the Government of Liberia to assist the country in defining a competitive strategy for effectively integrating into the global economy while pursuing a pro-poor trade agenda. The report assesses progress in the implementation of policies and programs under the 2008 DTIS and provides a roadmap for addressing the challenges facing Liberia with respect to trade. It highlights the benefits of improving Liberia's integration in regional and global trade regimes (specifically regarding negotiations on the Economic Community of West African States (ECOWAS) Common External Tariff (CET) alignment and World Trade Organization (WTO) accession), the need to improve the country's trade competitiveness and economic diversification, and the role of improved trade policy coordination across various Ministries and Government agencies. The recommendations of the DTIS Update are expected to enhance the contribution of trade to Liberia's *Agenda for Transformation*.

For the preparation of this report, the World Bank staff carried out a preliminary mission in December 2012, followed by the main mission in January 2013 and other individual consultant missions in succeeding months. The initial results of the draft report were discussed in June 2013, followed by a series of consultations and missions on specific thematic areas such as trade facilitation, trade policy implications of WTO accession, and the development of agricultural value chains. This report, which incorporates that additional work, was discussed at a consultation workshop in March 2014 and the Validation Workshop held in July 2015.

ABBREVIATION AND ACRONYMS

ABLL	Access Bank Liberia Limited
ACDI VOICI	Agricultural Cooperative Development International/ Volunteers in Overseas Cooperative Assistance
ACWL	Advisory Centre on WTO Law
ADR	Alternative Dispute Resolution
AFBLL	Afriland First Bank Liberia Limited
AfDB	African Development Bank
AfT	Agenda for Transformation
AGOA	Africa Growth Opportunities Act
ASYCUDA	Automated Systems for Customs Data
ATIBT	Association Technique Internationale Des Bois Tropicaux
BCE	Bureau of Customs and Exercise
BDV	Brussels Definition of Value
BIVAC	Bureau of Inspection Valuation Assessment Control
CAETs	Computer-Assisted Examination Techniques
CAR	Capital Adequacy Ratio
CARI	Central Agricultural Research Institute
CBL	Central Bank of Liberia
CES	Constant Elasticity of Substitution
CET	Common External Tariff
CWIQ	Core Welfare Indicators
DSU	Dispute Settlement Understanding
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms
EBLL	Ecobank Liberia Limited
ECOWAS	Economic Community of West African States
EIF	Enhanced Integrated Framework
EITI	Extractive Industries Transparency Initiative
ELWA	Eternal Love Winning Africa
EPA	Economic Partnership Agreement
EPD	Export Permit Document
ETLS	ECOWAS Trade Liberalization Scheme
EU	European Union
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FIBank	First International Bank
FSAP	Financial Sector Assessment Program
FSDS	Financial Sector Development Strategy
GATT	General Agreement on Tariffs and Trade
GBLL	Global Bank Liberia Limited

GIZ	German Society for International Cooperation
Government	Government of Liberia
GPOBA	Global Partnership on Output-Based Aid
GSP	Generalized System of Preferences
GTB	Guaranty Trust Bank
GVL	Golden Veroleum Liberia
HFO	Heavy Fuel Oil
HHI	Herfindahl-Hirschman Index
HIPC	Heavily Indebted Poor Countries
HNWI	High Net Worth Individuals
HS	Harmonized System
HSE	Health & Safety Environment
IBLL	International Bank Liberia Limited
ICSID	International Center for the Settlement of Investment Disputes
IDA	International Development Association
IF	Integrated Framework
IFC	International Finance Corporations
IITA	International Institute of Tropical Agriculture
IMCC	Inter-Ministerial Concessions Committee
IPD	Import Permit Documents
LBA	Liberia Bankers Association
LBBF	Liberia Better Business Forum
LBDI	Liberian Bank for Development and Investment
LBRC	Liberia Business Reform Committee
LCPDP	Least Cost Power Development Plan
LCUNA	Liberia Credit Union National Association
LEAF	Loan Extension and Availability Facility
LEC	Liberia Electricity Corporation
LEDFC	Liberia Enterprise Development Finance Company
LEITI	Liberia Extractive Industries Transparency Initiative
LESEP	Electricity System Enhancement Project
LIFZA	Liberia Industrial Free Zone Authority
LNBA	Liberia National Bar Association
LPI	Logistics Performance Index
LPRC	Liberia Petroleum and Refining Corporation
MDA	Mineral Development Agreement
MFIs	Microfinance Institutions
MFN	Most Favored Nation
MHI	Manitoba Hydro International
MIGA	Multilateral Investment Guarantee Agency
MLME	Ministry of Lands, Mines and Energy
MoA	Ministry of Agriculture
MoCI	Ministry of Commerce and Industry
MPW	Ministry of Public Works

MRU	Mano River Union
NASSCORP	National Social Security & Welfare Corporation
NBFI	Non-Bank Financial Institution
NIC	National Investment Commission
NIU	National Implementation Unit
NPA	National Port Authority
NPL	Non-Performing Loan
NSC	National Steering Committee
NTBs	Non-Tariff Barriers
PPP	Private Public Partners hip
PRS I	Poverty Reduction Strategy – One
PRS II	Poverty Reduction Strategy – Two
PSI	Pre-shipment Inspection
PTA	Preferential Trade Agreements
PUPs	Private Use Permits
REDM	Road Economic Decision Model
RIA	Roberts International Airport
ROO	Rules of Origin
RTC	Regional Transmission Company
SCM	Subsidies and Countervailing Measures
SDT	Special and Differential Treatment
SEZs	Special Economic Zones
SIDA	Swedish International Development Agency
SME	Small Medium Enterprise
SOEs	State-Owned Enterprises
SSA	Sub-Saharan Africa
TEU	Twenty-foot Equivalent Units
TFP	Total Factor Productivity
TPRs	Trade Policy Reviews
TRIMs	Trade-Related Investment Measures
TRIP	Trade Related Intellectual Property
TTEFA	Trade and Transport Facilitation Assessment Toolkit
UBALL	United Bank for Africa Liberia Limited
UNMIL	United Nations Mission in Liberia
VAT	Value Added Tax
VSLA	Village Savings and Loan Association
WAPP	West Africa Power Pool
WFP	World Food Programme
WTO	World Trade Organization

EXECUTIVE SUMMARY

The update of the DTIS was undertaken by the World Bank in partnership with the Liberia Ministry of Commerce and Industry (MoCI) and the Enhanced Integrated Framework (EIF). The focus was to identify ways of leveraging trade to achieve sustainable growth and poverty reduction. The specific objectives of the DTIS update are threefold: (i) take stock of progress in the implementation of the 2008 DTIS action-matrix recommendations, (ii) complement and deepen the analysis of the DTIS by assessing the constraints to the integration of the domestic private sector into global value chains *through WTO accession and regional trade, improved trade competitiveness and economic diversification*; and, (iii) prepare an action matrix giving proposals for priority policy reforms, technical assistance and investment projects for consideration by the government and donors. The DTIS Update report assesses Liberia's trade performance over the period between 2008 and 2013.

In 2013, the Government launched the *Agenda for Transformation* (AfT) – Liberia's five year development program (2013-2017) – with the goal of providing the roadmap for Liberia's transformation from post-conflict recovery toward its long-term vision of becoming an inclusive middle-income country by 2030. In order to transform and diversify its economy, the AfT, among other things, seeks to improve infrastructure and strengthen the participation of the domestic private sector in both domestic and external trade. The National Export Strategy has identified potential sources for export diversification; namely palm oil, cocoa, cassava, fisheries and wood products. The challenge is to promote these sectors alongside services trade, the traditional exports- iron and rubber and the production of rice, which could serve as a major source of foreign exchange savings. Agriculture sector accounts for about 60 percent of total employment, majority of whom are poor. Increased agriculture productivity, access to markets by farmers and improved competitiveness of the agriculture sector, could significantly promote sustainable and inclusive growth in Liberia.

The rest of the executive summary is structured as follows; the first component provides an overview of progress made on the implementation of the 2008 DTIS matrix, the second section summarizes the four key messages emanating from the DTIS Update, while the third section summarizes the key conclusions under the four key thematic areas of the report under the heading “Making DTIS Update a Catalyst for Mainstreaming Trade”, and the fourth section covers conclusions, recommendations and the DTIS Action Matrix

I. Implementation of the 2008 DTIS Action Matrix

Since the launch of the 2008 DTIS, considerable progress has been made toward ensuring macroeconomic stability, improving the investment climate, and the automation of customs procedures. The Liberian economy has recovered steadily since the global economic crisis of 2008-2009, with an average annual growth rate of approximately 7 percent and a single digit inflation rate by 2013. The Government also made significant progress in improving the institutional framework for good economic governance and automating public financial

management processes. Public debt has been reduced substantially, from more than 400 percent of GDP in 2009 to less than 30 percent of GDP in 2013, as a result of debt buy-back and external debt relief after reaching the HIPC Completion Point in 2010. In addition, the investment climate has improved. According to the World Bank's *Doing Business Report*, the country has moved up in ranking in terms of overall ease of doing business by more than 10 points, from 167th out of 184 countries in 2008 to 149th in 2013. Furthermore, the institutional framework for customs management has been strengthened with the introduction of the Automated System for Customs Data (ASYCUDA) and the implementation of a public-private partnership for ports management. These improvements are expected to facilitate trade and to increase customs revenue.

The overall finding is that 60 percent of the recommended actions from the 2008 DTIS have been effectively implemented over the period 2008-2013. Of the 97 action recommendations, 42.3 percent were fully implemented and 37.1 percent were partially implemented. In particular, several of the trade-related reforms (i.e., strengthening institutional frameworks, and customs modernization/automation) were implemented. Despite Liberia's commendable progress in implementing the 2008 Action Matrix, trade outcomes in terms of trade diversification and inclusive growth have yielded limited results so far. Furthermore, trade development is yet to be fully mainstreamed in Liberia's development agenda.

II. Four Key Messages from the Findings of the DTIS update:

1. Despite robust economic recovery over the period (2008-2013), Liberia remains vulnerable to global commodity price shocks largely due to an undiversified economy. Liberia's economic growth since 2008 has been driven by renewed global demand for its primary commodities; namely iron ore, timber and gold. This coupled with improved investment climate, raised the level of foreign capital inflows and increased fiscal revenues. Liberia's economy consequently grew by an average of 7 percent over the 2008-2013 period. The sharp decline in global commodity prices have exposed Liberia's vulnerability to external shocks, hence the urgency for a strategy to promote economic diversification and sustainable growth. The incidence of poverty remains pervasive (56 percent) with rising unemployment, particularly among the youth. The challenge for Government is how to leverage the country's abundant natural resources to sustain economic growth, invest in human development and to raise the standard of living of the poor.

2. Liberia has hitherto adopted the "concessions approach" to export development, where exports are driven mainly by few large foreign firms (concession companies) in the rubber and iron ore sectors. However, due to the "enclave" nature of the economic activities of concessions, with low spillovers to the rest of the economy, the multiplier effect of exports on the rest of the economy has been limited. To promote export diversification and inclusive growth, the Government of Liberia (GoL) needs to complement the contribution of concessionaires to exports, by strengthening the participation of domestic private sector in global supply chains; particularly by

promoting commercial agriculture, agro-processing and manufacturing. This entails adopting a three-pronged approach to export trade: (i) attracting FDIs for export growth in the non-mining sector (ii) strengthening the institutional framework for promoting domestic private sector exports, especially in the agriculture sector and (iii) strengthening the link between FDIs and domestic private sector.

3. WTO membership enhances Liberia’s ability to integrate effectively into the global economy as the country adopts a more transparent and predictable trade policy regime. Liberia’s average applied tariff rate is relatively low due to the application of an elaborate tariff exemption policy and a number of executive tariff waiver orders, which are renewable every year. While this tariff regime is aligned with the development needs of the country, it does not provide a predictable trade policy regime for the domestic private sector; as tariff waivers are created or dropped on an annual basis. Second, as part of the post-WTO reforms, the Government of Liberia (GoL) will have to commit to implementing a more transparent and predictable regulatory environment for foreign participation in the economy, while ensuring a level playing field for the domestic private sector. Third, the country will have the option to adopt a more structured tariff regime based on alignment with ECOWAS CET (albeit at a higher average tariff rate) and to reduce its non-tariff barriers; borne largely out of restrictive regulatory and administrative practices. Fourth, WTO trade partners will be obliged to offer market access, at the minimum, on Most Favored Nation (MFN) terms. Even though Liberia currently enjoys better market access in a number of key overseas markets under trade preference schemes such as the Africa Growth Opportunities Act (AGOA) and Everything but Arms (EBA) from European Union (EU), these are granted unilaterally and could be changed at any time by the respective trade partners ².

4. To optimize the benefits of increased trade integration GoL needs to prioritize measures to improve the country’s weak trade competitiveness. The country’s inability to significantly diversify its exports portfolio beyond those supplied by large foreign firms (concessionaires) underscores the extent of constraints to its trade competitiveness. The key factors driving the Liberia’s weak trade competitiveness are: (i) relatively weak business environment for trade-related investments, (ii) huge infrastructure deficits particularly in the areas of electricity and roads, (iii) weak trade facilitation services, (iv) weak human capacity development, and (v) lack of institutional support for key agricultural value chains.

III. Making the DTIS Update a Catalyst for Mainstreaming Trade

As the country continues implementing the *Agenda for Transformation* with aspirations to achieve middle-income status by 2030 it is important for Liberia to integrate effectively into global markets, improve its trade competitiveness and to address supply-side constraints facing the domestic private sector. This section summarizes the findings and recommended actions around the four main pillars, which form the basic structure of this DTIS Update.

² The EU-West Africa Economic Partnership Agreement, negotiations on which were concluded in 2014, aims to add to the unilateral preference with a more reciprocal agreement.

Pillar 1: Integrating Effectively into the Global Markets

A. WTO Accession

Liberia enjoys one of the highest trade openness indexes compared to its regional peers, yet its economy remains characterized by one of the highest trade deficits in the world. Its import bill is dominated by capital equipment (mainly for mining) and consumables such as primary foods, processed foods, and other manufactured goods. It is expected that capital imports will decline as mining projects move from development to production stages. However to significantly reduce the high levels of trade deficit, Liberia will have to reduce its high dependence on food imports, such as rice, palm oil and eggs and to explore opportunities for exports growth beyond traditional commodities such as rubber, iron ore and logs. Liberia's accession to WTO, is expected to enhance the prospects for trade diversification, reduction in trade deficit and to promote inclusive growth.

WTO accession enhances Liberia's ability to integrate effectively into the global economy as the country adopts a more transparent and predictable trade policy regime. The current applied tariff regime is relatively ineffective, given an elaborate tariff exemption policy and a number of executive tariff waiver orders, which are renewable every year. While this tariff regime is aligned with the development needs of the country, it does not provide a predictable trade policy regime for the domestic private sector, as tariff waivers are created or dropped on an annual basis. Thus, the Government will have to commit to a more transparent and predictable regulatory environment for foreign participation in the economy, while ensuring a level playing field for the domestic private sector. The country has the option to adopt a more structured tariff regime based on ECOWAS CET (albeit at a higher average tariff rate) and to reduce its non-tariff barriers; borne largely out of restrictive regulatory and administrative practices.

Acceding to the WTO also gives Liberia access to an institutional forum to resolve potential international trade disputes. An increasing share of trade disputes has involved developing countries filing and pursuing cases under WTO rules to protect the foreign market access of their exporters. Furthermore, an increasing number of disputes involve one developing country challenging another over market access interests. Although African and Middle Eastern countries have thus far been involved in few such disputes, and to date have never been involved in any WTO dispute, Liberia's membership in the WTO would nevertheless ensure that if its trade rights are ever violated, it will be able to seek redress within a rules-based system.

WTO membership also changes the legal basis of Liberia's trade relations with its partners, but the actual treatment extended to Liberian exports may not change significantly. Any partner that has not yet extended MFN treatment to Liberia would be obliged to do so, although most countries typically extend MFN treatment (or better) to all partners regardless of their WTO status. Moreover, some countries already extend preferential treatment (over and above MFN) to developing countries, and especially to the subset of least-developed countries (LDCs), regardless of WTO membership. Chief among these are the Everything But Arms arrangement (European Union), the African Growth and Opportunity Act

(United States), and China's preferential trade agreements. Joining the WTO will make little difference in terms of improving Liberian exports. It is important to stress, however, that while these preferential programs are permitted under WTO rules, they are not protected; they are allowed under waivers to the general WTO rule of nondiscrimination, but remain a privilege and an exception rather than a rule and a right. Their continuation ultimately depends upon the willingness of the preference-granting country to maintain the preference, as well as the willingness of the WTO to grant the necessary waiver.

To achieve compliance with WTO rules, Liberia would need to undertake substantial institutional reforms. Most countries undertake accession simultaneously with other necessary market-oriented reforms, such as improving protections for intellectual property rights, liberalizing trade in goods and services, removing restrictions on FDI, removing mandatory local-content requirements, and eliminating forced technology transfer. While reforms can entail both political and adjustment costs, there is also overwhelming evidence that WTO accession undertaken alongside complementary reforms to the domestic economy is positively associated with economic growth. Assessing the costs of WTO accession is a subjective exercise, insofar as the constraints that a country accepts as part of its accession can in some circumstances be beneficial.

B. Regional Integration and CET Alignment

The Government's decision to align with the ECOWAS Common External Tariff (CET) would result in an increase in Liberia's average tariff rate from 9.5 to 12.1 percent, due to the higher average tariff negotiated by ECOWAS members and the requirement for Liberia to remove executive order tariff waivers over a period of three years. While this could increase fiscal revenues, the trade-off would be a loss in welfare, as the domestic cost of essential items such as rice, cement, and petroleum would likely increase. Thus, the net welfare gain in terms of consumption and investment would likely be negative in the short run, and thereby have negative impacts on GDP growth rates. The Government has put in place measures to mitigate these impacts, including the phasing of CET alignment over a period of three years. Alternatively, the Government could keep some goods under the list of sensitive commodities in the short-term and offset the loss in revenue by raising the goods and services tax (GST) rate or introducing a consumption tax such as Value Added Tax (VAT).

Accession to the WTO and CET alignment would provide Liberia with an opportunity to showcase an open and non-discriminatory approach towards foreign trade and investment. However, in order for this open trade regime to materialize into further investments and an expansion of the services sector, it should be complemented with a transparent and effective governance framework. Currently, the implementation of business regulations in Liberia remains opaque and highly discretionary, which limits the benefits of an open trade regime by introducing *de facto* restrictions which increase transaction costs. Evidence from other countries suggests that with improved governance practices, Liberia could leverage the resulting higher levels of FDI to improve the competitiveness of the domestic private sector. Additionally, rents from FDIs in the mining sector, for example, could be invested in promoting horizontal and vertical linkages with supplier firms, in other sectors of the economy.

Pillar 2: Improving Liberia's Trade Competitiveness

To optimize the benefits of increased trade integration, the Government will need to improve the country's weak trade competitiveness. Liberia's inability to significantly diversify its export portfolio beyond those supplied by large foreign firms underscores the constraints to its trade competitiveness. The Government will have to address numerous constraints faced by domestic firms in investing, producing, and exporting. Structural bottlenecks to Liberia's trade competitiveness include (i) the relatively weak trade and transport facilitation, (ii) weak investment climate, and (iii) weak linkages to global value chains.

The weak transport and trade facilitation comprising inadequate physical infrastructure, logistics services, and long administrative procedures constitute high trade costs to domestic firms. The gaps in Liberia's trade physical infrastructure, particularly with reference to the quality and accessibility of the different modes of transport, impact significantly on the time and cost of movement of goods within the country. Third, long administrative procedures at the ports lead to delays and high clearance charges on traded goods. While there has been improvements in customs procedures due to the automation and modernization of customs administration, the lack of direct interface between the ASYCUDA software used by the bureau of customs service and the tracking system used by the National Port Authority in Monrovia has resulted in delays, high informal costs on importers and exporters. Establishing an efficient risk management system by adopting ASYCUDA across the board will facilitate pre-shipment inspection and security agent reforms at the borders. Besides, the high cost of pre-shipment inspection (PSI) and the preponderance of informal fees at the ports also negatively impact the overall trade competitiveness of Liberia.

Liberia's investment climate is constrained by firms' limited access to land, finance and electricity. First, access to land title deeds. The analysis carried out for this report is aimed at informing ongoing discussions about how to shape the new Land Rights Policy and associated legal framework, particularly as they relate to real property rights affecting investment decisions. Recommendations include granting concessions for agricultural production property rights and establishing a unified Land Sector Agency with a robust mandate to coordinate the provision of land sector services.

Second, lack of access to finance is a serious constraint affecting domestic businesses in Liberia. The Liberia's financial sector is highly concentrated, with two banks out of nine accounting for nearly 75 percent of demand deposits and private sector credit. Low profits make the banking environment less attractive to potential entrants and hampers financial development. However, progress has been made in recent years, including active measures taken by the Central Bank of Liberia (CBL), aimed at strengthening the banking system and other financial institutions through improved banking supervision. Due to lack of reliable data on the financial sector, the report recommends a deeper diagnostics of the financial sector, such as those carried out for the Financial Sector Assessment Program (FSAP) and the Financial Sector Development Strategy (FSDS), to help guide future policy actions.

The lack of access and high cost of electricity also constrain exports, investments, and economic activity in Liberia. The power sector was devastated during the civil war, and

still has not recovered to fully meet the needs even of the capital city. Both the PRS II and the Government's short-term investment program prioritize the construction of heavy fuel oil (HFO) storage facilities and associated infrastructure to replace costly diesel-based generation, and connections to the regional Western Africa Power Pool (WAPP). Some of these challenges will be alleviated when the Mount Coffee hydropower dam rehabilitation project gets completed in 2016.

Pillar 3: Promoting Economic Diversification

A. Addressing Weaknesses in Agricultural Value Chains

The enabling environment for agriculture is constrained by weak infrastructure, high costs of factor inputs, weak human capacity, and limited access to finance. There is need to facilitate greater competitiveness among all four key value chains (rice, cocoa, palm oil, and rubber) through instituting supporting policies, sustained public and private investments, and basic extension services to assist smallholder farmers. In particular, the absence of a grading system and quality standards sufficient to meet both domestic and international market demand is preventing deeper penetration into international markets, outside of rubber. Market failures in the agriculture sector need to be addressed through the promotion of investments in basic agro-processing (for example, using appropriate technology to convert paddy rice to parboiled rice, which could then compete in urban markets such as Monrovia).

B. Expanding Trade in Services

Liberia has much to gain from a stronger and more efficient services sector. For instance, when compared to its regional neighbours, Liberia's transport and logistics market is amongst the least efficient in ECOWAS, and only Sierra Leone scores lower in terms of logistics performance. Enhanced services trade can help overcome these challenges by attracting more efficient services suppliers and introducing newer technologies and more efficient practices.

Liberia's main deficiencies on the regulation of the services sector lie more in the discretionary application of general rules than formal limitations to trade and investment. In this context of regulatory unpredictability, rules are perceived as applied selectively or bypassed in different circumstances. As a result, laws and regulations, even when well-planned and designed, do not seem always binding, undermining the perception of the regulatory quality and rule of law. In practice, this entails a limited capacity to regulate the market and direct the real economy.

1. The adoption of binding procedures for the regulation-making process in the services sector will go far in stimulating further growth in services trade. Binding, government-wide procedures for the development and adoption of regulation will support a sound regulation-making framework. A binding guideline, with simple standard procedures for the development and adoption of secondary regulation, will increase transparency, regulatory capacity, and confidence among stakeholders. Such guidelines should reflect best practices in drafting regulation, incorporating steps relating to disclosure of regulatory goals, stakeholder consultations, interagency coordination, and evaluation of regulatory efficiency.

The improvement of public access to existing business regulations, especially licensing procedures, is crucial to stimulate the services sector. Further public access to existing legal instruments is necessary to increase the transparency and predictability of business regulation. The Government has also made progress in facilitating the establishment of businesses by introducing a one-stop shop for company registration. However, most economic activities require additional licenses or permits to operate, which are available only at the specific ministry or agency that issues them. Information regarding the conditions of such requirements is only found at the agencies, which require multiple in-person inquiries. The establishment of an online repository with all laws and regulations relevant to the services sector, including licensing and operations requirements would provide a major step in advancing predictability, transparency, and complementing the progress already made with the simplification of company registration procedures.

C. Leveraging Foreign Direct Investment (FDI) for Economic Diversification

Attracting FDI and strengthening its linkages with the domestic economy are critical to leveraging Liberia's natural resource wealth to generate inclusive growth. FDI and exports are intertwined; the prospects for significant export growth in the short- and medium-term are largely dependent on the performance of current concessionaires and on the attraction of new investors in non-mining sectors. To the extent that most mining concessions have operated as enclave entities, their multiplier effect on the domestic economy has been limited. In a longer-term perspective, concessions could be leveraged as growth poles to achieve inclusive growth. This could be done by forging closer collaboration with concessionaires and strengthening their linkages with domestic enterprises. This would further contribute to the development of the local economy and build the capacity of domestic firms to grow and export. As a complementary measure, the Government should establish a monitoring mechanism to evaluate the output and productivity of concessionaires, and reward firms based on the degree to which they establish linkages with the domestic economy.

Pillar 4: Strengthening Trade Policy Coordination

Despite several stalled attempts, Liberia is yet to formally codify its trade policy in a single unified document. A new draft is currently under development to incorporate conclusions from the DTIS Update, but is yet to be finalized at the time of writing this report. Partly as a consequence of the lack of codified processes, Liberia's *de facto* trade policy has been ad hoc and conducted by multiple ministries without central coordination. It is generally understood that MoCI has the statutory mandate to lead trade policy formulation; although in practice the Ministry of Finance (MoF) and Ministry of State have also been key stakeholders in decisions on trade policy. Since 2012, Liberia has established three separate forums for creating regular dialogue among all major trade-support institutions: the Liberia Better Business Forum (LBBF), the Trade Facilitation Forum (TFF) and the WTO Technical Working Group (WTO TWG). However, concerns have been raised that the influence of these forums does not extend to the highest levels of Government, and their continued operation should be supported.

IV. Conclusions and Recommendations

While some progress has been made in mainstreaming trade in Liberia's development agenda since 2008, the country has yet to pursue an aggressive outward-oriented growth strategy as a means of achieving poverty reduction. This view is supported by (a) scant reference made in the *Agenda for Transformation* to trade as a vehicle for achieving the country's overall development goals; (b) the lack of support among stakeholders for trade policy initiatives aimed at deepening trade liberalization and integration into regional and global trading systems; (c) the fact that trade-related strategies have not yet been mainstreamed in the annual budgeting process; (d) the disparity between *de jure* reforms as opposed to *de facto* reforms in key sectors that can promote export diversification.

Liberia's comparative advantage in natural resources can be harnessed to achieve sustainable, inclusive growth through policy actions that can deepen trade integration and enhance trade competitiveness. The high concentration of Liberia's economy in primary agriculture and the mining sector can be attributed to both government and market failures. Government needs to create the needed environment which will encourage the movement of resources from less productive to more productive sectors and activities, thereby creating the momentum for structural transformation. In the case of Liberia, this will entail reallocation of resources to commercial agriculture, agro processing, light manufacturing and trade in services. On the other hand, increased access to markets, both domestically and externally, will provide the needed incentives for further private sector investment and economic growth.

In the short term, there is an urgent need to upgrade competitiveness among the four key value chains (rice, cocoa, palm oil, and rubber) through instituting support policies, promoting sustained public and private investments, and introducing basic extension services to assist smallholder farmers. In particular, the absence of a grading system and quality standards sufficient to meet both domestic and international market demand is preventing deeper penetration into international markets, outside of rubber. Government can and must pursue several interventions to help catalyze production and productivity increases. Market failures in the agriculture sector will have to be addressed through the promotion of investments in basic agro-processing (for example, using appropriate technology to convert paddy rice to parboiled rice, which could then compete with imports in urban markets). In the medium and long-term, farmers and agro-businesses must have the proper incentives in place to make better investment decisions based on improved inputs, technical knowledge and market intelligence.

The potential for diversification in aquaculture and marine fishery remains. Liberia has an abundance of renewable water sources with year-long water availability. The domestic market has considerable upward potential (average annual fish consumption in Liberia is 5 kg / person compared to an ECOWAS average of 10 kg per year and consumption of 20 kg in Ghana). There is also large unsaturated demand for fish in dry parts of the Sahel, in areas with limited access to the coast or rapid population growth. Implementation of the ECOWAS protocols would provide fish products originating from Liberia with duty-free access to all ECOWAS countries. There are also niche market opportunities in high

value fish for which AGOA (US) and Everything But Arms (EU) can provide market access. However, quality certification is particularly stringent for fish and seafood. It is therefore an urgent priority that Liberia establishes an accredited laboratory for SPS inspection before export. This recommendation was already included in the 2008 DTIS. Attracting investors in the sector will be difficult without timely action in this area.

The attached DTIS Update Action Matrix, which is consistent with the National Trade Policy, summarizes policy options agreed with the Government of Liberia for implementation in the short to medium term. The first set of policy actions cover policy actions needed to ensure effective integration into the world economy; this cover post-WTO reforms needed to reduce non-tariff barriers (NTBs), increased access to both regional and global markets, and ensure transparent and predictable environment for foreign participation in Liberia's economy. The second comprises policy actions to improve the quality of trade facilitation, namely customs modernization and improvement in transport and logistics services. The third, comprises policy actions needed to address constraints to investment climate, namely access to land, finance and cheaper and reliable electricity and fourth, covers policy actions needed to promote the development of key agriculture value chains. The latter comprises policy actions to ensure increased access to factor inputs, extension services, and strong institutional support.

Action Matrix - Liberia DTIS 2013

Policy Objective	Identified Constraint	Proposed Action	Responsible Agency	Performance Indicators	Timelines*	LNTP** Correspondence
I. Effective Trade Integration: Promoting Foreign Investment and Trade Diversification						
A. International Trade						
(A.1) WTO Accession	High non-tariff barriers constrain freedom to trade.	Implement Liberia's new Foreign Trade Law (FTL) in accordance with WTO Commitments.	MoCI, MFDP, MoA, MoS, NIC, PPCC, LRA	Cost of Imports and Exports reduced	Medium-term	Strong support for WTO Accession in LNTP (See e.g. p. 7) and in the WTO Accession Strategy.
(A.2) Implement National Export Strategy	A largely undiversified economy, dependent mainly on— iron ore and rubber—which are vulnerable to external shocks.	Pursue an Export Diversification Strategy- in line with the national export strategy; especially for, cocoa, palm oil, fisheries, and agro-processing.	MoCI, MoA, MoF	Increased value of non-mining exports (% of GDP) ; baseline : 15% Target :25%	Short-medium term	Primarily addressed in NES***; the LNTP SO1 foresees additional measures. See C1.7 in the LNTP.

Policy Objective	Identified Constraint	Proposed Action	Responsible Agency	Performance Indicators	Timelines*	LNTP** Correspondence
(A.3) Promote trade in services	Constraints to services trade negatively affect the competitiveness of the economy and export growth.	Remove policy and administrative barriers to services trade.	MoCI, MFDP, LRA, NIC	Increased foreign participation in the services sector.	Medium-term	
(A.4) Promote the production and dissemination of quality trade data	Absence of quality trade data.	Strengthen the institutional framework for the production of trade data.	MoCI, Customs, LISGIS, MoF	Submission of regular and quality data to UNCOM trade portal.	Medium-term	
B. Regional Trade						
(B.1) Align with ECOWAS CET	Implementing CET will come at a cost to the country because of the possible increase in the net applied tariff rate.	Implement a migration plan for CET alignment, while taking advantage of Ecowas Trade Liberalizations Scheme (ETLS) protocols.	MoCI, MoA, MoF	CET tariff regime adopted.	Medium-term	C4.1: Tariff policy not yet harmonized within ECOWAS.
(B.2) Promote regional food trade	The current free trade arrangement under MRU covers only industrial goods.	Remove constraints to food trade with neighboring ECOWAS members.	MoT, MCI, MoF	Increase the share of trade in food among ECOWAS members.	Medium-term	Regional trade liberalization in the LNTP addressed at the ECOWAS level.
(B.3) Domestic Trade	Lack of level-playing field for SMEs and large foreign firms.	Development of a competition law and accompanying institutional structure to address uncompetitive practices.	MoCI	Competition law adopted for implementation. Institutional structure established	Medium-term	LNTP addresses this on a sector level: C1.4: energy; C1.5 telecoms; C1.3 transport services; C1.7: tourism; C2.4: financial services; other sectors: as part of C5.1 WTO accession
II. Trade Facilitation - Simplification and Harmonization on international trade procedures						
C. Customs Modernization and Cross Border Management Addressing non-tariff barriers to trade						
(C.1) Improve quality and standards of Exports	The absence of an SPS (TBT) framework to assure the quality of products produced in the country limits the expansion of non-mining exports.	Develop an SPS (TBT) framework to provide quality assurance service to all producers that need ISO certification.	MoCI, MoA, MoF	Improvement in the quality of domestically produced goods and exports.	Medium-term	This is a huge challenge. LNTP foresees some specific actions, see 1.1

Policy Objective	Identified Constraint	Proposed Action	Responsible Agency	Performance Indicators	Timelines*	LNTP** Correspondence
(C.2) Streamline the roles of the public agencies at the ports and borders	Overlapping mandates of customs, security agents, and other public agencies at ports and border-crossing facilities.	Implement National Single Window customs procedures.	MoCI/MoF	Reduction in the time and cost of imports and exports.	Short-term	Part of C3.3: Border controls are time consuming
(C.3) Improve access to information on new procedures for customs declaration	Current customs declaration does not provide adequate information on rules and procedures documentation.	Conduct outreach to importer and exporters to better inform them about new requirements and customs procedures.	Customs	Awareness campaign launched and in full operation	Short-term	Part of C7.1: Relevant rules & information for traders are not readily available and insufficient involvement of stakeholders in rule-making.
(C.4) Fully implement risk-based clearing system at ports	Undue delays and high cost of doing business at the borders and ports due to informal fee payments and limited application of modern technologies for clearing goods at the ports and borders.	Implement revised risk-based clearing reduce duplicate and multiple inspections.	Customs, BIVAC, security agencies (NBI, MNS, Coast Guard, etc.)	Completed "Trade Profile Status" for implementing preferred/ fast track management.	Short-term	Part of C3.3: Border controls are time consuming.
(C.5) Build local capacity for implementing customs reforms	Lack of training on handling declaration data for ASYCUDA Lack of capacity building and training to transfer knowledge for Customs staff (for PSI).	Strengthen capacity for Customs staff enforcement, inspections, and data collection. BIVAC to set up and run a comprehensive training program for all Customs staff.	BIVAC, Customs, MoCI, NIU, Security	(Indicator) Training of Customs staff by 2014 to ensure better and more reliable data handling of trade data. Training of Customs staff by 2014 to ensure smooth transition after BIVAC contract ends in 2015.	Short-term	Part of C3.3: Border controls are time consuming
(C.6) Modernize and upgrade equipment at port of Monrovia to improve cargo dwell time	Lack of capacity to handle and track containers due to insufficient equipment at the port.	Install computerized container tracking and tracing system at the Port of Monrovia.	APM Terminals, NPA	APM Terminals installs equipment.	Short-term	Part of C3.3: Border controls are time consuming and C3.4: Airport and seaport activities and costs are constraints on exports and imports. Lack of appropriate facilities prevents the export of perishable products.

Policy Objective	Identified Constraint	Proposed Action	Responsible Agency	Performance Indicators	Timelines*	LNTP** Correspondence
(C.7) Development of efficient logistics services	Lack of bilateral cooperation at the border and regional transit regime for seamless movement of goods.	Implement the ASYCUDA transit module increase trust and cooperation between Customs Authorities in MRU member countries. Allow foreign trucks to transport third-country cargo in transit.	Customs Authority MoT, MFA	Transit module implemented in ASYCUDA for better Customs transit regime. Foreign trucks allowed to transport third-country cargo in transit at the regional level.	Short-term	See C3.5. LNTP addresses transport logistics also from an export-promoting perspective: C1.3: Inadequate transport infrastructure (and services) increase cost of production.

III. Economic Diversification : address gaps in regulatory environment, supply side capacity and trade promotion infrastructure

D. Improving Business Environment

(D.1). Improve the transparency and predictability of business environment	The business environment still lacks sufficient transparency and predictability.	Implement new revenue and investment codes in order to standardize the incentive regime for FDIs.	MoF, MLME, NIC	Revised Investment Act and Revenue Code adopted for implementation.	Medium-term	Partly addressed, as far as exporters are concerned, under C1.2. Also part of C7.1: Relevant rules and information for traders are not readily available and insufficient involvement of stakeholders in rule-making, as well as WTO accession.
(D.2) Prioritize infrastructure development to support economic diversification	Major gaps in basic infrastructure to support investments in light manufacturing.	Operationalize the industrial park to support value- addition companies.	MOCI, NIC, MPW	Industrial park with private management operationalized.	Medium-term	Various constraints identified in SO1. Industrial parks addressed in C1.2: Low number of Liberian exporters, including in non-traditional export sectors (including services).
(D.3) Create Parallel linkages between the domestic private sector and Global Value Chains (GVC)	Weak linkage to global value chains due to: scale and scope as well as weak competitiveness.	Address supply side constraints to domestic suppliers through the development of institutions that will facilitate access to both domestic and external markets. to access.	NIC, MOCI	Increased share of domestic private sector to exports.	Medium-term	Various constraints identified in SO1 and SO2. LNTP has more differentiated approach to GVCs: (1) support to exporters, and (2) support to MSMEs that could supply exporters.

Policy Objective	Identified Constraint	Proposed Action	Responsible Agency	Performance Indicators	Timelines*	LNTP** Correspondence
E. Development Of Agriculture Value Chains						
(E.1) Improve conditions for out grower schemes: rubber and palm oil.	Weak implementation of out- growers' schemes associated with large agricultural plantations (FDIs).	Provide incentives to motivate the participation of private sector in input supplies delivery: such as tractors/ power tillers and fertilizers etc.	MOA, NIC	Out grower schemes operationalized	Medium-term	As far as sector specific measures are concerned, part of C1.7: Priority export sectors need kick-off (infant industry) support. Also see NES
(E.2) Improve productivity among smallholder farmers	Weak linkages between subsistence farm operations, processing and market access.	Support cooperatives for farmers to have access to extension services for production, processing and market access.	MOA, MOCI	GoL extension services reactivated	Medium-term	
(E.3) Improve access to land deed titling	Lack of access to land deed titling constraints opportunities for use of land as collateral and investment.	Legislate Land policy reforms and thereby improve access to land title deeds by the communities and private sector.	MLME	Improved access to land titling deeds.	Medium-term	Horizontally addressed under C2.5: Difficulties exist in access to land and security of tenure, preventing efficient use of land by businesses.
(E.4) Develop institutional framework for strengthening agriculture value chains	Weak value-chain development across sectors and crops.	Establish new, efficient, promotional and regulatory agency (post-LMPC) to facilitate agriculture value chain development as well as supply chain development.	MoF , MoCI, MoJ	Contribution of tree crops to exports increased	Medium-term	As far as sector specific measures are concerned, part of C1.7: Priority export sectors need kick-off (infant industry) support. Also see NES.
IV. Trade Policy Coordination/Monitoring Institutions						
F. Institutional framework for Trade policy Coordination						
(F.1) Improved communications on trade policy reforms	Limited awareness of recent trade policy reforms by traders.	Strengthen communication tools for (Web, announcement in newspaper, mechanism to communicate through customs agents,	MoCI	Improve contents on website to announce changes, regular publication / newspaper announcement.	Medium-term	Part of C71: Relevant rules and information for traders are not readily available and insufficient involvement of stakeholders in rule-making.

Policy Objective	Identified Constraint	Proposed Action	Responsible Agency	Performance Indicators	Timelines*	LNTP** Correspondence
(F.2) Improve implementation and monitoring capacity of trade-related institutions	Limited implementation of the Actions Plans from the 2008 DTIS due to lack of strong monitoring and coordinating capacity.	Strengthen the coordination and monitoring framework for implementing trade policy.	MoCI	A strong functioning body, with senior government officials. By 2015, a completed strategic planning roadmap for the Forum with specific milestones and outcomes	Medium-term	Institutional structure of LNTP. See the monitoring mechanism in LNTP chapter 4

*Short-term means within 2016-2018. Medium-term covers 2016-2020.

** Liberia National Trade Policy (LNTP). This column notes the corresponding sections in the LNTP report.

*** National Export Strategy (NES)

Four Central Pillars of this Report



PILLAR 1

Integrating Effectively into Regional and International Economies



PILLAR 2

Improving Trade Competitiveness



PILLAR 3

Promoting Economic Diversification



PILLAR 4

Trade Policy Coordination

CHAPTER 1

INTRODUCTION

1.1 The update of the Diagnostic Trade Integration Study (DTIS) was undertaken by the World Bank in partnership with the Liberia Ministry of Commerce and Industry (MoCI) and the Enhanced Integrated Framework (EIF)² with the aim of identifying ways of leveraging trade to achieve sustainable growth and poverty reduction. The specific objectives of the DTIS update are threefold: (i) take stock of progress in the implementation of the 2008 DTIS action-matrix recommendations, (ii) complement and deepen the analysis of the DTIS by assessing the constraints to the integration of the domestic private sector into global value chains *through WTO accession and regional trade, improving trade competitiveness and boosting the non-mining sector*; and (iii) prepare an action matrix giving proposals for priority policy reforms, technical assistance and investment projects for consideration by the government and donors.

1.2 After a period of significant economic recovery (2006-2013), Liberia's economy has taken a downturn because of the twin shocks of Ebola Virus Disease (EVD) outbreak and the fall in global commodity prices in 2014. As a result the medium term (2015-2017) growth prospects look weak. Liberia's development objective is to achieve inclusive growth, wealth creation and ultimately reach middle status by 2030, as indicated under the country's Agenda for Transformation (AfT)³. The restoration of peace, the rehabilitation of basic infrastructure, as well as, the strengthening of institutions of good governance renewed investor confidence in the economy. Liberia's economy grew by an average rate of 7 percent of GDP over the period 2006-2013. The mining sector which has been the main driver of the economy has been significantly affected by the twin shocks in 2014; there have been production shut downs, evacuations and layoffs as well as a slowdown in exports and government revenues. For example, with the recent slump in the iron ore prices, Arcelor Mittal is projected to lay off about 20 percent of the workers and to scale down on capital investment plans for Liberia.

1.3 Historical evidence suggests that Liberia's post-Ebola economic recovery has to be broad based if the country is to maintain its fragile peace and achieve sustainable development. The country's economic recovery plan is therefore expected to address the issues of social exclusion and vulnerabilities of the economy, arising from volatilities of international commodity prices. To achieve inclusive growth, the GoL should be interested not only in the pace but also in the pattern of growth. Implementation of inclusive growth⁴ strategies should focus therefore on two key variables: (i) sustained per capita growth and (ii) the creation of economic space for people (rural and urban) to contribute to and benefit from economic growth. GoL will need to emphasize equal opportunity in terms of market access, resources, and unbiased regulatory environment for business and individuals.

² Enhanced Integrated Framework (EIF) is a unit under WTO with goal to promote aid for Trade for developing countries

³ Source: Draft PRS2 Document (2012-2017): Agenda for Economic Transformation which will be launched by end of year 2012, Executive Summary.

⁴ The idea that both the pace and the pattern of growth are critical for achieving sustainable growth record as well as poverty reduction is consistent with the findings in the *Growth Report: Strategies for Sustained Growth and Inclusive Development* (Commission on Growth and Development., 2008).

1.4 For decades, the country has relied on two main primary commodities for exports; namely iron ore and rubber, which represent over 90 percent of total exports. In 2014, the twin shocks of falling commodity prices and the Ebola Virus Disease (EVD) outbreak brought the economy to almost a halt. GDP fell from an average growth rate of 7 percent over the period (2008-2013) to close to 1 percent in 2014. The post-Ebola economic challenges have brought to the fore the need to diversify the economy of Liberia, and in particular promote the non-mining sectors such as agriculture and services. Policies seeking to have significant impact on poverty reduction should aim at sustained growth in per capita output and job creation. A useful rule of thumb is that Liberia should sustain at least 2 percent annual per capita real growth of GDP for a period of 20. That would maintain the current gap separating country's standard of living from that of the industrial world and 3 percent will gradually reduce it⁵.

1.5 Government of Liberia's trade priority areas for improving its trade performance are; (i) integrate effectively into the global economy through WTO accession, (ii) improve upon the country's trade competitiveness and (iii) promote economic diversification. These trade three policy areas constitute the main pillars for the report. Like other resource-based countries, the challenge for Liberia is to unearth the constraints to the implementation of these policy objectives, develop a reform action plan and invest in these reforms. International experience shows that what matters most to the development of resource-based economies is not the inherent character of resources, but the nature of the policy and economic management processes through which the potential of the resources is harnessed⁶

1.6 Liberia currently has market access to unilateral preferential trade agreements under the United States' African Growth and Opportunity Act (AGOA) and the European Union's Everything But Arms (EBA) program. Despite the benefits of unilateral preferential market access, experience has shown that Liberia's exporters cannot compete effectively in these markets. The main barriers to participation of Liberian firms in international trade are "behind-the-border" constraints—investment climate, transportation networks, bank services, trade finance, and quality of goods – as well as customs and border management. Addressing these two critical categories could improve Liberia's overall trade competitiveness and thereby enable the country to take advantage of increased access to both regional and global markets.

1.7 Despite an appreciable effort at improving the country's trade performance, there have been meager results in terms of export diversification over the past six years. Based on the recommendations of the 2008 DTIS, the Government agreed to pursue a pro-poor trade strategy with special emphasis on the development of tree crops, as this could lead to inclusive growth (roughly half the rural population depends on tree crops for their livelihood). An assessment of the implementation of the 2008 DTIS Action Plan indicates that roughly 60% of the policy measures have been effectively implemented. The Government has made significant progress in ensuring macroeconomic stability, improving the investment climate, automating customs procedures, and improving ports management. However, there has

⁵ According to Lance Taylor's report – Growth, development Policy, Job Creation and Poverty Reduction (2009)- A 2 percent per capita growth rate can make per capita growth rate can make a dent on poverty by increasing average income by 22 percent over 10 years and 49% over 20. In addition, growth can only address poverty concerns (inclusive growth) if it generates new jobs to keep pace with a rising labor force.

⁶ Wright, et al, 2002

been little progress in (i) improving the export competitiveness of domestic industries; (ii) developing value chain linkages to enclave sectors; (iii) exploring global and regional trade opportunities.

1.8 This assessment of Liberia's international competitiveness is particularly salient now, given the horrible toll that the current Ebola epidemic is inflicting on Liberia, her people, and neighboring countries. Ebola is already having a measurable economic impact in terms of foregone output, fiscal stress, rising prices, lower incomes and greater poverty. According to World Bank estimates – which are likely premature, given the lack of reliable data at present – even the short-term (2014) impact on Liberia's GDP will be on the order of 3.4 percent, reducing growth from 11.3 to 8.0 percent.⁷ Given the unlikelihood of the epidemic being contained by the end of 2014, these figures will likely get worse.

1.9 Irrespective of quantitative predictions, what is certain is that the Ebola epidemic will place an enormous strain on the Government's capacity to devote sustained attention and budgetary resources to trade policy issues in the short-term, and perhaps longer. The impact of Ebola on economic well-being operates through two channels: First, the direct effects of sickness and mortality themselves, which consume public resources and reduce the availability (and price) of labor in the economy. Secondly, behavioral responses to Ebola (both in Liberia and abroad) have already led to massive absenteeism, voluntary business closures, along with domestic and international transportation disruptions. Taken together, these behavioral responses will ultimately put massive pressures on Liberia's economy, leading to short-term reductions in both national food supply and incomes across the country.

1.10 Now more than ever, it is necessary to put plans in place for Liberia's economic recovery and continued growth after the tragedy subsides.

A. Leveraging Trade for Inclusive Growth

1.11 Liberia's comparative advantage lies in the relative abundance and diversity of natural resources as well as a large pool of unskilled labor⁸. For the past several decades, the challenge for Liberia has been how to manage the exploitation of the country's resources sustainably over time, as well as to promote investment in non-extractive sectors and to develop its human capacity. Ideally, the Government should harness the rents from the extractive sector and reinvest in the future of the economy, particularly in education, infrastructure and other productive sectors. A recent study indicates that given Liberia's relatively weak governance performance and post-conflict environment, such a diversification effort may prove challenging; policymaking horizons are generally short-term and institutions remain weak. Therefore, trade should also be leveraged to reduce overdependence on extractives.⁹

1.12 Mining has historically been one of the country's most promising natural resource opportunities; prior to 1990, it contributed 65 % of the country's export earnings and around 25% of the country's GDP. However, large-scale iron ore mining operations were halted

⁷ The Economic Impact of the 2014 Ebola Epidemic, World Bank, 2014.

⁸ 2008 DTIS.

⁹ Boakye et al, June 2012

during the civil war. Artisanal mining for gold and diamonds diminished but continued, with illicit diamond revenue used by various groups to fund the conflict. An international ban on diamonds from Liberia was lifted in 2007. Mining-derived export revenues increased initially, and then fell off again in 2009 as a result of the global slowdown in economic activity. Gold and diamond revenues have since begun increasing. In the meantime, major concessions have been granted to a number of large players who are continuing exploration, and in some cases have begun revitalizing rail lines and other infrastructure needed to transport the minerals from mine sites to ports for export.

1.13 Liberia's oil and gas sector is believed to have significant potential, although current projects remain in the exploratory phase. Although this sector saw little activity prior to 2000, developments in technology have allowed the identification of potential petroleum-bearing offshore areas. In 2004, seventeen (17) offshore blocks were offered to international companies for oil exploration; eight of these were awarded to foreign companies in the form of production sharing agreements (PSAs). A second round of 10 blocks in ultra-deep (>3,000 m) waters was issued by the National Oil Company of Liberia (NOCAL) in 2007, and the Government opened another licensing round for offshore oil blocks in 2009. Today more than half a dozen companies are now exploring for offshore oil in Liberian waters. Recent discoveries in neighboring Sierra Leonean waters have buoyed hopes that Liberia will soon become an oil producer.

1.14 Liberia has traditionally relied on concessions as “growth poles” for economic development. The concessions agreements signed with mostly foreign companies cover a duration of 15-60 years; concessions are given large tracts of land for the purposes of commercial development and extraction of natural resources, in return for capital investment, fiscal revenues and job creation. There are currently fifteen (15) agricultural concessions, nine (9) oil concession rights, (6) mining concessions and (7) forestry management contracts¹⁰. While the concessions have been an important source of fiscal revenues and the main source of exports, their multiplier effect on the domestic economy has been very limited because of the enclave nature of their activities. According to the IMF, national authorities fully recognize that heavy reliance on the extraction of raw materials in enclave sectors may have limited broader development impact and done little to address economic exclusion, which was one of the root causes of the civil war.¹¹

B. Implementation of the 2008 DTIS Action Matrix

1.15 Over the past five years, the Government has made significant progress in implementing the 2008 DTIS Action Matrix. Achievements include macroeconomic stabilization, an improved business environment, the modernization of customs procedures, and an improved capacity for formulating trade policy and facilitating trade. To manage implementation of the DTIS, the Government established a National Implementation Unit

¹⁰ According to LEITI report (201...)

¹¹ Seventh Review under the Extended Credit Facility Arrangement. — IMF Country Report number 11/345 December, 2011. Also see Liberia Forest Sector Diagnostic, 2012 page vii.

(NIU), comprising the Ministry of Commerce and Industry (MoCI), a National Steering Committee (NSC), and representatives from the private sector and civil society. The NIU was established to assist the MoCI and the NSC on trade policy implementation issues, including regional/global trade integration, mainstreaming trade into Liberia's development strategies, coordinating the day-to-day implementation of the DTIS Action Matrix, and improving aid-for-trade coordination with donors.

1.16 For this DTIS Update, the study team reviewed progress on the 2008 Action Matrix using two approaches. First, information was gathered from various Government agencies to make the best determination of how far each item has been implemented, what challenges were encountered, and what remains to be done. Second, the status of implementation was summarized using a simple scoring metric based on whether each action was fully implemented, partially implemented, no progress, or no reported information.¹² Table 1 shows the results of this assessment using the simple scoring metric.

1.17 The 2008 DTIS Action Matrix highlighted several policy objectives in nine key thematic areas.¹³ A total of 97 individual action items covered interventions in policy/regulations, governance, planning, business environment, infrastructure, and capacity building. Each of the action items had specific performance indicators, and a specific Government agency was assigned responsibility for its implementation.

1.18 The overall finding is that 60 percent of the recommended actions were effectively implemented over the past five years. Of the 97 action recommendations, 42.3 percent were fully implemented and 37.1 percent were partially implemented. This is a significant accomplishment, given the complexity and breadth of many of the priority recommendations made in the 2008 DTIS. In particular, several of the trade-related provisions (i.e., strengthening institutional frameworks, and customs modernization/automation) were thoroughly implemented, and these actions have already created a positive foundation for the follow-up implementation that will result from the recommendations of this DTIS Update.

1.19 Several notable achievements in the 2008 DTIS Action Matrix contributed to maintaining macroeconomic stability, improving the business environment and enhancing trade facilitation. However policy areas where no actions were taken, namely financial services, agriculture, fisheries and forestry, were of critical importance for achieving export diversification and inclusive growth.

Macroeconomic Policy

1.20 The Government undertook three key steps to achieve macroeconomic stability: (i) tax policy and administration reforms; (ii) resolution of the domestic debt situation; and (iii) management of dual currencies. Liberia's economy has since recovered steadily, with GDP growing progressively from an annual rate of 5.3 percent in 2005 to a projected growth rate of 8.3 percent in 2012. Liberia's public debt has been reduced substantially, from

¹² This method was adapted from and based on the approach used in the Uganda DTIS Update in World Bank (2013), Uganda Diagnostic Trade Integration Study (DTIS) Update. April 2013.

¹³ Macroeconomic Policy, Financial Services, Investment Climate, Customs and Trade Facilitation, Agriculture (Cocoa, Oil Palm and Rubber), Mining, Wood Industry, Fisheries and Trade Policy and Institutions.

TABLE 1: Implementation of 2008 DTIS Action Matrix Score Card

Thematic Category	# of Actions	Not Implemented	Partially Implemented	Fully Implemented	Average Score*	Scaled Score
Macroeconomic Policy	3	0	0	3	2.0	100.0
Financial Services	9	3	4	2	0.9	44.4
Investment Climate	13	0	0	13	2.0	100.0
Customs/Trade Facilitation	6	0	4	2	1.3	66.7
Agriculture	11	4	4	3	0.9	45.5
- Cocoa	4	1	3	0	0.8	37.5
- Oil Palm and Rubber	5	0	1	4	1.8	90.0
Mining	5	0	3	2	1.4	70.0
Forestry	14	6	4	4	0.9	42.9
Fisheries	18	6	11	1	0.7	36.1
Trade Policy and Institutions	9	0	2	7	1.8	88.9
Total	97	20	36	41	1.2	60.8
Status of implementation by score		20.6%	37.1%	42.3%		

* 0=no progress, 1=partially implemented, 2=fully implemented.

Source: Authors' calculations

over 400 percent of GDP in 2009 to less than 30 percent in 2012, thanks to domestic debt buy-back and external debt relief following the completion of the Highly Indebted Poor Countries (HIPC) process in 2010.

1.21 The Government has also reduced corporate income tax rate from 35 to 20 percent for all sectors, and 30 percent for the extractive sectors. The General Sales Tax (GST) is now at 7 percent for all sectors except hospitality and telecommunications, which remain at 10 percent and 15 percent respectively. It also implemented separation of functions between headquarters and field operations in tax collection. Exemptions incentives for investment were established and are operational, while turnover tax is still at 4 percent for the small tax division.

1.22 The domestic debt management strategy was also successful. Contestable claims were validated through an external audit by KPMG, and payments to vendors concluded through the headcount ratio discount approach. Additionally, commercial banks' claims have been restructured and bridge financing promoted. Prudent liquidity management by the Central Bank of Liberia (CBL) helped to promote broad exchange rate stability over the past 5 years. CBL's clean note policy and the Government's policy of collecting taxes in two currencies, US and Liberian dollars, have been introduced, thus promoting wider use of the Liberian dollar.

Investment Climate

1.23 The Business Reform Committee (BRC) was formed at the Cabinet-level in response to Liberia's ranking in the World Bank's 2008 *Doing Business* report. Its mandate is to identify

and drive reforms in collaboration with the Liberia Better Business Forum (LBBF), which was launched in 2007 in order to establish effective public-private dialogue and advocate for investment climate improvements. Technical assistance to BRC and LBBF has been provided by International Finance Corporation (IFC), focusing initially on facilitation to start a business. Their biggest achievement to date has been the reduction in number of days to register the business from 99 days to 48 hours.¹⁴ At the same time, the number of procedures involved in this process has been reduced from 8 to 4 over the same period. This streamlining also includes legislation requiring MoCI to inspect a business quarterly at most.

1.24 As a result of significant business environment reforms at the national level, Liberia made strong progress in improving its investment climate ranking. Liberia was ranked 170th out of 178 countries in ease of doing business in the 2008 *Doing Business* report; five years later, Liberia moved up 30 places to 140 out of 185. In particular, efforts to facilitate starting a business and dealing with construction permits brought substantial progress during the period between 2006 and 2012. There were also improvements in the areas of getting credit and paying taxes.

Customs and Trade Facilitation

1.25 Liberia introduced the Automated Systems for Customs Data (ASYCUDA) to automate the customs processing at the Freeport of Monrovia in November 2009. The rollout of the ASYCUDA system to the Monrovia oil terminal and the Roberts International Airport (RIA) was completed in September 2011, enabling customs personnel to file clearance documents electronically. The Government also conducted consultations with the private sector to inform them of the launch of ASYCUDA and its operation. These activities also included capacity-building exercises for traders specifically.

1.26 ASYCUDA implementation is already having a positive effect in expediting customs clearance. A time release study financed by USAID in 2012 provides some objective evidence: Using data provided by the Bureau of Customs and Excise (BCE), the study measured the total time required by customs to release goods from arrival in Liberia until its release to an importer/agent. According to the report, it now takes 5 days on average to clear goods at the Port of Monrovia, 0.82 days at Roberts International Airport. This is strong progress over the average clearance time of 14 days in 2008.¹⁵ Additionally, 10 out of the 17 defined cross-border ports of entry in Liberia have been equipped with ASYCUDA, although the irregular supply of electricity has hampered its operationalization.

Agriculture

1.27 The Ministry of Agriculture (MoA) has implemented policies to increase value addition in tree crops, while simultaneously creating access to capital for smallholders. However, it is clear from analysis that progress in these areas is far from achieving the policy goal of establishing efficient value chains to enhance export diversification. The key constraints to the competitiveness of the tree crop sector remain (i) high cost of factor

¹⁴ The average number of days in DB2013 is 6 days, although staff estimates are that the required time is much shorter in practice.

¹⁵ Although the study only used statistics from BCE and APM Terminals for a limited period due to data availability, it is nevertheless clear that clearance time has reduced dramatically the launching of the ASYCUDA software in 2009.

inputs (land, seeds, and fertilizer), (ii) poor application of modern methods of cultivation (hampered by the virtual absence of extension services) and (iii) lack of access to predictable markets, including the slow pace of institutional reforms at the Liberia Product Marketing Corporation (LPMC). In the last five years, the Government has made little progress in terms of translating intended policies into investment projects. Indeed, the high scorecard of 90 percent achievement of policy implementation for rubber and oil palm sectors contrasts sharply with the performance of these sectors in terms of export growth. While this is arguably due to the long gestation period of the tree crops, the acreage planted thus far also fell short of targeted production levels.

1.28 Moreover, access to credit for smallholders remains virtually nonexistent. MoA publishes regular price updates from around the country, and International Institute of Tropical Agriculture (IITA) and Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI VOCA) have started providing improved seedlings to farmers under two USAID-funded projects. Two other projects under MoA involve rehabilitation and provision of improved planting materials, which have been brought into the country by concessionaires. These materials will be available to smallholders once out grower scheme arrangements are concluded, consistent with new concession agreements. While these initiatives are encouraging, they are still at the level of strategy development and have not begun to demonstrate results in export diversification.

Mining

1.29 Within the mining sector, the Government's policy objectives outlined in the 2008 DTIS aimed to promote exploration activities, improve the legal and regulatory framework, improve fiscal impact and transparency, ensure equitable sharing of benefits, and support small-scale mining.

1.30 Actions taken by the Government toward these ends include revising the Mining Law and developing a mining sub-chapter of the Revenue Code, developing mining regulations, harmonizing mining laws with other legislation, adopting a model Mineral Development Agreement (MDA), developing a Large Taxpayers Unit to carry out technical audits of extractive industries, linking fees into the tax payment system, and implementing and expanding Liberia's participation in the Extractive Industries Transparency Initiative (EITI). The Government also considered developing a mechanism for sharing financial benefits with local communities while minimizing and compensating for negative social and environmental impacts, promoting regular consultations with affected communities, formalizing illegal mining, creating mining cooperatives, introducing new technologies, and providing social programs.

1.31 Thanks to these actions, the Government now has more reliable and accessible geological data; laws are consistent and transparent; revenue is increasing; public information is more readily available; tensions between large mines and communities have been reduced; and small-scale miners are enjoying higher living standards.

Timber Industry

1.32 Liberia has begun to take advantage of its huge timber potential for domestic trade, beginning with pursuing numerous policy objectives to add value along the production chain. In order to realize this goal, the Government announced that it would develop strategies, incentives, and action plans to promote value-addition to its timber products, and to improve the industry and market knowledge base.

1.33 Some of the actions already carried out include (a) a revision of the National Forestry Reform Law on processing of timber products, and building into the law decreasing export taxes depending on the degree of processing; (b) drafting of a Forestry Processing Strategy with quantitative targets for value-added products for 5, 10, and 15 years; and (c) adoption of Association Technique Internationale Des Bois Tropicaux (ATIBT) grading rules on all logs for export and later processing.¹⁶

1.34 Over the last five years, these actions have met with some success through the consolidated efforts of the Forestry Development Authority (FDA), MoA, the Ministry of Justice (MoJ), Ministry of Finance (MoF), National Investment Commission (NIC), Ministry of Planning and Economic Affairs (MPEA), Liberia’s Telecommunications Authority (LTA), and the Ministry of Lands Mines and Energy (MLME). Incentives for investors have been established with no disagreement on definitions and associated regulations; strategies have been published and understood by stakeholders; and a significant proportion of the log harvest has been graded. The Government also conducted a feasibility study on value-added “quick wins”, including completion of study on taxes and fees adjustment. Potential buyers of Liberian logs were identified and sales contracts have been initiated in the sub region and in regional African economic communities.

C. Rationale for Revised Interventions

1.35 As the country continues implementing the *Agenda for Transformation* with aspirations to achieve middle-income status, it becomes more important than ever to overcome both supply-side and institutional impediments to trade and boost the overall competitiveness of the country.

1.36 The key message emerging from the implementation of the 2008 DTIS is that more targeted efforts can be undertaken to improve on progress already made. Although it will likely be difficult for the Government to devote sustained short-term resources to these efforts in light of the outbreak of the current EBOLA Virus Disease (EVD), this report summarizes recommended actions around three main pillars, which together form the basic structure of this DTIS Update and a revised Action Matrix moving forward:

¹⁶ Incomplete actions include (a) a study of West African profitability of log exports and associated products; (b) setting taxes and fees on the basis of economic returns; (c) conducting survey of the regional West African, Maghreb and South African markets for value-added wood products; and (d) establishing a network of market information providers and timber laboratories on lesser-used tropical timbers, to take stock of promotional work and results achieved.

Pillar 1: Integrating Effectively into Regional and International Economies

1.37 Deeper trade-related cooperation at both the regional and global level is integral to Liberia's growth. Given its existing narrow export base and dependency on imports, Liberia should accelerate its efforts to increase regional integration within the Economic Community of West African States (ECOWAS), as well as with the global trading system via accession to the World Trade Organization (WTO).

1.38 Liberia is at a critical juncture with regard to these two distinct trading regimes. With regard to ECOWAS, Liberia stands to gain considerably by aligning itself with the ECOWAS Common External Tariff (CET), although this will require a close examination of trade-offs between short-term fiscal benefits of its current tariff regime versus the long-term potential gains in trade balance that would come with adoption of the ECOWAS CET. With regard to WTO accession, Liberia stands to gain considerably from membership in the WTO, especially in light of concessions given to least-developed countries (LDCs) which can potentially boost Liberia's global competitiveness in the short- and medium-term. However, these gains also come with a potential cost, and it is particularly important for the Government to consider carefully how these two accessions are sequenced to avoid undue strain on domestic economic stability, as well as potential liabilities for non-compliance with either the CET or the WTO.

Pillar 2: Improving Trade Competitiveness

1.39 In order to reap the benefits of increased market access resulting from WTO accession and CET alignment, Liberia will have to address multiple "behind-the-border" constraints to trade. Improvements in Liberia's trade competitiveness will require the removal of these constraints that continue to impede productivity and increase transaction costs in the economy. Key constraints to Liberia trade competitiveness are high transactions cost associated with inadequate trade facilitation and relatively weak business regulatory environment.

1.40 Liberia showed moderate improvement in trade facilitation and logistics services over the past several years yet the speed of improvement remains slow, suggesting the need for more efficient interventions and comprehensive reforms. Interviews with stakeholders and logistics professionals in the Government and the private sector have indicated several key challenges to improving trade facilitation in Liberia, particularly in customs operation and risk management, absence of basic infrastructure and poor transport linkages to regional markets.

Pillar 3: Promoting Economic Diversification

1.41 The importance of concrete efforts to promote export diversification cannot be overstated, particularly for resource-rich countries like Liberia for whom natural resources form the bulk of their exports. Continuing to rely on largely unprocessed commodity exports with little or no value addition not only constrains opportunities for employment growth; to a large extent it also binds Liberia's fiscal health and overall prosperity to the caprices of global commodity markets which are often unstable in the long-term. This reliance on natural resources – largely driven by narrowly-targeted foreign investments – has come at the expense of much of the hard and soft infrastructure needed to properly diversify Liberia's export basket. As noted previously, most foreign concessions operate as enclaves, with little or no economic linkages with the rest of

the economy. Government revenues for infrastructure development, where available, are often committed to projects, which serve these commodity sectors, inadvertently neglecting demand for improved infrastructure among other economic sectors.

1.42 The Government can do more to promote economic diversification by leveraging existing investments in the resource sectors. First, the Government must ensure that stronger linkages can be built between enclave sectors and the domestic economy, by ensuring that local content/procurement standards are strengthened and enforced. The Government should also develop policies to leverage existing/future privately-funded and PPP-based infrastructure (particularly transportation and energy) to share the benefits of these investments with the rest of the economy.

1.43 In the agricultural sector, the Government should pursue a number of urgent interventions to bolster productivity and competitiveness in the tree crops sector (rubber, oil palm, cocoa). Although these commodities have historically provided a significant portion of Liberia's export earnings, the ageing stock of trees, along with limited deployment of good agricultural practices, expensive technology and limited extension services, have created an increasingly dire situation. Although large-scale investments in rubber are expected in the near-term, the situation for smallholder farmers will remain grim unless investments in technology and capacity-building are promoted under the Government's leadership.

1.44 Finally, Liberia stands to benefit significantly from trade in services. As noted in Chapter 7, strong regulation of the services trade will entail more rational and focused sector-specific policies, while at the same time the consistency and transparency of broader "horizontal" regulations should be improved.

Pillar 4: Trade Policy Coordination

1.45 Trade policy requires close coordination between Government and the private sector, as well as inter-ministerial cooperation. Consultations with the private sector are needed in order to ensure that trade negotiations are properly aimed at the real-world problems producers and traders face in their efforts to access foreign markets and manage other challenges of the trading system. Consultations between ministries are necessary even in the most traditional conception of trade policy (largely confined to tariffs and other broader measures), as policymakers in trade-related ministries must be certain that the commitments they seek with trading partners are consistent with the country's fiscal needs (thus requiring coordination between trade and finance ministries) and with the country's foreign policy (thus requiring coordination between trade and foreign ministries). The need for consultation and coordination has expanded significantly with the widening scope of the trading system over the past few decades. No longer restricted to tariffs and related matters, trade policy now incorporates such diverse issues as behind-the-border regulations, trade in services, the protection of intellectual property rights, investment, government procurement, and even linkages between trade policy and the environment, labor rights, and human rights in general. The subject matter of trade policy has grown to the point where "stakeholders" include almost every ministry and agency of government, as well as a wide range of civil society groups.

1.46 There are signs that the degree of consultation among Liberian policymakers in general falls short of this ideal. Some representatives of the private sector expressed concerns that their views are not sought early enough in the policymaking process, and that such consultations as do take place tend to come only after decisions have been finalized. Similarly, the different ministries are sometimes described as separate “fiefdoms” and do not communicate or coordinate activities as effectively and frequently with one another as they ought. Ministries are further said to be troubled by frequent turnover of key personnel, and by decision making systems that rely too heavily on top-down direction. Observers also note that the lawmaking process is slowed down by capacity problems in the House of Representatives and the Senate, which lacks sufficient staff with technical expertise.

D. Conclusion

1.47 While some progress has been made in mainstreaming trade in Liberia’s development agenda since 2008, the country has yet to pursue an aggressive outward-oriented growth strategy as a means of achieving poverty reduction. This view is supported by (a) scant reference made in the Agenda for Transformation to trade as a vehicle for achieving the country’s overall development goals; (b) the lack of support by all stakeholders for trade policy initiatives aimed at deepening trade liberalization and integration into regional and global trading systems; (c) the fact that trade-related strategies, such as the National Export Strategy and strategies for developing key agriculture value chains, have not yet been mainstreamed in the annual budgeting process; (d) the disparity between de jure reforms as opposed to de facto reforms in key sectors that can promote export diversification; and (e) the fact that Aid for Trade still accounts for a small share of total aid to Liberia.

1.48 Following this introductory chapter, the rest of the report is organized as follows: Chapter 2 presents an overview of trends in trade performance and the challenges of export diversification. Chapter 3 assesses the economic implications of trade integration and WTO accession. Chapter 4 discusses constraints to trade competitiveness focusing on the investment climate and business regulatory environment. Chapter 5 focuses on regional trade and trade facilitation. Chapter 6 assesses the competitiveness of key agriculture value chains. Chapter 7 discusses the regulatory environment for trade in services. Chapter 8 discusses leveraging FDI for Economic diversification, and finally Chapter 9 concludes the study and discusses trade policy coordination and implementation.

CHAPTER 2

TRADE PERFORMANCE

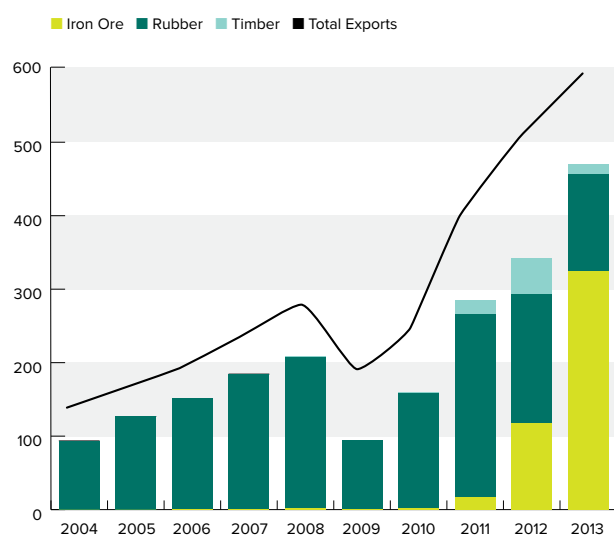
2.1 This chapter provides a detailed assessment of Liberia's trade performance, and further discusses the root causes of Liberia's slow progress on trade diversification since 2008. The analysis demonstrates a clear need to tap the potential of the domestic private sector for inclusive growth, and the need for effective implementation of trade policy actions to address structural weaknesses.

2.2 A major barrier in performing analysis of Liberia's trade performance is the lack of complete and reliable trade statistical coverage. This problem is by no means unique to Liberia, and is the result of a combination of factors including underreporting of trade by regional partners, the informal nature of a significant share of agricultural cross-border trade, and limited statistical capacity. Box 1 below provides further detail on analysis methods used for this report.

A. Trade Performance

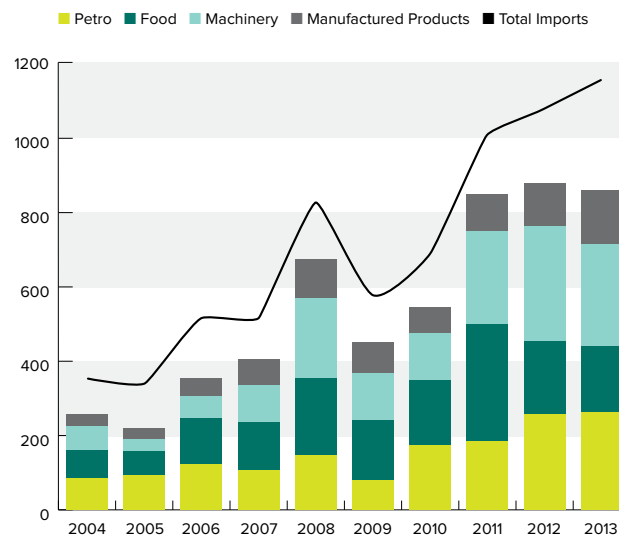
2.3 A review of Liberia's trade performance since 2008 identifies four main challenges with respect to its trade performance. First, the high concentration of export earnings around natural rubber makes the country highly vulnerable to volatility in international prices. Second, outside of concessions, the level of participation by the domestic economy in international trade remains low. Third, those few firms that are involved in exports—largely concessionaires—have few economic linkages with the rest of the domestic economy. Finally, Liberia remains dependent on importing a number of food items that the country is capable of being self-sufficient in producing (see Figures 1 and 2 below).

FIGURE 1: Liberian Exports (US\$ millions), 2004-2013



Source: CBL data

FIGURE 2: Liberian Imports (US\$ millions), 2004-2013



Source: CBL data

2.4 Given the small size of Liberia's economy, the country remains relatively open to international trade, but imports greatly exceed exports. Although there are emerging signs of sectoral diversification, the export basket is still characterized by a strong dominance of the rubber sector. Regional trade in the context of ECOWAS and the Mano River Union (MRU) remains low.¹⁷ Liberian exports to the region accounted for only 7.6 percent of total exports in 2011.

However, imports from China have more than quadrupled over the last four years, making that market more important to the Liberian economy than the ECOWAS region.

BOX 1: TRADE DATA IN LIBERIA

As Liberia is currently rebuilding its economy and institutions, reliable trade data are hard to obtain. Researchers usually resort to mirror data obtained from the UN COMTRADE database to study trade performance. However, there are two issues in Liberia that make this process especially challenging.¹⁸ First, the “flag of convenience” policy, which allows ships to be registered in Liberian territory regardless of the nationality of the ship's owners, results in commercial transactions of ships registered under this policy being accounted as Liberian exports or imports. Second, the presence of a large United Nations Mission in Liberia (UNMIL) contingent impacts trade statistics, as it is the largest single importer in the country. Using COMTRADE data, it is impossible to identify the share of imports that are due to the UNMIL. As a result, total export and import values obtained by mirroring COMTRADE data differ from the data reported by the Liberian Central Bank by a factor of 2 and 17, respectively.

Although customs information constitutes the most accurate information on export and import shipments, historical customs data are unavailable. Liberia set up the Automated System for Customs Data (ASYCUDA) in 2009 and has progressively rolled it out to the main entry and exit points. Government officials estimate that ASYCUDA data will be representative of overall trade only in 2013. To depict Liberian trade performance for purposes of this study, we use export and import data facilitated by the IMF and the Central Bank of Liberia. These data are compiled from different government institutions by the Central Bank in order to construct balance of payments statistics. Information about trading partners is not collected by the Central Bank, so we rely on market shares obtained from COMTRADE data.

Even with the advantages of working with the most accurate data currently available in Liberia, an important caveat should be noted. Unreported and undervalued cross-border trade is a well-documented issue in Africa. For example, Nkendar (2010) finds that informal and unrecorded trade between Cameroun and Nigeria represents 96 percent of the official figures and mainly includes agricultural and horticultural commodities. Evaluating the amount of this issue is out of scope of this study, but must be taken into account when interpreting the data.

¹⁷ The MRU was founded by Liberia and Sierra Leone in 1973 and now includes Guinea and Cote d'Ivoire. After years of civil conflict in the MRU countries, the organization was reactivated in 2004 and resumed operations since 2008. Its original aim was to advance economic development through trade integration and joint infrastructural and industrial projects.

¹⁸ Mirror data refers to the process of inferring export data by using partner-import data. That is, rather than requesting export data as being reported by country I, one requests import data reported from each country in the world as being imported from country i. This technique is commonly used to minimize the risk of underreporting due to the fact that customs agencies usually monitor imports more closely than exports.

2.5 FDI in the natural resource sector is driving export growth, but unemployment remains high. Investment in these traditional export sectors is unlikely to create substantial employment opportunities because these sectors are largely capital-intensive enclaves with minimal links to the rest of the economy. At the same time, the diversification of the economy is constrained by inadequate infrastructure. This in part explains the fact that despite steady economic recovery since the end of the conflict in 2003, largely driven by FDI, unemployment remains high.¹⁹ Young people have been the hardest hit, in part because they lack the education and skills that are required to take advantage of even the few jobs that are being created in the natural resource sectors. At the same time, the curriculum of the skills training institutions is not responsive to labor market demands, and labor market information systems are non-existent.

2.6 Traditional exports require a combination of factors of production that is in line with Liberia's existing factor endowments. However, an excessively low level of capital stock still limits the productivity of the Liberian economy. The ongoing effort to reconstruct the stock of capital is progressively putting Liberia in a better position to deploy its factors of production into non-traditional export products. The remainder of this chapter is structured as follows: The next section presents the composition and the orientation of the export and import baskets. Section 3 focuses on export diversification along the products, markets, and firms dimensions. Section 4 presents some prospects and challenges for export diversification.

B. Trade Openness, Composition, and Destination

2.7 Liberia's level of trade openness, measured by the sum of exports and imports as a share of GDP, has increased over time and is considerably larger than what one might expect given its income level.²⁰ Conventional trade theory associates trade openness with in-country reallocation of productive resources, determined by relative comparative advantages, which increases overall country productivity and translates into welfare gains and higher economic growth. Empirical work, however, finds that complementary policies—such as macroeconomic stability, a competitive exchange rate, and a favorable investment climate—must accompany the development process, displayed in Figures 3 and 4 below.

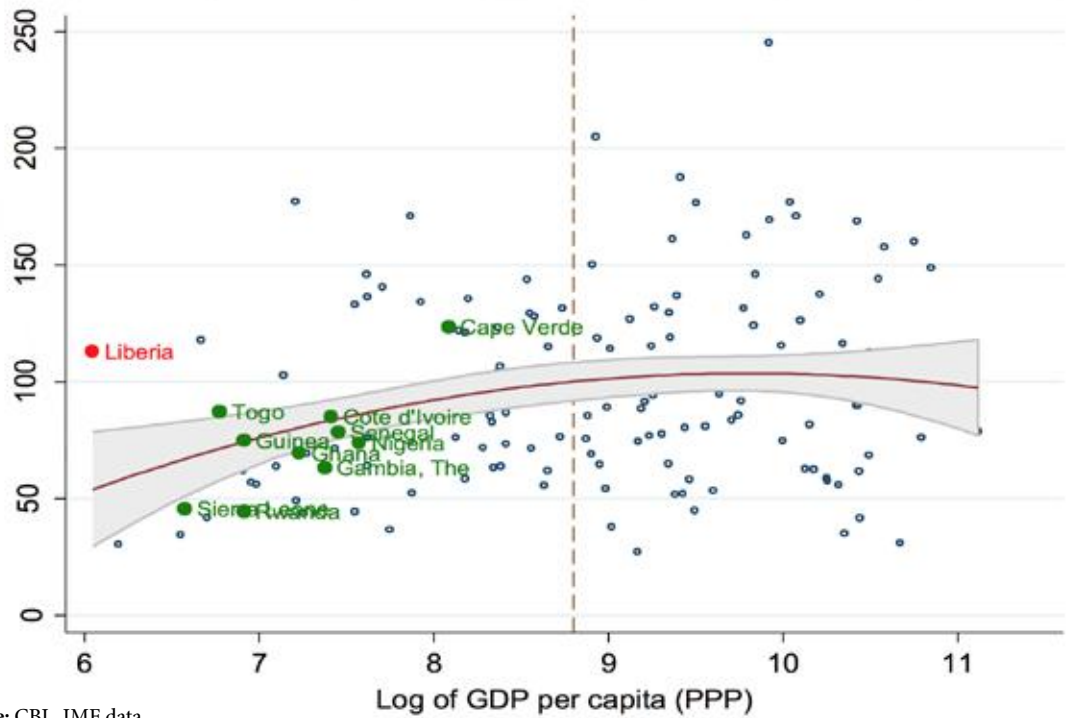
2.8 Liberia's trade openness masks a large trade imbalance of around 50 percent of GDP in 2011 for merchandise trade. Services trade adds another 10 percentage points to the current account deficit, which is financed mostly by international donors' transfers. This raises the issue of the effects of aid inflows on Liberia's export competitiveness. If aid is targeted mainly at expanding non-tradable services such as construction, healthcare, and education, then the competitiveness of the tradable sector can be affected as overall wages increase and high-skill labor migrates to the non-tradable sector.

2.9 Liberian export performance after 2008 was affected by the global economic

¹⁹ Measuring unemployment in Liberia is difficult. While the Labor Force Survey of 2010 records an unemployment rate of 3.7 percent, a more relevant measure may be the level of vulnerable employment which was at nearly 80 percent in 2010.

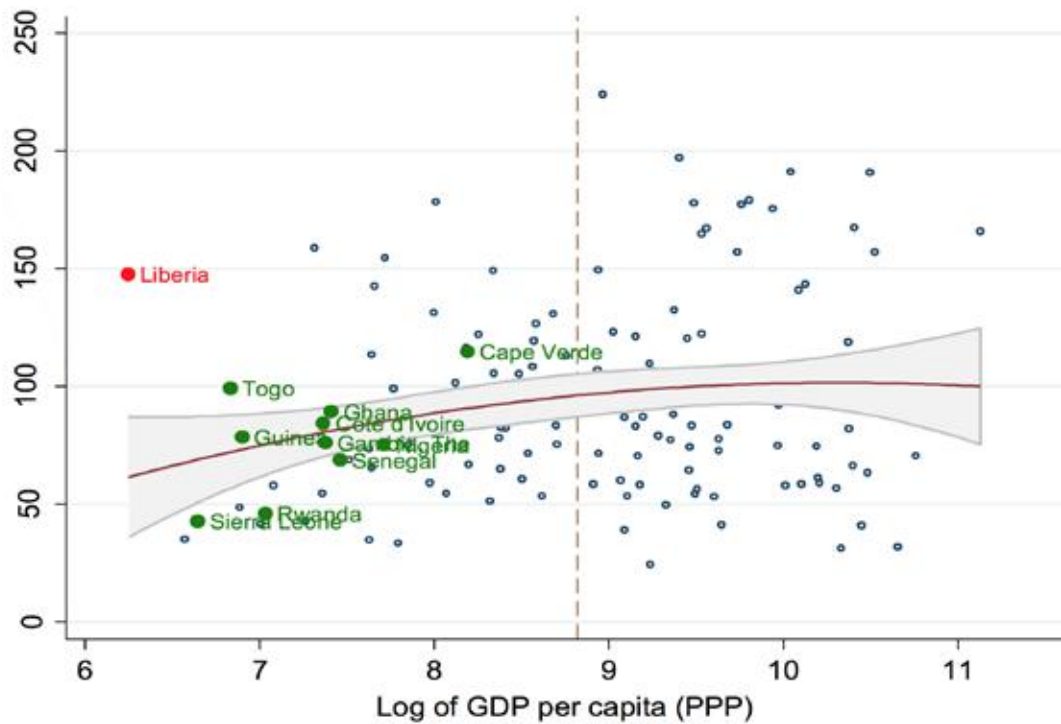
²⁰ The Trade-to-GDP ratio is one of the most basic indicators of openness to foreign trade and economic integration. It weighs the combined importance of exports and imports of goods and services in an economy. The ratio gives an indication of the dependence of domestic producers on foreign demand and of domestic consumers and producers on foreign supply. There is a concave relationship between trade openness and per capita income: countries tend to trade more as incomes rise, but at a decreasing rate.

FIGURE 3: Openness to Trade (2008)



Source: CBL, IMF data

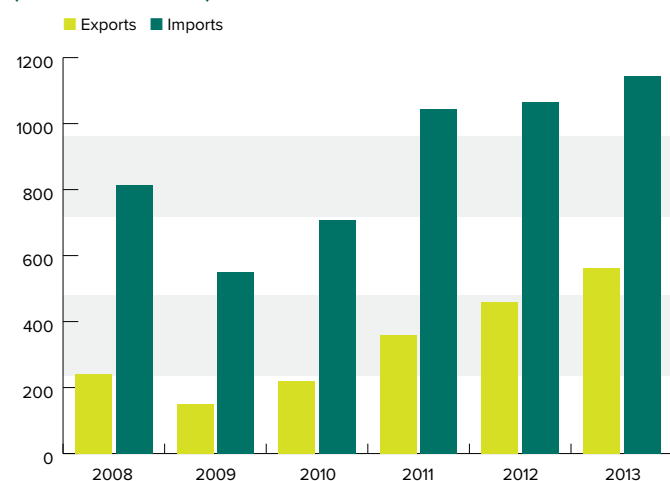
FIGURE 4: Openness to Trade (2011)



Source: CBL, IMF data

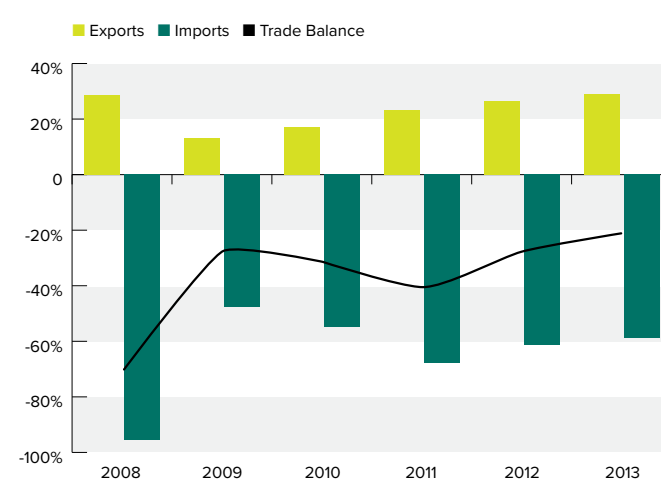
downturn in 2009, the effects of which were long-lived. While worldwide trade recovered to its pre-crisis levels by the end of 2010, Liberia took another year to reach that point. A possible explanation is the “bullwhip” effect of the crisis on the global value chains that use rubber as a primary input.²¹ Given the strong dependence of the country on this commodity, any lags in the reactivation of international demand for rubber and iron ore may have damaged the country’s interests (See Figures 5 and 6 below on Liberia’s merchandise trade).

FIGURE 5: Merchandise Trade (US\$ millions), 2008-2013



Source: CBL data

FIGURE 6: Merchandise Trade (% of GDP), 2008-2013



Source: CBL data

2.10 Although signs of emerging sectoral diversification are evident, Liberia’s export portfolio is still characterized by a strong dominance of rubber and mining sectors, which together represent over 81 percent of total exports. Cocoa beans, wood, and palm oil are slowly emerging as good candidates for diversification. Their combined export share has increased steadily over the past several years, and Liberia exhibits comparative advantage in the production of these commodities. Part of the embryonic diversification is explained by the resumption of export of diamonds and commercial forest products following the lifting of a United Nations export ban in 2007. Table 2 below shows the sectoral composition of Liberia’s exports for the periods 2008 versus 2013.

2.11 Under the current Ebola epidemic, however, some of this growth will likely plateau, if not reverse. For example, although large-scale mining production is still holding steady, future investments are now on hold while small-scale artisanal mining has been severely curtailed. The World Bank estimates that the mining sector’s contribution to overall GDP will contract by 1.3 percent over the next year, along with even larger contractions in the contribution of manufacturing, the services industry, and forestry.

2.12 Imports are spread across different sectors, but food imports have shown a promising

21 This phenomenon occurred when companies significantly added inventories due to the strong decline in demand for final products. It is termed “bullwhip” because small changes in demand for manufacturing products cause a big snap in the need for parts and materials further down the supply chain. The farther the supplier is from the final products, the larger the variation in demand for the intermediate product is.

TABLE 2: Sectoral Composition of Liberian Exports (US\$ millions), 2008 & 2013

	2008		2013		CAGR*
	Value	% of total	Value	% of total	%
Rubber	206.8	85.50%	132	23.50%	-8.60%
Wood	0.2	0.10%	13.5	2.40%	132.20%
Iron ore	1.5	0.60%	325	57.90%	193.20%
Gold	10	4.10%	20.6	3.70%	15.60%
Diamonds	13.3	5.50%	17.1	3.00%	5.20%
Cocoa	3.3	1.40%	5.4	1.00%	10.40%
Other	6.9	2.90%	47.4	8.40%	47.00%
Total	242		561		

* CAGR = Compound Annual Growth rate 2008 - 2013.

Source: Authors' computation using CBL data.

decrease since 2008. The most important staple in this category is rice, which accounted for 50 percent of total food imports in 2013. Liberia's dependence on imported rice poses a challenge for national food security. The Government recognizes this and monitors the domestic market to prevent shortage, while at the same time it administers rice import licenses. Other important sectors in terms of import demand are machinery (including transportation equipment), petroleum, and manufactured goods. These sectors are in line with the ongoing post-war infrastructure reconstruction effort. During the period 2008-2013, imports in these sectors increased on average by 8 percent each year, as shown in Table 3 below.

TABLE 3: Sectoral Composition of Liberian Imports (US\$ millions), 2008 & 2013

	2008		2013		CAGR*
	Value	% of total	Value	% of total	%
Food/Animals	206.8	25.4%	178.7	15.60%	-2.9%
Machinery	215.2	26.5%	275.7	24.10%	5.1%
Petroleum	147.1	18.1%	263	23.00%	12.3%
Manufactured goods	104.7	12.9%	144.6	12.60%	6.7%
Chemicals	36.5	4.5%	75.2	6.60%	15.6%
Minerals, Fuels, Lubricants**	13.4	1.6%	40.2	3.50%	24.6%
Other	89.8	11%	168.2	14.70%	24.6%
Total	813.5	100%	1,145.60	100%	

* CAGR = Compound Annual Growth rate 2008 - 2013.

** Other than petroleum, whereas in SITC (Standard International Trade Classification), Section 3: Mineral fuels, lubricants includes petroleum products under division 33.

Source: Authors' computation using CBL data.

2.13 Liberian export relationships are strongly dependent on the United States and the European Union, but China has recently gained importance as a destination market. The United States and the European Union represented around 60 percent of total imports by value in 2011, and Liberia exports rubber mainly to these two markets. Over the last four years, however, the US market has decreased in importance while exports to China have more than quadrupled. Exports to China are mainly iron ores and some rubber. Although Liberia has been making efforts at promoting regional integration through its memberships in the ECOWAS and the MRU, and is currently working towards the adoption of the ECOWAS CET, intra-regional trade represents only 7.6 percent of total export value—less than what the country currently exports to China.

2.14 As shown in Table 4 below, the BRICs are the main source of merchandise imports, representing around 44 percent of total Liberian imports in 2011. Recently the ECOWAS region has increased its importance, while the share of imports coming from the traditional markets of the US and EU has declined. Rice is imported mainly from China, India, the United States, Thailand, and Brazil.

TABLE 4: Market Composition of Liberian Exports and Imports (2008 & 2011)

Export Shares			Import Shares		
	2008	2011		2008	2011
United States	42	32.4	BRICs	44.9	43.9
Europe 27	27	27.3	China	40.1	37
BRICs	4.9	12.3	India	2.8	4.4
China	1.7	8.3	Brazil	1.9	2.4
India	3.2	2.2	Russia	0.1	0
Russia	0	1.3	ECOWAS	4.8	18.7
Brazil	0	0.5	MANU river Union	1.6	8.3
ECOWAS	5	7.6	Rest	3.2	10.4
MANU river Union	3.7	7.5	United States	13.2	9.8
Rest	1.3	0.2	Europe 27	18.1	9.3
Sub-Sahara Africa (excluding ECOWAS)	1.7	0.8	Sub-Sahara Africa (excluding ECOWAS)	0.7	1.4
MENA Region	0.1	0.5	MENA Region	3.3	2
Rest of the world	19.4	19.1	Rest of the world	15	15.1

Source: Authors' computation using CBL data.

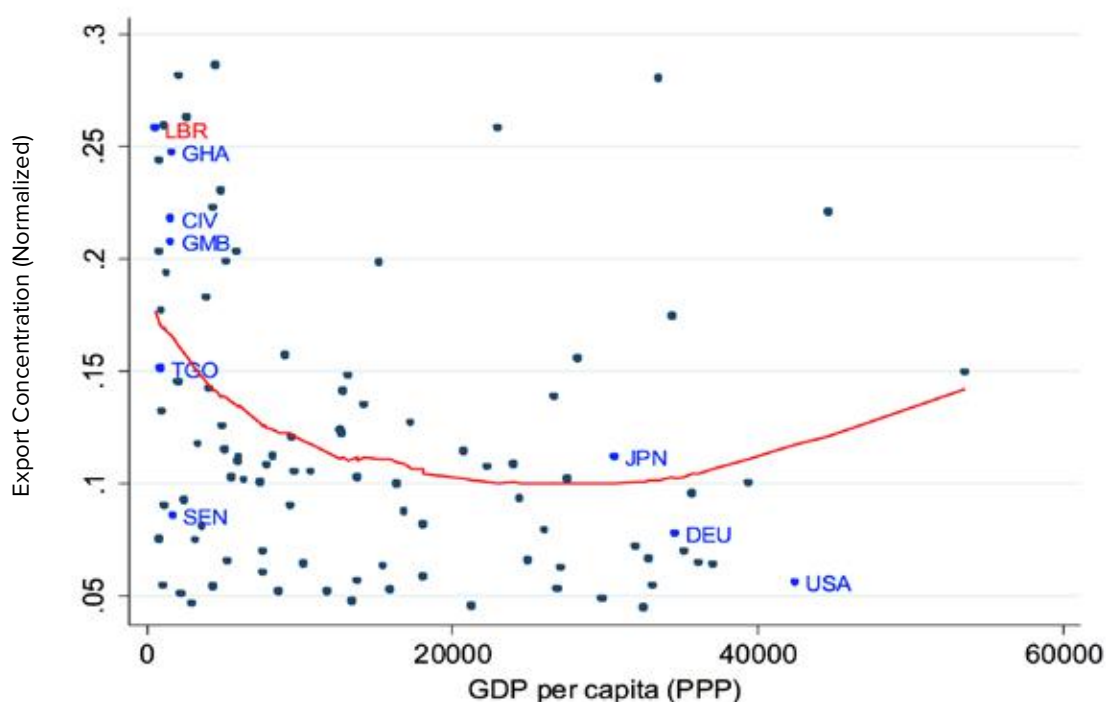
C. Perspectives and Challenges of Export Diversification

2.15 Economic development in low-income countries is associated with increasing sectoral diversification rather than specialization in a narrow range of important products.²²

²² Klinger and Lederman 2004; Cadot, Carrere, and Strauss-Kahn 2007.

For countries in which primary products are predominant, the empirical evidence suggests that export concentration is associated with slow economic growth.²³ Diversifying exports in low-income countries is therefore important to boost economic growth because it reduces the risks associated with excessive volatility in export prices. It also allows countries to develop competence over a broader range of products. Countries develop by learning to make new things, and through entrepreneurial dynamism and growth, not only relying on what they have traditionally done well.

FIGURE 7: Export Concentration over the Development Process, 2011



Source: Authors' computation based on IMF, Central Bank of Liberia, and World Development Indicators (WDI) data.

2.16 Figure 7 shows that Liberia has the lowest intensity of foreign trade in the private sector among ECOWAS member countries; only 1 percent of firms export either directly or indirectly using an intermediary. Another indication of the low level of domestic firms' connection with international markets is the proportion of firms using materials inputs and/or supplies of foreign origin, which is 40.3 percent in Liberia while the regional average (ECOWAS) is 55.6 percent.²⁴

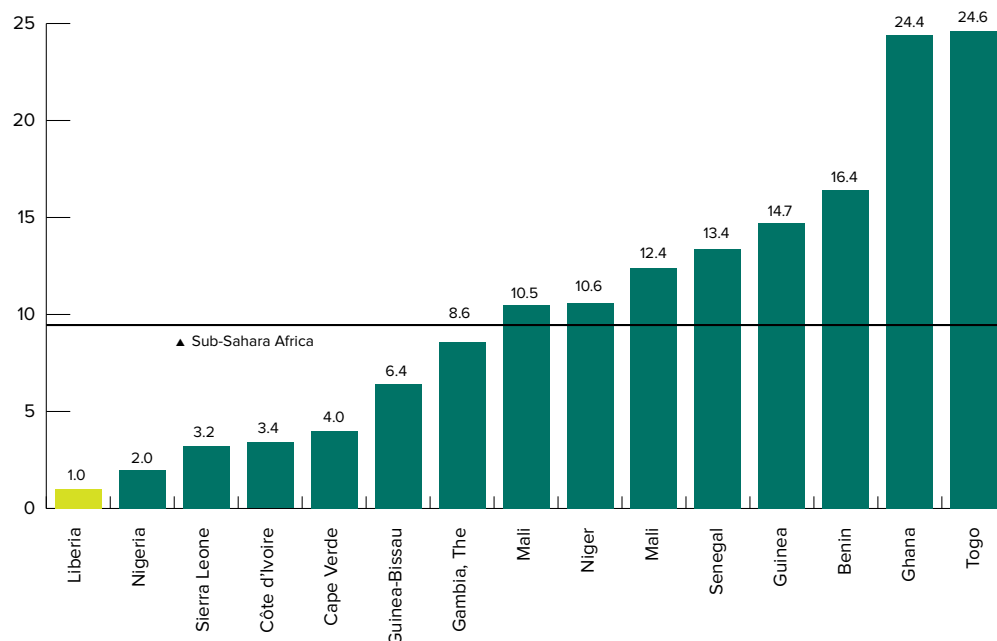
2.17 The low level of Liberian firms' participation in international markets compared with similar countries indicates larger costs to exporters in Liberia than in other peer countries. If countries are of similar size, have a similar distribution of productivity across domestic firms, and face similar worldwide tariffs schedules, as is the case of poor African

²³ Sachs and Warner 1995, Gylfason 2004, and De Ferranti, Perry, Lederman, and Malony 2002.

²⁴ Enterprise Survey for Liberia, 2009.

countries, one of the main determinants of firms' participation in international trade is the country-specific trade costs. These costs are of different types. In addition to per-unit costs such as transport costs, there are also fixed costs such as the costs of setting distribution channels, complying with foreign standards, and finding information about foreign buyers and markets. Figure 8 below shows the percentage of firms exporting directly or indirectly out of sub-Saharan Africa.

FIGURE 8: Percentage of Firms Exporting Directly or Indirectly (Latest Available Year)



Source: Authors' calculations based on World Bank data.

2.18 Additionally, macroeconomic conditions induced by the large international aid inflows may affect the willingness of the private sector to engage in international trade. Concerns that large aid flows induce an appreciation of the real exchange rate and discourage the expansion of exports, particularly non-traditional exports, may also be an important determinant affecting the competitiveness of the private sector in Liberia. Cross-country evidence on aid-financed contraction of the export sector is mixed.²⁵

2.19 In addition to a high concentration of export earnings around the rubber sector and the low level of participation of the private sector in international trade, Liberian exports are also concentrated in the hands of very few large concessionaries that have few economic linkages with the domestic economy. Some 97 percent of total export value is concentrated among 20 percent of firms, which are mostly large multinational firms operating under government concessions in agriculture (rubber) and in the extractive industries (iron ore).

²⁵ Bulir and Lane (2002) find that the tradable sector as a whole has declined by an average of 8 percent per year in a sample of aid-dependent countries; while Yano and Nugent (1999) find that only in 6 countries (out of 44 countries studied) aid flows are statistically and negatively associated with an expansion of the non-tradable sector, contraction of the tradable sector and a decline in real GDP. Strikingly, the latter find that Liberia is the only country where the decline in real income was statistically significant.

While there is well-documented cross-country evidence on the substantial heterogeneity in the size of exporting firms and in their characteristics even within narrowly defined industries, there is not as much heterogeneity in exporting firms in Liberia as in other African countries, and they have very weak linkages to the national economy.

2.20 Foreign direct investments shaped by these concession agreements are the main engines of export growth in the mining and agricultural sectors. Investments in the mining sector are largely directed to the extraction of iron ore, and investments in the agricultural sector aim at producing rubber and palm oil. According to the Government, these investments have the potential of generating 90,000 direct and indirect jobs. At the same time, the Government also acknowledges the need to connect these large projects with the domestic economy in order to spur development of the local private sector. In this regard, Liberia's current industrial policy seeks to support services that nurture and promote domestic industries, including capacity building and training programs, the identification of linkages between local industries and concessionaires, local content requirements, and matching services.

2.21 With low labor costs, Liberia has a comparative advantage in labor-intensive industries. However, excessively low levels of capital stock limit the productivity of its labor force; the country's endowment of physical capital per worker (US\$2,341.8 in 2007) puts it at the very low end of the world's distribution.²⁶ The gap between Liberia's capital per worker and the mode of the distribution for high-income countries is very large (around US\$180,000 per worker). Liberia's stock of physical capital has declined due to the internal conflict. This reaffirms the Government's priority of incentivizing capital accumulation through the attraction of foreign direct investment.

2.22 Trade in Liberia will continue to expand in the short term as higher domestic demand and output offset any fall in external demand and commodity prices. Rubber will continue to dominate export earnings, although emerging sectors such as petroleum exploration, palm oil, and forestry will gain space in the export basket. Imports will increase as well, due to capital imports for large investment projects. In addition, the pending regional trade consolidation through ECOWAS and accession to WTO are expected to bring more dynamism to the Liberian economy.

2.23 The challenge for competitiveness lays in setting policies that transform this dynamism into welfare gains for the average household in Liberia. The four most pressing issues are diversification of the economy, the reduction of fixed costs to export, empowerment of the private sector by the development of linkages with large exporting firms (and eventually with international markets and global value chains), and the completion of accession to the international rules-based trading system. The ongoing capital reconstruction effort should put the country in a better situation to overcome these challenges.

²⁶ Data source is the UNCTAD's revealed factor intensities database, which cover years only up till 2007. The database is currently being updated.

D. Trade Policy Reform Initiatives

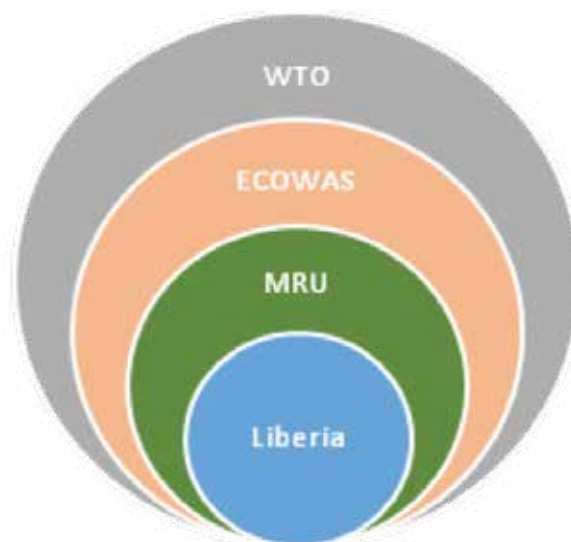
2.24 The trade agenda of the Government, together with those of its trading partners, can be conceived as a series of concentric circles of undertakings, as shown in Figure 9 below. The different trade arrangements might be understood as ever-wider groupings of countries that each nestle inside one another, such that membership in the African Union (AU) may be seen as a subset of the overall membership in the WTO, while members of ECOWAS represent a subset of the AU, and the MRU members are, in turn, a subset of the ECOWAS membership. There is activity currently underway in each of these groups intended to further the economic integration of their members, albeit with different degrees of effort and with distinct timetables:

- In the MRU, Liberia and its three partners seek to promote regional peace and stability through closer cooperation, including reinvigoration of their economic union.
- ECOWAS now aims to make the CET effective by 2015, a step that is expected to form the basis for Liberia's market-access commitments on goods in its accession to the WTO. The longest-term project in the region is the AU's goal of establishing an African Economic Community with a single currency by 2023, which would combine into one initiative a free trade area, a customs union, a single market, a central bank, and a common currency.

2.25 All of these various sub-regional, regional, and global initiatives are complementary rather than competing undertakings. Although nondiscrimination is one of the cornerstones of the multilateral system, there are nevertheless rules in place that permit countries to differentiate among their partners. Provided that they meet the legal terms established by WTO instruments, especially Article XXIV of the General Agreement on Tariffs and Trade of 1947 (which governs most free trade agreements and customs unions) and the so-called Enabling Clause of 1979 (which governs some North-South preferential trade arrangements and South-South trade agreements), members of the WTO are generally permitted to enter into arrangements that extend preferential treatment to certain trading partners.

2.26 The same points may be made with respect to preferential treatment that is extended to Liberia under a variety of special programs. These include such initiatives intended to help developing countries as a whole, such as the Generalized System of Preferences

FIGURE 9: Trade Initiatives



(GSP), as well as more geographically targeted programs such as the European Union's EBA program and AGOA with the United States, and the other laws and programs by which most developed countries and even many developing countries offer duty-free or reduced-duty treatment to imports from developing and especially least-developed countries. Preferential programs are permitted on the basis of waivers approved by the WTO, ranging from the permanent waiver that the Enabling Clause extends to the GSP to the time-specific waivers for programs such as the EBA and AGOA.

2.27 While it is legally possible to pursue both preferential (regional) and non-preferential (multilateral) trade initiatives, the question may arise as to whether it is ideal to mix these initiatives. The questions are especially sharp when posed by those critics who see discriminatory negotiations as a second-best alternative to multilateralism. It is true that there are costs associated with regional initiatives, including the systemic challenge that they pose to the multilateral system (a consideration that is well outside the control of Liberian policymakers) and the higher administrative costs associated with regional trade agreements. Preferential arrangements often have complex provisions on rules of origin (ROOs) for imported products that can be costly to enforce. That is less of a concern in the case of customs unions such as ECOWAS, but would be a concern in an EPA with the European Union.

2.28 These various preferential agreements and programs, coupled with the duty-free treatment that many countries already might be extended to Liberia on a most-favored-nation basis to most imports of raw materials, without being a member of the WTO. Liberia already faces tariffs on only a very small share of its exports. Unlike in many other countries, for which the reduction or elimination of foreign tariffs on its exports is a high priority, trade policy for Liberia might properly be focused instead on two other priorities. One is to ensure that the country's stakeholders—whether they are involved as exporters, importers, consumers, or all three—can take fullest advantage of the opportunities that already exist in the trading system. The second and perhaps more important objective is to treat trade policy as a complement to other aspects of national economic reforms. That will mean, among other things, cooperating with other Government agencies, the donor community, and the private sector to ensure that the country's producers of goods and services meet the standards needed to compete in domestic, regional, and international markets. It also means using trade agreements as a means of locking in reforms, in order to assure domestic investors and prospective foreign investors that the progress the country has made thus far on an autonomous basis is embedded in treaty obligations and cannot be reversed as quickly as they were enacted.

E. Conclusions

2.29 Liberia's openness to trade index is remarkably high compared to that of ECOWAS region because of the dominance of imports in its trade balance. Exports represent about a third of the value of its imports. Yet the trade deficit is largely financed by private foreign capital inflows, thus minimizing the impact of the huge external imbalances on macroeconomic stability. However, in order to sustain the current levels of economic growth,

there is the need to promote export diversification while enhancing the participation of the domestic private sector in global supply chains. This approach also corroborates the empirical evidence which suggests that developing countries with more diversified export portfolio tend to have higher per capita incomes than those with undiversified exports.

2.30 Liberia's strong performance in the export sector in recent times is a result of the resumption of iron ore production, which traditionally formed the backbone of the country's exports during the pre-war period. Thus the current composition of Liberia's exports consists largely of traditional exports; rubber, timber and iron ore. Liberia's potential for value addition in the resource-based sectors is currently limited by high cost of electricity services and other economic infrastructure services. However there is the possibility of exploring more diversified exports at both the intensive and extensive margins; that is, selling more of traditional commodities in existing market or new markets, as well as selling non- traditional exports, particularly agricultural commodities, in new exports markets. Recent efforts by the Government at forging greater integration into the global economy should boost Liberia's prospects of exploring new markets and diversifying the export portfolio.



Iron ore railroad to Yekepa, Nimba County: ArcelorMittal

CHAPTER 3

TRADE INTEGRATION: WTO ACCESSION

3.1 This chapter examines Liberia’s applied trade policy regime over 2008-2012, and the economic implications of Liberia’s ongoing trade agreement negotiations relating to two initiatives: (i) *Implementation of ECOWAS common external tariff (CET)* and (ii) *Accession to the World Trade Organization*. These initiatives are being pursued simultaneously, and should be seen as complementary rather than being mutually exclusive. The deadline for signing the CET alignment was January 2015. The date has however been rescheduled.

3.2 This analysis examines the economic implications for Liberia if it were to raise its applied tariffs from 2012 levels to the levels envisioned in the ECOWAS CET. It also considers the institutional and economic benefits and costs to Liberia following its decision to join the World Trade Organization.

A. Liberia’s Current Trade Policy Regime

3.3 Liberia’s tariff policy is based on the statutory tariffs established by the Revenue Code of Liberia Act of 2000, and updated in the Customs Tariff of Liberia 2012. Analysis of the tariff data for that period indicates that while Liberia’s statutory tariffs are relatively low on average, there is substantial dispersion across tariff lines for its products and industries, with a number of import tariffs reaching rates of 50 percent. Tariffs also tend to be relatively high in sectors such as processed foods, wood, hides and skins, textiles, and footwear.

3.4 Liberia’s trade policy regime also imposes non-tariff barriers (NTBs) on a significant number of imported products, including higher excise taxes on imports than on the same products made domestically. Roughly three percent of Liberia’s imported products are subject to such discriminatory NTBs above and beyond the applied duty to which those products are already subject at the border. One important policy reform likely to be demanded by trading partners as part of any trade agreement is the requirement that Liberia adhere to the core WTO rule requiring the “national treatment” of imported goods.²⁷ In other words, partners will demand a commitment to nondiscriminatory application of excise taxes, so that all differentiation between treatment of imports and domestic production is embedded in the statutory and applied import duties alone.²⁸ This means ensuring not only that there is no difference in the levels of taxation applied to domestic versus imported products, but also that no provisions favor goods that are domestically produced versus substitutes that are imported. For example, some WTO members have been found to be in violation of this principle if they impose a higher level of excise tax on certain types of imported alcohol than on similar types of alcohol produced domestically.

²⁷ General Agreement on Tariffs and Trade (GATT) Article III.

²⁸ Trade agreements typically demand that trade policy commitments on import tariffs are not subsequently undone through other policies such as the domestic tax code).

3.5 Another important aspect of Liberia’s trade policy since 2008 has been the application of tariff waivers. This analysis examines in detail the periodic executive orders which reduce product-specific tariffs to zero for various (and often indeterminate) lengths of time, which have been applied to a sizeable share of imported products. Over 2008-2012, tariffs were waived by executive order on more than 8 percent of import product lines. These waivers targeted a number of economically significant imported products and affected a large share of Liberia’s trade. The waivers were also allocated to products that started, on average, from lower tariffs relative to non-waivered products, further increasing the amount of Liberia’s tariff dispersion beyond that associated with its statutory tariff rates.

3.6 Evidence suggests that Liberia’s selection of products for tariff waivers tariffs has been driven by economic as opposed to political considerations. The choice of agricultural inputs and capital equipment for transport and infrastructure, for example, have been based on reasoning consistent with a sound economic development strategy aimed at improving economic growth. Similarly, the choice of waivers for rice imports beginning in 2008 suggests a desire to alleviate the domestic poverty impacts and food insecurity concerns associated with the dramatic increase in world commodity prices, partly driven by other countries’ application of export restrictions.

3.7 The reversal of Liberia’s tariff waivers i.e. increasing applied tariffs to their higher, statutory rates—could have a number of negative implications for the Liberian economy. Conservative models estimate that Liberia’s per capita GDP would decrease after the removal of tariff waivers, and that the consumer price index would increase significantly. This would be driven primarily by an increase in the price of rice, which accounts for an important share of the average Liberian household’s consumption basket. There would likely be a large decline in imports of rice and other processed foods, including capital equipment and other inputs required for long-term investment and continued economic development.

3.8 Although Liberia’s application of zero tariffs through tariff waivers has been a positive step for economic reasons, Liberia needs a new institutional framework that “locks in” applied tariffs at their 2012 levels in order to ease concerns about discretionary tariffs that might arise under future trade agreements. For example, a major concern is that current system of nontransparent, periodic, short-lived, discretionary waivers creates substantial market uncertainty for firms that cannot anticipate their own costs from year to year, and this becomes a substantial impediment to long-term investment decisions. Moreover, the existing institutional environment creates incentives and opportunity for firms to engage directly in unproductive rent-seeking behavior—such as lobbying for special favors—which results in a diversion of resources away from productive investments. A straightforward policy reform would be for Liberia to adjust to a system by which it simply locks in its low applied import tariffs, perhaps as part of the terms of its accession to the WTO.

B. Alignment with ECOWAS-CET

3.9 In the near-term, Liberia’s decision to pursue regional trade integration with ECOWAS would result in major changes to Liberia’s trade policy and economy. Membership

in ECOWAS would involve duty-free access for Liberia's exporters to the markets of the other West African nations, and the extension of duty-free access to the Liberian market for those countries' exports. However, it would also mean giving up sovereignty over its own applied import tariffs and adopting the ECOWAS CET on all imports, including merchandise imports, from third countries.

3.10 A purely harmonized adoption of the ECOWAS customs union would result in Liberia applying the entire ECOWAS-CET framework, rather than its statutory tariffs (or waivers), to imports from third countries. This would substantially increase tariffs for a number of key imported products, including those deemed critical to Liberia's development priorities. Liberia had roughly 275 different import product lines with zero tariffs in 2012 due to tariff waivers. A relatively small number of products—16 out of 275—would continue to have zero tariffs; at the same time, more than half would have the applied tariff increase to 5 percent, and the remainder of products would have tariffs increase much more substantially, to 10, 20, and in some cases 35 percent under the CET. These tariff increases would increase domestic prices for rice and processed food imports, and would also impact annual crops, livestock, and manufacturing sectors.

3.11 It is therefore important to ensure the proper sequencing of trade reforms. As there is no deadline for Liberia's accession to the WTO, and given the expectation that the ECOWAS CET will form the basis for the country's goods offerings, the logical sequence would be to accede to the WTO only after agreement is reached on the final structure and rates of the regional instrument. If Liberia were instead to accede to the WTO first and bind some tariffs below the level of the ECOWAS CET, it would have difficulty aligning with CET requirements. In this case, Liberia would be non-compliant with at least one of its obligations -- either compliant with the lower WTO obligations by violating its CET commitments on some products, or imposing tariffs on some products at CET rates that are above its WTO bindings.²⁹

Implications of Alignment with the ECOWAS CET

3.12 Liberia's integration with the ECOWAS CET would result in substantial changes to Liberia's trade policy, by differentially affecting the tariffs that Liberia applies toward members of ECOWAS versus non-members. While intra-ECOWAS trade is expected to increase when a zero internal tariff is applied to intra-ECOWAS trade flows, the precise size of the impact on trade could be quite small. Indeed, Liberia already provides ECOWAS countries free trade access to its market in a number of key imported products through executive order tariff waivers; yet despite these waivers, ECOWAS countries continue to have a relatively small share of the Liberian import market. Moreover, the products likely to dominate Liberia's near-term export basket—rubber, iron ore, etc.— are not in particularly high demand in most ECOWAS partners, and they are not expected to increase dramatically even in the face of zero import tariffs from ECOWAS partners.

²⁹ Suriname, for example, made the mistake of joining the Caribbean Community (CARICOM) and applying its CET only after it had completed its accession to the WTO. The country has thus far chosen to reconcile the contradictions between its CARICOM and WTO obligations by imposing the lower WTO-bound rates, a decision that creates friction with its fellow CARICOM members but at least avoids the even greater problem of violating its commitments to the WTO.

3.13 One important implication of Liberia's reduction of import duties toward ECOWAS members is an expected substantial loss of fiscal revenue currently collected as duties on imports of mineral products such as refined petroleum. Examination of import data suggest that roughly 20 percent of Liberia's total imports are in mineral products—and more than 90 percent of those are imported from ECOWAS members, mostly from countries such as Cote d'Ivoire. Stryker and Amin (2012) provide an important assessment of the proposed revenue impacts for Liberia of the ECOWAS CET relating to fuel imports. From the standpoint of preserving this revenue, Liberia could introduce a consumption tax (such as VAT)—applied to both imports and domestic production of gasoline—so that the net impact on both consumer prices and fiscal revenue would be zero for petroleum products.

3.14 Joining the ECOWAS customs union would also force Liberia to relinquish sovereignty over its applied import tariffs on all other imports from non-ECOWAS countries, which are currently the major source of Liberia's merchandise imports. While this will result in higher fiscal revenues, the trade-off will be the slowdown in overall development due to increased costs of imports. Across all products, implementing the ECOWAS CET would lead Liberia to raise its average applied import tariff by more than 3 percentage points, from 9.8 percent to 12.9 percent. Yet this relatively modest average increase masks substantial variation across different product categories.

3.15 As Liberia's economic activity would adjust in the face of substantially higher-taxed imports from third countries, there is strong potential for substantial economic losses and inefficiencies due to the reallocation of resources. Table 5 highlights several important Subsectors in which these CET-imposed tariffs would increase, affecting a significant share of Liberia's total imports.

3.16 Overall, Liberia would go from having 5.3 percent of its tariff lines offering duty free rates in 2012 to only 1.5 percent under the ECOWAS CET. Columns (3) and (4) of Table 5 shed light on the frequency of duty-free tariff lines under Liberia's applied 2012 rates versus those found under the ECOWAS regime. As the lower sections of Table 5 reveal, duty-free access to a significant share of tariff lines in agricultural products would be eliminated. Furthermore, Liberia's duty-free access to critical imported capital equipment (i.e. transportation equipment and machinery) would also be significantly reduced.

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3.18 The ECOWAS CET would require that Liberia begin offering duty-free access to third countries for a significant share of tariff lines in chemicals and mineral fuels. As column (7) indicates, mineral fuels comprise more than 20 percent of Liberia's total imports, and this has the potential to make up a substantial share of Government revenue. The impact on this

TABLE 5: Comparing Liberia's 2012 Applied Import Tariff with ECOWAS CET

Product	Average applied rate, including waivers (%)	Simple average ECOWAS rate (%)	Share of tariff lines with applied zero tariff, including waivers (%)	Share of product lines with ECOWAS zero tariff (%)	Share of tariff lines with applied duties > 15%	Share of tariff lines with ECOWAS duties >15%	Share of total goods imports, 2007-2010* (%)
	1	2	3	4	5	6	7
Overall	9.8	12.9	5.3	1.5	16.6	42	100
Agriculture	9.8	17.9	6.9	0	14.1	60.6	19.2
Non-Agriculture	9.8	12.1	5.1	1.8	17	38.9	80.8
By Sector							
01-05 Animal	7.3	19.3	12.5	0	1.2	63.7	6.2
06-15 Vegetable	8.8	15	4	0	8.3	56.3	15.2
16-24 Foodstuffs	13.9	21.5	1	0	29	76.8	9.5
25-26 Minerals	8.6	6.6	0	0	4.8	5.7	1.1
27 Mineral fuels	9.1	5.3	0	7	0	0	24.4
28-38 Chemicals	6.9	7.5	3.8	6.1	3.1	10.4	4.8
39-40 Plastic/rubber	8.7	10.9	3.3	0.9	12.9	28.4	2.9
41-43 Hides, skins	14	11.8	0	0	52.2	30.4	0.1
44-49 Wood	14.6	11.1	0	5.5	35.9	31.9	2.2
50-63 Textiles, clothing	13.9	18.1	0.6	0.1	40	73	3
64-67 Footwear	14.9	18.7	2.1	0	2.1	80.9	0.6
68-71 Stone/glass	12.4	15.7	0	0.5	22.6	63.9	0.9
72-83 Metals	6	13.3	2.7	0	1.2	46.1	6.8
84-85 Machinery/electrical	7.2	8.4	15.5	0.1	6.8	17.9	13.1
86-89 Trans. Equipment	6.6	8.7	29.5	2.3	4.7	21.1	8
90-97 Misc.	15.9	14.4	1.1	2.3	46.5	55.6	1.3

* For data availability reasons, imports limited to 2007, 2009, and 2010.

Source: Author's calculations based on Customs Tariff of the Republic of Liberia 2012, Executive Orders providing information on product lines with tariff waivers, and the proposed ECOWAS CET schedule.

revenue depends on whether the imports derived from third countries or from ECOWAS countries (e.g., Cote d'Ivoire) that may not have been subject to Liberia's import tariff are subject to its petroleum levy. The primary implication is that the Government must be wary of any substantial changes to the border taxation of fuels from the perspective of fiscal revenues (Stryker and Amin 2012).

3.19 Liberia would move from having less than 17 percent of its applied tariffs at peak rates of more than 15 percent, to 42 percent of applied tariffs at peak rates under ECOWAS. Columns (5) and (6) of Table 6, shed light on the frequency of tariff peaks—i.e., tariffs above 15 percent—under Liberia's applied 2012 rates versus the ECOWAS regime. The prevalence

of tariff peaks would increase substantially in Subsectors such as agriculture—up to 76.8 percent of tariff lines in foodstuffs, in particular—and also in textiles and footwear.

3.20 While maximum peak tariffs may be lower under ECOWAS, it is overwhelmingly the case that Liberia's tariff lines would tend to increase under the CET, by more than a 2 to 1 margin. Table 6 presents additional information across sectors on the applied tariff differentials under Liberia's import tariff regime relative to the ECOWAS CET. Columns

TABLE 6: Comparing Liberia's 2012 Applied Import Tariff with ECOWAS CET

Product	Max applied rate (%)	Max ECOWAS rate (%)	Share of tariff lines requiring tariff increases (%)	Share of tariff lines requiring tariff decreases (%)	Share of tariff lines requiring more than 10pp tariff increases (%)	Share of tariff lines requiring more than 10pp tariff decreases (%)	Share of total goods imports, 2007-2010* (%)
	1	2	3	4	5	6	7
Overall	50	35	47.1	22.6	17.4	3.6	100
Agriculture	25	35	65.1	27.3	40.7	2.4	19.2
Non-Agriculture	50	35	44	21.8	13.4	3.9	80.8
By Sector							
01-05 Animal	25	35	93.9	6.1	37.9	1.1	6.2
06-15 Vegetable	25	35	67.1	23.7	39.8	0.7	15.2
16-24 Foodstuffs	25	35	63	29.4	28.6	2.1	9.5
25-26 Minerals	25	35	9.1	30.9	3.6	4.5	1.1
27 Mineral fuels	15	10	0	55.4	0	0	24.4
28-38 Chemicals	25	35	15.2	17.9	3.9	0.6	4.8
39-40 Plastic/rubber	25	35	54.5	13.7	18	8.6	2.9
41-43 Hides, skins	25	20	40.2	58.5	0	17.1	0.1
44-49 Wood	45	35	22.2	59.8	5.4	7.7	2.2
50-63 Textiles, clothing	20	35	44.3	6.9	11.9	0.2	3
64-67 Footwear	25	35	72.2	27.8	13.9	0	0.6
68-71 Stone/glass	25	35	69.8	30.2	46.5	15.8	0.9
72-83 Metals	20	35	61.6	2.1	35.3	0	6.8
84-85 Machinery/electrical	25	35	41	33.2	7.8	1.8	13.1
86-89 Trans. Equipment	50	20	66.8	21.5	10.2	3.4	8
90-97 Misc.	50	35	40.1	46.1	6.2	18.7	1.3

* For data availability reasons, imports limited to 2007, 2009, and 2010.

pp - percentage points.

Source: Author's calculations based on Customs Tariff of the Republic of Liberia 2012, Executive Orders providing information on product lines with tariff waivers, and the proposed ECOWAS CET schedule.

(1) and (2) provide information on the maximum tariff rates. The maximum rate of 50 percent is higher under Liberia’s current regime than ECOWAS maximum rate of 35 percent. Columns (3) and (4) provide information on the share of Liberia’s tariff lines that would need to increase in order to become harmonized with the CET, versus the share of Liberia’s tariff lines that would need to decrease. The tariff increases are more frequent in agriculture and foodstuffs, whereas Liberia’s tariff reductions would disproportionately occur in mineral fuels, hides and skins, and wood.

3.21 Overall, 17.6 percent of Liberia’s applied import tariff lines would increase by 10 percent points or more under ECOWAS, whereas only 3.6 percent of product lines would see tariffs fall by more than 10 percent points. Columns (5) and (6) of Table 6 provide this additional information by illustrating the share of tariff lines that would have large changes in the applied tariffs to harmonize with the CET—defined as tariff changes of 10 percentage points or more. These are relatively large changes, given that Liberia’s average applied tariff is only 9.8 percent.

3.22 It is crucial to illustrate the implications of a move to the ECOWAS CET for several of Liberia’s key imported products, having been identified as important by virtue of the Government waiving their tariffs (either to facilitate economic development or to mitigate the domestic implications of commodity price spikes). Under the ECOWAS CET, Liberia’s applied tariffs on imports from third party countries would increase significantly on fuel (from zero to 10 percent), rice (10 percent), and cement (35 percent). It is estimated that these three products alone comprise 30 percent of Liberia’s total annual goods imports. Table 7 presents information on these products, to which Liberia gave tariff waivers during the 2011/2012 period via executive orders. If these products were already being sourced from ECOWAS countries under the tariff waiver, then implementing the higher CET would result in no change in Liberia’s economic welfare—Liberia would continue to source the products from ECOWAS partners at a zero tariff.

TABLE 7: Comparing Liberia’s Import Tariff with ECOWAS Common External Tariff

Product	Applied tariff, 2011/2012	ECOWAS tariff	Share of total annual goods imports ⁺
	(%)	(%)	(%)
Rice	0	10	8
Fuel oil	0	5.0-10.0	20
Portland cement*	0	35	2

⁺ Average of 2009-2010, based on 2-digit HS categories.

* Tariff waivers for cement were announced in 2011 and 2013, but not 2012.

Source: Author’s calculations based on Customs Tariff of the Republic of Liberia 2012, Executive Orders providing information on product lines with tariff waivers, and the proposed ECOWAS CET schedule.

3.23 It is unlikely that significant shares of these products were imported from ECOWAS partners previously, but were imported from third countries. Depending on the import demand elasticity for these products, prices in Liberia may increase considerably following

adoption of the CET, substantially reducing consumption, introducing additional economic distortions (deadweight loss) into the economy, and causing significant losses in economic welfare.

3.24 Table 8 illustrates the overall impact of CET adoption on current duty-free product lines. A relatively small number—16 out of nearly 275—of Liberia’s imported products with zero tariffs in 2012 would have tariffs remain at zero under the CET. More than half would have the applied tariff increase to 5 percent, and the remainder would see their tariffs increase much more substantially—to 10 percent, 20 percent, or even 35 percent, under the CET.

C. Accession to the WTO

3.25 The WTO forms the backbone of the multilateral trading system, and Liberia would reap significant benefits through accession. Built upon the system created by the General Agreement on Tariffs and Trade (GATT) in 1947 among 23 industrialized and developing countries, WTO membership now includes 159 members, and its regime covers the vast majority of global trade. Like the GATT before it, the WTO serves as a forum for three primary activities: (a) trade liberalization and rules-setting negotiations; (b) resolution of disputes; and (c) monitoring and surveillance of trade policies. In other words, the WTO provides an institutional framework through which countries can come together to negotiate reciprocal market access opportunities in other countries for their exporters.

TABLE 8: Products with Tariff Waivers in 2012

Number of 6-digit HS products with zero applied tariff rate in 2012	Proposed ECOWAS tariff
16	0.0
181	5.0
41	10.0
28	20.0
9	35.0
275	Total

Source: Author’s calculations based on Customs Tariff of the Republic of Liberia 2012, Executive Orders providing information on product lines with tariff waivers, and the proposed ECOWAS CET schedule.

3.26 Under the WTO’s fundamental principle of reciprocity, acceding countries are typically asked to take on more liberalization commitments than were required of countries at comparable levels of development that joined in the past. In this way, the new members “pay” for the liberalization of other members from which they have already benefitted. In other words, newly acceding countries (such as China in 2001) have been expected to liberalize and “bind” import tariffs at rates much closer to higher-income country tariff rates than had been required for other countries who joined the system years (or even decades) earlier.

3.27 Liberia’s accession to the WTO may not change the tariffs applied to Liberia’s exports, as many of the country’s trading partners (US, EU) already extend duty-free treatment to

most or all of its exports on either a preferential or an MFN basis. Even in the absence of substantial foreign tariff reductions, however, Liberia stands to gain from WTO accession because its exporters would have more secure access to foreign markets. The principal legal benefit gained under membership in the WTO is the protection provided under the WTO's dispute settlement rules; any actions taken by trading partners that deny Most-Favored Nation treatment can be challenged in the WTO's Dispute Settlement Body (DSB).³⁰ The WTO also provides an institutional framework for the provision of transparency and monitoring of global trade policies, which are frequently the source of new trade barriers abroad and trade disputes³¹

3.28 Accession to the WTO would likely provide other institutional benefits to help Liberia integrate into the multilateral trading system. These benefits could include assistance with the trade reform process and the development of modern trade policy institutions. Moreover, accession could potentially lead to enhanced foreign direct investment (FDI) and increased trade in both goods and services. Liberia is well-positioned to take advantage of these opportunities, since—unlike many developing countries that accede to the WTO—it already has a permanent mission in Geneva that represents Liberian interests before United Nations agencies and other international institutions. While every accession negotiation is unique, all least-developed countries (LDCs) are given special consideration in the accession process (see Box 2).

Box 2: WTO Accession—Special Treatment for LDCs

WTO rules exempt least-developed countries from some accession requirements. At the 2011 Ministerial Conference of the WTO, the ministers tasked the Sub-Committee on LDCs with developing guidelines aimed at limiting the commitments that LDCs are obliged to make, while also providing for transparency in negotiations and the provision of technical assistance. These guidelines replace earlier, less generous terms adopted in 2002 that did not, in practice, result in more rapid accession by these poorest countries.

The guidelines establish principles and benchmarks for LDCs' market access commitments on goods and services. For goods commitments, the guidelines state that (a) "some flexibility should be provided"; (b) negotiations "should ensure the appropriate balance between predictability of tariff concessions of acceding LDCs and their need to address specific constraints or difficulties as well as to pursue their legitimate development objectives;" and (c) "tariff concessions could vary depending on [the LDCs'] individual/particular circumstances." Acceding LDCs are still required, as are other countries, to bind all of their agricultural tariff lines, but may do so at an overall average rate of 50 percent. On non-agricultural tariff lines, they are generally to bind 95 percent of their tariff lines at an overall average rate of 35 percent. Alternatively, they may undertake comprehensive bindings, and in exchange will be afforded proportionately higher

30 Access to a neutral forum for dispute resolution is an opportunity that not all WTO members utilize; of the 467 formal complaints that WTO members brought against one another from 1995 through September 2013, not one was from an African country. The WTO's dispute settlement system is nevertheless an important part of the multilateral system, an expression of the juridical equality of all WTO member states, and could prove useful to Liberia in the event of future trade frictions.

31 Non-members may also benefit on a de facto basis from the commitments that WTO members make to open their markets, but they are denied the opportunity to defend these benefits through the DSB.

overall average rates as well as transition periods of up to 10 years for up to 10 percent of their tariff lines. These are levels within which the ECOWAS CET could quite comfortably fit.

On services commitments, the guidelines recognize “the serious difficulty of acceding LDCs in undertaking commitments, in view of their special economic situation and their individual development, financial and trade needs,” and provide for “flexibility for acceding LDCs for opening fewer sectors, liberalizing fewer types of transactions, and progressively extending market access in line with their development situation.” LDCs are not expected to offer full national treatment, nor are they required to undertake commitments “on regulatory issues which may go beyond their institutional, regulatory, and administrative capacities.” Instead, the guidelines allow LDCs to make reasonable offers that are “commensurate with their individual development, financial and trade needs.” Further, LDCs will “not be required to undertake commitments beyond those made by existing LDC Members, nor in sectors and Subsectors that do not correspond to their individual development, financial and trade needs.” The guidelines also provide for differential treatment during transition periods.

Source: The Decision on the Accession of Least Developed Countries, WTO document WT/COMTD/LDC/21 (July 6, 2012).

3.29 Nevertheless, the demands made of acceding countries tend to increase over time, such that the commitments made by the most recent accession countries will likely be the floor rather than the ceiling for the next country.

Implications of WTO Accession

3.30 As part of the negotiating framework for WTO accession, countries agree to commit to a basic set of rules and obligations, including nondiscrimination. Nondiscrimination under the WTO takes two fundamentally important forms—through “national treatment” and through Most Favored Nation (MFN) treatment. The principle of national treatment requires that once an imported good has paid its import tax at the border, it can no longer be treated differentially from any comparable, domestically produced good. This means that governments may not apply discriminatory taxes or other non-tariff barriers, local content requirements, or other government programs that would treat imports differently than domestic produced goods, once the import tariff has been paid (see Box 3).

Box 3 : Liberia’s Non-Tariff Barriers and the WTO’s National Treatment Principle

What basic policy reforms would Liberia need to make to bring its trade policy into conformity with WTO rules on nondiscrimination?

There are a number of areas in the administration of its trade policy regime in which the Government of Liberia discriminates between foreign-produced and domestically produced goods in ways that may be inconsistent with the WTO’s national treatment provision. Liberia will be required to eliminate these discriminatory practices in the commitments that it makes for accession to the WTO.

The first example is the discrimination found in differentially applied excise taxes. As described

in the context of Tables 3 and 4, Liberia applies higher excise taxes on more than 150 imported products than on domestic production of the same good.

A second example is any requirement that foreign-produced goods require licenses whereas domestically produced varieties of the same good do not. Interviews with the private sector and some ministry officials suggested that rice may be an example of a product where such licenses are required for imports but not for domestic production. A third example is local content requirements and potential “set-aside” sectors for domestic investors that would be off-limits to foreign investors.

Benefits of WTO Accession

3.31 Countries typically accede to the WTO for two main purposes: to obtain and ensure more secured access to foreign markets for their exporters; and to lock in market-oriented reforms domestically that could become subject to reversals under pressure by special interest groups (see Box 4).

3.32 For countries to which Liberia already has preferential market access through programs such as the Everything But Arms arrangement (European Union), the African Growth and Opportunity Act (United States), or the Generalized System of Preferences (as provided by a wide range of countries), joining the WTO will not result in significant changes for Liberia’s market access. These programs are not protected by the rules of the WTO. Rather, each of these programs is permitted through waivers of the general requirement of MFN treatment, and the continuation of the programs ultimately depends upon the willingness of the preference-granting partner to maintain them.

3.33 Joining the WTO can also help Liberia to lock in market-oriented reforms and have credible enforcement mechanisms to counterbalance rent-seeking behavior by domestic special interest groups.³² The objective is both to give greater confidence to prospective foreign investors that the country’s reforms are permanent, and to prevent the capture of public policy by private interests. In Liberia, the Government will inevitably face pressure to backtrack on reforms by some domestic industry that would prefer not to face foreign competition. Instead, foreign imports impose discipline on markets by increasing competition and eroding the monopoly rents that concentrated domestic industries might otherwise exact from the public. This competition induces firms to innovate and make productivity improvements in order to remain competitive. Nevertheless, a common response by domestic firms that have to compete with imports for the first time is to demand additional tariff or nontariff barrier protection from imports, i.e. policies prohibited by the WTO. While such policies may be in the interest of the requesting party, they are frequently not in the national interest as their long-term costs to the Liberian economy usually outweigh their short-term benefits. WTO membership would allow the Government to refuse special requests by pointing to international commitments and legal obligations, and reminding its domestic sector that granting special protections would have real costs and consequences for the Liberian economy.

³² Maggi and Rodriguez-Clare, 2007.

Costs of WTO Accession

3.34 Membership in the WTO does require a long-term commitment to transparency, reporting to other WTO members through the Secretariat, and multilateral engagement in committees and other ongoing discussions. These requirements can be technically burdensome and require the training of additional capacity in local governments and a commitment to maintain some government-sponsored presence in Geneva so as to engage with the WTO Secretariat. Nevertheless, there is donor-funded technical assistance and training through the WTO (Aid for Trade, Trade Facilitation, as well as TPRB assistance described earlier), which can help offset some of the new bureaucratic costs and burdens of setting up and subsequently administering a WTO-consistent trade policy regime. While reforms can entail both political and adjustment limited number of business activities, provided they invest no less than US\$500,000 (or US\$300,000 if a Liberian partner maintains at least a 25 percent equity stake).

Box 4: WTO Institutional Benefits, Using the WTO to Halt Special Interest Demands

The Liberian Government has deemed Portland cement important for the national interest and its economic development strategy, as revealed by its frequent granting of executive order tariff waivers over 2006-2012 to facilitate imports and help spur private and public infrastructure projects. In some years cement has averaged 2 percent of Liberia's total goods imports. Nevertheless, globally, the market structure of the cement industry makes it one whereby many governments face demand from their local producers for new import restrictions (Brown2012). There have been at least five formal WTO disputes over alleged WTO-inconsistent new import restrictions on cement (WTO, 2013). How could the Liberian Government use the WTO to help this critical import market remain open despite demands from one particular special interest?

Once Liberia is a member of the WTO, the Government may find it sufficient to cite its international obligations under the multilateral trading system as grounds for why it cannot acquiesce to such a request. In the rare case that this would not be enough, the Government could point out that if it were to implement a new policy contrary to WTO requirements; the country could find itself subject to a WTO dispute and potential retaliation by the trading partners whose cement exports had been adversely affected by the policy.

For example, if Liberia refused to remove cement import restrictions after such a dispute, the trading partner could be authorized by the WTO to retaliate by imposing a set of new tariffs on Liberia's exports, including any of Liberia's major export products such as rubber, palm oil, or iron ore. Such retaliation would clearly impose costs on these other critical Liberian export industries and the Liberian economy overall.

Many governments find it useful to point out to their private sectors these specific costs in order to help generate countervailing political support among Liberian exporters to prevent the undue influence of the special interest group in the first place.

Sources: Adapted from Bown (2009), Bown and Hoekman (2008).

D. Negotiating Commitments on Trade in Services

3.35 WTO negotiations on services are more technically complex and are often more politically challenging than those covering trade in goods. In one sense, the assumptions that apply in these negotiations are the reverse of those followed in tariff negotiations. Tariff negotiations begin with the assumption that countries are likely to maintain some level of tariff barriers upon their accession to the WTO (with a commitment to progressively reduce them), and it is up to the other countries to propose reductions of tariffs for specific products. Services negotiations begin with the assumption that countries will maintain an open market to external services providers, and it is up to the acceding country to propose specific exceptions.

Trade-Related Aspects of Intellectual Property Rights

3.36 The Agreement on Trade-Related Intellectual Property Rights, commonly known as the Trade Related Intellectual Property (TRIPs) Agreement, is one of the most consequential (and often controversial) agreements administered by the WTO. The controversy arises from the fact that while the strict protection of intellectual property rights contributes to the development of new inventions and innovative processes, it does so at the cost of providing monopoly rents (for a limited period) to the developers of those intellectual properties. The strict protection of patents, trademarks, and copyrights will, therefore, generally entail a transfer of wealth from the users to the owners of those rights, which in practice usually means more gains for developed than for developing countries.

3.37 TRIPs commitments are a high priority for several of the largest developed countries in the WTO, and are intended to ensure that acceding countries adopt legislation and develop the national institutions necessary to comply with their obligations under the agreement. The TRIPs Agreement requires that countries adopt the substantive obligations of the main conventions of the World Intellectual Property Organization (WIPO), and of the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works, which are incorporated in the WIPO by reference. The TRIPs Agreement is thus sometimes referred to as a “Berne and Paris+ Agreement.”

Agreement on Trade-Related Investment Measures

3.38 The Agreement on Trade-Related Investment Measures (TRIMs) generally prohibits the use of performance requirements as a condition of foreign direct investment in a country. These include requirements that a foreign investor incorporate certain levels of domestic inputs into their products and export a certain percentage of their output, etc.

3.39 One issue in Liberia’s FDI policy that is likely to be a topic in WTO accession negotiations concerns the restriction of certain sectors from foreign participation. The Liberalization policy, originally adopted in 1998, set aside 26 business activities exclusively for Liberians. The revised Investment Act of 2010 reduced the number of business activities reserved for Liberians to 16. Other provisions stipulate that foreign investors may invest in a

3.40 Viewed in historical context, the Liberalization policy reflects a much longer practice of favoring investment by citizens. Article 27(b) of the Liberian Constitution of 1986 provides that, “only persons who are Negroes or of Negro descent shall qualify by birth or by naturalization to be citizens of Liberia.” These and other similar provisions are clearly linked to investment policy. Article 22(a) of the Constitution provides that “only Liberian citizens shall have the right to own real property within the Republic.”

3.41 This trend could be a major point of contention in WTO accession negotiations. While some Liberian officials see it as unlikely that existing WTO members would seek reforms in this law as a condition of WTO accession—arguing that major developed countries would have little interest in gaining access to the sectors covered by the policy—that view fails to recognize that matters of principle can be just as important to incumbent members as commercial opportunities. The US Department of State, for example, noted in its 2012 investment climate statement on Liberia that “the Ministry of Labor has repeatedly delayed issuing work permits for expatriates and intervened in hiring decisions,” and that this policy “has not effectively increased Liberian participation in commercial industries.”³³

3.42 Several other aspects of Liberian law could also be examined closely. WTO members already raised concerns regarding a requirement to incorporate a business in Liberia in order to engage in trade, as this requirement may be seen as a TRIMs-inconsistent domestic presence requirement. Similarly, concerns have been expressed about special tax incentives to a number of sectors (e.g., manufacturing) that appear to be conditioned on the use of local content. Among the other issues related to investment that Liberia will be expected to address, and on which it may be asked to make commitments, include:

- Land ownership reform;
- Restrictions on foreign capital;
- Investment incentives, special tax incentives, and additional tax incentives;
- Price controls and the development of a competition regime;
- Discrimination between foreign-owned businesses and locally-owned businesses in official revenue receipts, incorporation costs, etc.;
- Incorporation requirements for foreign-owned businesses that are substantively different for Liberian-owned businesses.

3.43 The related topic of state trading enterprises may also prove important in Liberia’s accession negotiations. Some WTO members have, for example, raised questions regarding the operations of the Liberia Produce Marketing Corporation and the National Oil Company of Liberia.

33 See http://photos.state.gov/libraries/liberia/328671/pdfs/2012_investment_climate.pdf.

WTO Accession and SPS/TBT Agreements

3.44 Two other WTO agreements established disciplines on the standards that members may impose on imports: the Agreement on Sanitary and Phytosanitary Measures (the SPS Agreement) and the Agreement on Technical Barriers to Trade (the TBT Agreement). The SPS Agreement allows countries to set their own standards on food safety and related matters, but also stipulates that regulations must be based on science and should be applied only to the extent necessary to protect human, animal or plant life or health. Similarly, the TBT Agreement aims to ensure that regulations, standards, testing and certification procedures do not create unnecessary obstacles. While it recognizes countries' rights to adopt the standards they consider appropriate to (among other things) protect the environment or to meet other consumer interests, the Agreement provides that the procedures used to decide whether a product conforms with relevant standards must be fair and equitable, and discourages any methods that would give domestically produced goods an unfair advantage.

3.45 Liberia will be required to come into conformity with the terms of the SPS and TBT agreements, but might also consider the accession negotiations to be an opportunity to address significant vulnerabilities. One disadvantage under which Liberia operates in the global economy is the lack of a functioning standards bureau. Preliminary steps have been taken towards the establishment of such an entity, including assistance from the Government of Brazil and the United Nations Industrial Development Organization (UNIDO), but there is not yet sufficient capacity in the country to certify that goods produced in Liberia meet international standards. This is especially significant in the agricultural and fisheries sectors, where failure to meet the standards of major developed markets can completely stifle exports. A standards bureau can also provide vital services to the domestic population, helping to ensure that both domestic and imported food and other products are safe to eat or use.

E. Conclusions and Recommendations

3.46 Assessments of original data from Liberia's statutory and applied tariffs over 2008-2012 identify economic concerns such as the substantial amount of dispersion across Liberia's applied tariffs, as well as considerable uncertainty and the potential for rent-seeking associated with the current system of applying nontransparent, periodic, short-lived, executive order tariff waivers. There are also important issues arising from Liberia's use of non-tariff barriers, such as the imposition of higher excise taxes on imported products relative to domestically-produced varieties of the same good.

3.47 The analysis also examines the data of proposed tariff changes that would occur if Liberia were to adopt the common external tariff of the Economic Community of West African States (ECOWAS) customs union. One conclusion is that Liberia's adoption of the CET could lead to substantial tariff increases for a number of key imported products away from the currently applied tariff rates that are quite low.

3.48 First, the reversals of existing, applied tariff waivers to their statutory rates is expected to result in negative implications for the Liberian economy, including a decrease in per capita GDP and an increase in the consumer price index. Furthermore, increasing Liberia's

tariffs toward third countries to ECOWAS CET rates would lead to declines in Liberia's per capita GDP, largely associated with tariff increases that would lead to price increases for rice and processed food imports. Thus, the consumer price index would be expected to increase because food items account for such an important share of the consumption basket, and imports of annual crops, livestock, processed foods, and manufacturing would decrease.

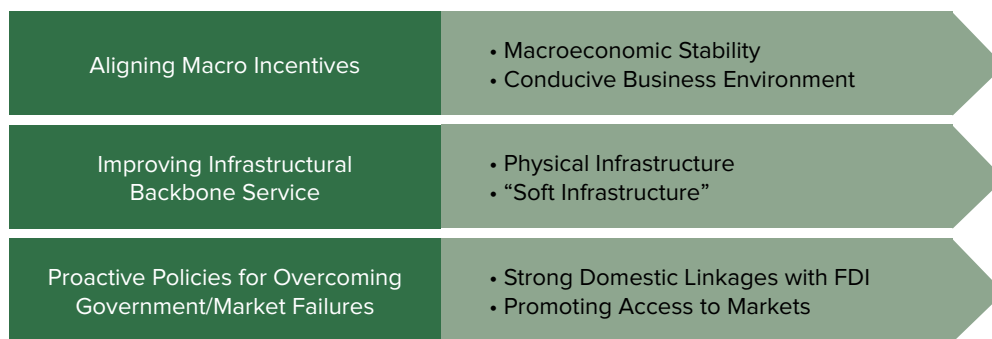
3.49 Nevertheless, a scenario in which Liberia adopted the ECOWAS rates, followed by WTO accession, would result in substantial economic benefits to the country in the long run. Even in the absence of substantial foreign tariff reductions, Liberia stands to gain from WTO accession because its exporters would have increased security over the foreign market access that full membership in the WTO is better able to provide. Finally, starting from the ECOWAS rates, even larger gains would occur for Liberia by reducing its import tariffs — e.g., toward the low levels applied currently on hundreds of products, such as capital equipment and other industrial inputs. Furthermore, locking in these tariffs at lower rates would serve to reduce firm uncertainty and improve the environment through which firms make decisions on long-term investment.

CHAPTER 4

CONSTRAINTS TO TRADE COMPETITIVENESS

4.1 In order to reap the benefits of increased market access resulting from WTO accession and regional trade, Liberia will have to address multiple “behind-the-border” constraints to trade. This chapter provides an assessment of the main constraints to Liberia’s trade competitiveness based on the three pillars of Trade Competitiveness Diagnostic Framework developed by the International Trade Department of the World Bank.³⁴ Addressing these constraints will improve the country’s overall productivity and reduce the cost of trading across borders.

FIGURE 10: Three Pillars of Trade Competitiveness



Source: Trade Competitiveness Toolkit, World Bank International Trade Department

4.2 Improvements in Liberia’s trade competitiveness will require the removal of lingering obstacles that continue to impede productivity and increase transaction costs in the economy. Given the limited availability of firm-level data in Liberia and the impossibility to explore broader enterprise surveys containing firm characteristics, this analysis relies primarily on qualitative information: field interviews, existing studies, and conclusions obtained through the subsequent value chain analysis. In order to prioritize future interventions, three main obstacles have been identified in this analysis: Access to finance, land management; and the high cost of energy. These constraints are analyzed in detail and specific actions to deal with them are suggested.

4.3 Given the widespread reduction in tariffs in the last 30 years, the biggest constraint on Liberian trade today are the physical, administrative, and informal obstructions to the movement of goods (i.e. interconnectivity).³⁵ It is imperative that the Government focus on trade facilitation measures aimed at reducing the cost and time associated with trading across borders: Improving quality of the transport infrastructure network, reducing the cost and complexity associated with the regulatory framework for cross-border trading

³⁴ The elements within each pillar have been selected based on qualitative assessment of thematic areas that are considered critical binding constraints to Liberia’s trade competitiveness.

³⁵ WEF 2013

(i.e. compliance with customs and other administrative/clearance processes). Both hard and soft infrastructure trade facilitation interventions should be considered for achieving higher integration at both regional and global levels.

BOX 5 : POST-WAR RECOVERY OF EXPORTS AND ECONOMIC GROWTH IN MOZAMBIQUE

After civil war ended in 1992, Mozambique faced an uphill battle to emerge from decades of economic stagnation and decline. Despite devastated infrastructure and a broken economy, the country nevertheless managed to achieve an unusual degree of political stability, accompanied by prudent and stable economic policy continuity. These factors together have contributed to sustained GDP growth soaring from 125 billion metical in 1992 to 300 billion metical in 2004, at an annual rate of over 7.8 percent.

The initial period of peace allowed for agricultural output to grow as refugees returned to their villages, infrastructure was rebuilt, and agricultural extension programs were revived. As political stability and economic reforms deepened, new investments were primarily attracted to the agricultural sector, where export-oriented production of cash crops began to expand. Since 1998, further FDI in large-scale and capital-intensive mining projects have led to a significant increase in output and exports. Many of these projects also helped the construction sector achieve significant growth during the same period.

Export and Trade Performance

Between 1994 and 2006, Mozambique was able to introduce 18 new products to its export basket, including agricultural and manufactured goods. Nevertheless, most export growth during this period was concentrated on three megaprojects: the Mozal aluminum smelter, the CahoraBassa hydroelectric project, and a natural gas export scheme to South Africa. While these megaprojects increased exports rapidly and substantially, other export commodities, including prawns, cotton, and cashews grew more slowly.

Today, Mozambique is one of the most open economies in sub-Saharan Africa, thanks to the process of trade and gradual capital account liberalization initiated in the 1990s. The country participates in several preferential agreements that have increased access to markets, including the GSP, Cotonou Agreement, and AGOA. As a member of the Southern Africa Development Community (SADC), Mozambique has also engaged heavily in regional markets for trade, while at the same time continuing to expand export diversification to global markets as well.

Mozambique's experience provides a strong example of how competitiveness promotion and trade integration can serve as vehicles for high overall productivity growth and wealth generation. Early on, the country identified the private sector as main engine for investment growth and employment. Even with this success, Mozambique continues to make further efforts at improving its investment climate and competitiveness to drive economic diversification and inclusive growth.

Source: Thomas Farole

4.4 One potential strategy for improving productivity and trade competitiveness is to leverage the natural resources of the country, and focus on strengthening linkages between FDI and the domestic private sector. The possibility of significant export growth in the short and medium-term is entirely dependent on both the performance of current concessionaires and the entry of new investors. Thus far, the presence of concessionaires has not created significant local linkages. In the long-term, however, a supply-side oriented program including the establishment of a standards facility by the Government could strengthen the capacity of domestic suppliers to respond to local demand from foreign investors. Moreover, the establishment of monitoring mechanisms applied to new and existing concessions could help the Government measure the extent to which individual foreign investments contribute to establishing linkages with the domestic economy (discussed further in Chapter 8). Mozambique’s experience in establishing these linkages can offer a good example of potential policy options (see Box 5).

A. Aligning Macro Incentives

4.9 Aligning macroeconomic incentives to boost trade competitiveness requires addressing cross-cutting policy issues that prevent countries from exploiting trade opportunities for long-term economic growth. Among other policy reforms, this pillar includes the reduction/removal of tariff and non-tariff barriers, real exchange rate re-alignment, correcting distortive tax regimes, improving factor market conditions, and effective regulation and property rights protection. This section focuses primarily on the business regulatory environment and the broader investment climate in Liberia, given their dominant influence on domestic firms’ decisions to invest, produce, and to export.

Investment Climate

4.10 Over the past several years, various investment climate reforms in Liberia have contributed to improvements in the country’s competitiveness rankings relative to other African countries. The 2012-2013 Global Competitiveness Index ranked the country 111th with a score of 3.7, slightly above the sub-Saharan Africa average of 3.6, and on par with Algeria, Senegal, and Cameroon. Among designated “fragile countries,” Liberia performs well above regional peers Cote D’Ivoire (131th) and Guinea (141th), and slightly better than other designated resource-based economies. However, the same report highlighted several problematic constraints on doing business, namely access to finance, lack of a skilled workforce, inadequate infrastructure, and corruption.

4.11 Based on existing literature and as well as primarily qualitative information from field interviews and value chain analyses, three chief obstacles limit the productivity of firms and/or increase trade costs and hence limit the ability of firms to export and grow: access to land, access to finance, and energy availability/costs.

Access to Land and Land Tenure

4.12 Like many countries in sub-Saharan Africa, land rights in Liberia remain a sensitive policy issue, and reforms to the policy and legal framework affecting land rights and

tenure security are ongoing. An efficient land market is a solid foundation for stimulating investments, job creation, and broad-based socio-economic development. More specifically, in order to be able to properly harness the country's natural resources and ensure that foreign direct investment in land-related sectors (i.e. agriculture, forestry, and mining) is well-managed, an efficient land administration system is absolutely necessary. Nevertheless, land-related challenges in post-conflict Liberia tend to be more deep-rooted than in other countries in sub-Saharan Africa due to issues of historical legacy and the lingering effects of a lengthy civil war.

4.13 Scholarly literature has long-confirmed that insecure land rights (often associated with customary land tenure systems) give rise to inefficient resource allocation and sub-optimal investments in many sectors, most notably agriculture. Because indigenous land rights are often ambiguous, communal, and afforded insufficient legal protection by the Government, this insecurity of tenure leads to inferior investment incentives by those who live on or use the land, as well as an undersupply of credit and constraints on land market exchanges. In a few cases, customary tenure systems have succeeded in evolving into more secure and stable systems similar to conventional private tenure systems. In Ethiopia and Tanzania, for example, strong community-level institutions capable of safeguarding the community's long-term land interests have been built over time. Even so, security of tenure under the customary system remains limited in most countries, and is often threatened by pressure exerted by the formal private sector's increasing demand for land.

4.14 Given that the majority of land in Liberia remains governed under a customary tenure system, it is perhaps discernable that investments in agriculture and other sectors have also remained sub-optimal. The customary tenure system directly impacts investment decisions across a range of themes: the granting of concessions for the production of rubber, forest plantations for timber production, private use permits (PUPs) for large-scale land acquisition for commercial uses, tribal certificates, informal occupations, and absentee-owned and unused/underutilized large landholdings. Many of these themes are crucial in the context of agricultural investment specifically, and continue to negatively impact the performance of the sector in terms of agricultural trade and overall food security. Absent of a proper policy context, most agricultural investments to date have been made under ad hoc arrangements.

4.15 The lack of a consistent framework for land tenure partly explains the abysmal agricultural trade performance. Despite an abundance of potential agricultural land, Liberia remains a net importer of food, and the Food and Agriculture Organization (FAO) has grouped Liberia with other countries suffering from perpetual import requirements. By some figures, this trend is worsening: from 2010-11, the country's total imports for cereals amounted to 345,000 tons to meet domestic demand; a year later, these imports rose to 374,000 tons. While part of this problem is due to a more complex set of factors stemming from the post-war reconstruction period, it is clear that insecure land tenure remains a driving force behind Liberia's less-than-favorable agricultural trade balance.

4.16 Another problematic element related to land reform and agricultural investment is the differential rights to land that exist among men and women in Liberia, even within the

same land tenure system. As in many African countries, Liberian women have historically had limited land uses rights and virtually no control over production and management decisions. Today, women's rights to land and property remain very limited, and often dependent on their marital status. Yet given that the majority of active agricultural producers/laborers (over 70 percent) are women, there is a strong need to legislate policies that offer fair access to land rights and land security among women. There are numerous relevant examples across Africa where policy reforms have made significant progress in improving women's land rights and security.³⁶ Supporting elements to these reforms have included education, awareness-raising, adequate representation of women in program implementation teams, and an open and accessible legal/judicial system to address the concerns of aggrieved parties. It is important to reflect these elements in both the design and implementation of policy reforms, given the strong impact of gender on agricultural production, and the carried effects on investment and trade.

4.17 The implications of land access on the actual (versus hypothetical) output of existing investments are significant. In the case of Firestone, for example, despite having a concession of 110,000 hectares for more than 50 years, the firm has only managed to plant on around 20,000 hectares. More recently, Cavalla Rubber signed a 50-year concession for 27,000 hectares for rubber and another 15,000 for palm oil, yet to date have only secured 50 percent of this land for productive use due to constant negotiations with local communities over land access. While unrelated factors can contribute to under-utilization of land for large-scale commercial projects, it is clear that land tenure issues remain a significant constraint to foreign investment and growth.

4.18 In addition to hindering the potential of existing and future concessions, land tenure problems also impact two other investment areas critical to Liberia's long-term trade development prospects:

- **Value addition to existing crops:** Some existing concessions are delaying investments in post-harvest processing equipment until sufficient scale can be generated to utilize the equipment efficiently — an unlikely development until lands granted under these concessions can be secured.
- **Smallholder development:** Negative impacts relating to land tenure are not restricted to large concessions. They have a potentially bigger impact on smallholders who, without secure tenure on their land, are unable to access finance that could enable them to become a sustainable supplier (in the context of contract farming arrangements, for example). This has been already identified as a significant barrier to establishing more effective linkages between large agricultural concessions and local farmers.

Legal Framework for Land Tenure

4.19 Like many countries in Africa, Liberia has a dual land tenure system under the statutory (formal) and customary tenure systems. The statutory system is administered under the 1956 Land Law (amended in 1974), which primarily governs land held by

³⁶ For example, in Rwanda and Ethiopia, policy reforms have incorporated steps to improve access to land among women, including legal recognition elevating women's secondary land rights to equate those of men, legal recognition of women's inheritance rights, and joint registration of spousal land rights.

Liberians under a deed system mainly considered private property, or “freehold land,” “The law stipulates that land in the areas inhabited by historical Americo-Liberians, mainly in Monrovia and the coastal regions is held in “fee simple,” a system dating back to early settlers who were entitled to either a town lot or ten acres of farmland (twenty-five acres if married). A deed in the fee simple system was provided at the time of naturalization, or when evidence was provided of any value-added investments on the land including cultivation or establishing a house. It is estimated that land which has been apportioned under the fee simple system constitutes over 40 percent of Liberia’s total land.³⁷ It is possible that this is an underestimation, given that an active land market exists in Liberia involving the land already apportioned as well as some customary land.³⁸

4.20 According to the same law, indigenous Liberians (who now constitute the majority of Liberian society) are not entitled to access public lands for ownership under the fee simple or formal deed system. Indigenous Liberians are entitled to user rights under the customary system, although land transactions currently take place within and between the customary and deed system. However, with no formal written customary land law, land in designated indigenous areas comes under a system of tenure based on traditional customary law. In this system, no individual ownership is legally recognized. Rather, the State recognizes the communal right to land in which individuals have land use rights but cannot own land. All customary land is under the control of a local chief, who has a communal deed for tribal areas and administers its allocation to the people under his communal jurisdiction.

4.21 Thus, the endowment of land rights and tenure security for the majority of Liberians is still perceived to be limited and not entirely guaranteed. Due to legal uncertainty over customary land rights, and the ensuing demand for customary land transfer to the formal deed system, many rural communities are struggling with the complications inherent in changing communal land ownership into a modern deed system. Although the 1974 update to the Land Law formalizes a land registration system and empowers the Government to designate areas for adjudication and registration, only a small number of communities have secured their communal areas under the formal system, mainly due to the costs involved. It is nevertheless evident that many indigenous community members continue to seek formalization of communal land, and some towns, clans, and chiefdoms are endeavoring to secure collective ownership of land under the fee simple system.³⁹

Land Reforms

4.22 The process of land reform has been ongoing for some time, driven by a pressing need to review and amend the laws, which are clearly inadequate for the conditions, needs, and values of modern Liberian society. One of the principal required reforms has been the provision of secure tenure to customary landholders, comparable to private tenure. In essence, the two systems need to be harmonized: customary rights must be recognized and given legal parity with formal statutory rights.

³⁷ USAID, 2008

³⁸ Americo-Liberian settlers can purchase public land held by rural communities, only after obtaining permission from the chief and paying a “token of good intention”. The purchaser then follows an existing formal legal procedure to have this land deeded.

³⁹ Wily 2007

4.23 In order to undertake a comprehensive reform process, the Government passed the Land Commission Act which established the Land Commission in 2009. This Commission is mandated to propose policy/legal reforms and coordinate all Government activities in the land sector. A new Commission was appointed by the President in 2010, with a five-year lifetime extendable for up to two years. Currently, the Commission has undertaken a series of studies and consultations leading up to a Draft Land Rights Policy, representing the first major review of land policy since 1974.

4.24 The current Land Rights Policy recognizes customary tenure, thereby guaranteeing land rights to all Liberians. Approved in 2013, the Policy establishes four tenure categories: Government, Public, Customary, and Private. It also provides for protected areas across these categories to be managed for the benefit of all Liberians. The Draft Policy also covers issues of land management, use, and administration, with more specific policies to be included under the separate Land Administration and Land Management Policies.⁴⁰

4.25 These policies will require a significant paradigm shift in terms of land administration and governance, including the legal framework underpinning the implementation of these recommendations. In many African countries where such progressive reforms have been undertaken, three policies have consistently ensured improved land rights and tenure security: (a) improved and decentralized land administration; (b) development of more transparent land governance systems at all levels; and (c) adequate mechanisms for land dispute resolution, both through formal legal channels as well as alternative dispute resolution (ADR) mechanisms.

4.26 In practice, land reform is unlikely to be successful or sustained without corresponding reform of the public institutions mandated to oversee land issues. The institutional framework for land administration and management is currently fragmented in Liberia, as various sectoral entities across multiple ministries and agencies have overlapping roles and generally weak capacities. Thus, consideration should be given to the following recommendations:

1. Establish a national unified agency with a robust mandate for dealing with land sector coordination issues;
2. Improve the capacity of the new agency in order to provide more effective land sector services efficiently.
3. Reform the authority and legal framework for land at county and sub-county levels, and ensure that there are mutually supportive linkages to the central agency.

Policy Implications

4.27 Potential conflicts and continuing uncertainty over land use pose significant risks for social conflict in Liberia's fragile environment. These risks have a negative impact on future investment and export potential. From the foregoing analysis, a number of policy recommendations are suggested. In order to ensure that land reform has a positive impact on agricultural investment and trade, the following policy recommendations are suggested within the framework of the agricultural policy matrix of the DTIS:

⁴⁰ Land Rights Policy, 2013

1. The Land Rights Policy should adequately deal with the tenure security concerns associated with the customary land tenure system. The current recommendation to formalize the legal recognition of customary land through the issuance of a deed is promising. However, for this to be achieved there is need for improved and decentralized land administration at the county and sub-county levels.
2. More open and transparent land governance systems should be established at all levels, as well as adequate systems for addressing legal grievances, both through the strengthening of the formal legal system as well as mainstreaming of alternative dispute resolution mechanisms.
3. **A unified Land Sector Agency should be established, with a robust mandate to coordinate the provision of land sector services.** This Agency should be established with the goal of replacing the Land Commission and other public sector entities currently involved in land tenure and administration.
4. In the short-term, the Land Commission should establish practical, legally-binding solutions for recurring property rights issues which continue to adversely impact investment decisions. These include the granting of concessions for the production of rubber and timber production, private use permits (PUPs) for large-scale commercial land acquisition, tribal certificates, informal occupations, and absentee-owned and unused/underutilized large landholdings.
5. **The Land Rights Policy should comprehensively address gender disparity issues in land rights and tenure security,** including policy recommendations on legal recognition of women's rights to land, including the recognition of women's inheritance rights as well as the associated awareness campaigns highlighting women's land rights.

Access to Finance

4.28 Access to finance remains an immense constraint on business development and economic growth in Liberia.⁴¹ According to the most recent Enterprise Survey Data from 2009, access to finance was also identified as major concerns by 31 percent of firm managers. The use of financial services by firms remains low in Liberia, relative to the average for sub-Saharan Africa. Of the firms surveyed, 66 percent had a checking or savings account, while only 12 percent had a loan or line of credit. Only 2 percent of firms were using overdraft facilities. Instead, Liberian firms rely heavily on internal funds and retained earnings for working capital needs and investments, with 84 percent of working capital needs and 87 percent of new investments financed thusly. Bank finance makes up a relatively small fraction of working capital and new investment, and supplier credit is also very limited. International comparisons show that this heavy reliance on internal funding is common in countries near Liberia.

4.29 As in most developing economies, Liberia's financial sector is predominantly comprised of commercial banks. Based on latest available data, banks' financial assets represent roughly 95 percent of the sector's total assets. There are 9 licensed and operating banks in the country with 78 branches, of which 70 percent are located in or near Monrovia. In addition to these banks, there are 24 insurance companies, 3 insurance brokers,

⁴¹ Investment Climate Policy Note (ICP, 2011)

approximately 220 credit unions and 141 new Village Savings and Loan Associations (VSLAs), the National Social Security & Welfare Corporation (NASSCORP), and nine microfinance institutions (non-deposit).

Banking Sector

4.30 Liberia's banking sector suffers: (a) the perceived high credit risk, (2) the high level Non Performing Loans (NPL), and (3) the weak bank profitability levels. Banks are reluctant to extend credit, particularly to the SME sector, given weaknesses in the legal and judicial framework, weak property rights, limited collateral and credit reference systems, and weak capacity of commercial banks to appraise SMEs and rural farmers. Moreover, interest rate rigidity and the short maturities of bank liabilities and credit impede lending to productive sectors. NPLs reached 22.2 percent as of October 2012. Five of the nine banks reported an NPL ratio above 10 percent (CBL 2012 Annual Report & CBL staff). Bank profitability has been very weak with Returns on Equity (RoE) and Return on Assets (ROA) of almost zero, marking 0.12 percent and 0.9 percent, respectively, as of October 2012. Figure 18 shows the combined balance sheet of the banking sector indicating a significant expansion since the 2006.

4.31 The banking system is highly concentrated, with two banks out of a total of nine accounting for nearly 75 percent of demand deposits and private sector credit. Poor lending controls and risk management practices have raised operational risk for the banking sector at large. Some of these factors are mitigated by the fact that most local banks are subsidiaries of larger foreign banks which have some ability to backstop liquidity and capital needs, if necessary. Nevertheless, low profits make the banking environment less attractive to potential entrants and hampers financial development.

4.32 In an effort to enhance credit within the economy, the CBL has launched numerous initiatives over the past several years to help grow the financial services sector in Liberia:

- The Credit Stimulus Initiative for Liberian-owned SMEs was launched in 2010. By placing long term US dollar deposits at commercial banks, the program sought to encourage better maturity structures for loans to Liberian entrepreneurs and make the cost of credit more affordable. The facility average annual interest rate to SMEs is currently around 8 percent, with tenors ranging from 12 and 60 months. CBL is now considering how additional medium-term resources for targeted lending can be provided. This move does carry potential risks to both CBL and the participating commercial banks, especially if the latter extend the scope of credit to non-credit worthy clients.
- The US\$10 million CBL Mortgage Stimulus Initiative was launched in 2012, providing for the first time ever an opportunity for Liberians to access loans for home ownership.
- The US\$7 million Agricultural Stimulus Initiative was launched in 2012 to help provide access to finance in the agriculture sector, by making available medium- to long-term credit facilities to farmers to stimulate private investment and create employment.

4.33 The CBL is taking other active measures to strengthen the banking system and other financial institutions, including engaging banks below minimum capital requirements to oversee recapitalization plans. The current risk-based supervision regime of the CBL will

focus on emerging credit risks, aggressive monitoring of banks to ensure that they remain financially healthy, and improving banks' risk management. To improve access to credit, especially for small borrowers, the CBL is establishing a collateral registry and an upgrading of the credit reference system with the support of the International Finance Corporation (IFC). Furthermore, in 2011 the CBL worked with various stakeholders to ensure the successful enactment of the Revised Commercial Code, legislation which established a fast-track commercial court. The court is expected to strengthen the enforceability of financial contracts (including loan agreements), through inexpensive, rapid and simple procedures.⁴² It is expected that this will contribute towards an improved overall credit culture; subsequently lowering the cost of borrowing and enabling more credit extension to the private sector.

Microfinance Institutions, Credit Unions, and Village Savings & Loan Associations (VSLAs)

4.34 Although dwarfed in size by the banking sector, smaller financial services providers have grown significantly during the period under review. The number of credit-only microfinance institutions (MFIs) operating in 2011 amounted to 8 with a loan portfolio of US\$9.9 million and a client base of 51,683. By 2012, this number grew to over 17. Over the same period, the number of credit unions registered with the CBL grew from 69 to 220.

4.35 The CBL has played a major role in the revitalization of this Subsector through formalization of their operating environment. For example, the CBL worked closely with existing credit unions around the country to reconstitute an apex organization, the Liberia Credit Union National Association (LCUNA). At the same time, Village Savings and Loan Associations (VSLAs), catering mainly to women in rural areas, were identified by the CBL across the country (there is currently no national apex structure). By the end of 2012, VSLAs existed in all of the 15 counties. To further the development of the Subsector, a three-year business and strategic plan for the Microfinance and Financial Inclusion Unit of CBL was completed; some aspects of the plan are currently under implementation, and a new strategy covering the next three years is currently under development.

4.36 Throughout 2012, the CBL made available over L\$200 million to MFIs, Credit Unions and VSLAs throughout the country through the Loan Extension and Availability Facility (LEAF) as a means of boosting financial inclusion and enhancing employment. The LEAF was intended to provide soft loans to these institutions for a three-year period at below-market interest rates to facilitate onward lending to their clients and members; the institutions themselves will be lending these funds at their usual customer rates.

4.37 The CBL has also published regulations for both credit-only and deposit-taking MFIs with support from the World Bank, which were approved in 2011. The latter provide a regulatory framework for specialized MFIs wishing to take deposits from clients, although there are currently no entities registered under these regulations.

⁴² The Government introduced a commercial court in 2012 to improve asset recovery from defaulting borrowers, but loans predating the court are outside of the court's purview. Moreover, it is not a court of final appeals, which limits its effectiveness.

Non-Bank Financial Institutions (NBFIs)

4.38 In 2011, the CBL developed and approved NBFI regulations covering mortgage finance companies, and credit-only institutions. The CBL currently supervises only one NBFI, the Liberia Enterprise Finance Development Company (LEFDC), and a finance company.⁴³

4.39 One potential future activity identified by the CBL is the development of a lease financing industry. The development of leasing as complementary tool to bank loans would provide an alternative solution for financing major capital investments, and could significantly expand the available pool of medium and long-term capital to SMEs.

Capital Markets

4.40 Overall, capital markets activity in Liberia remains minimal.⁴⁴ Apart from a handful of public offerings to customers of several banks and one telecom company (which were not entirely successful), there has been no other capital market activity of any kind.

4.41 For the foreseeable future, there is likely to be only modest supply of, or demand for, securities in Liberia. An analysis of potential suppliers, including the government, SOEs, banks, telecom companies, and other private sector enterprises, indicates that there is a low likelihood of firms wishing to raise funds by issuing securities in the short or medium-term. Similarly, an analysis of potential investors – including pension funds, banks, insurance companies, and others – suggests that there would be few potential investors over the same time period. The analysis further suggests that there will be insufficient demand for capital markets activity to sustain a securities exchange, and that alternative goals should therefore be pursued for encouraging, facilitating, and regulating any developing capital markets activity.

4.42 International experience suggests that attempts to accelerate the pace of capital market development, without first ensuring an adequate supply and demand for securities, risks creating an ill-functioning capital market that unnecessarily drains resources and does not stimulate economic development. The very nature of capital markets—which involve investors giving their savings to intermediaries and companies, in the hope of making a return—provides scope for fraud and abuse. Unless there is a strong body of law administered by an effective regulatory authority underpinned by a developed judicial process, there is a severe risk of fraud and abuse. An established legal framework for capital markets regulation will remain irrelevant unless it is accompanied by a strong and effective regulatory authority whose powers are recognized, understood, and upheld by the courts.

4.43 Thus, the CBL must develop its vision for the development of the capital markets in Liberia in an incremental and orderly fashion. It should seek first to raise awareness of securities markets and promote investor education within the context of overall financial awareness focusing, at least initially, on the use of banks. The Government is likely to be the first significant issuer of securities in the form of treasury bills, followed by longer-term bonds. Other steps should also be taken to encourage companies to reach a point where public offers of debt or equity securities are feasible.

43 Report of the National Investment Commission (NIC) of the Republic of Liberia (Business Linkages in the Extractive Sector in Liberia- A Strategic Approach- April 2011)

44 “A Proposed Framework for the Development of Capital Markets in Liberia” (January 2013- developed under a FIRST Funded Project)

4.44 Liberia's Capital Market Development Strategy and a Securities Markets Bill have been developed in a way to allow CBL to develop this market incrementally.⁴⁵ In the short-term, the CBL should only issue licenses to intermediaries who provide services solely to professional investors (i.e. institutions and high net-worth individuals). Similarly, issuers of securities should only be permitted to make offers to these professional investors. The scope of activities permitted in Liberia's capital market should be gradually increased (with regulations developed accordingly) as interest in capital markets develops and experience is gained. Only at the end of the process, along with a successful financial awareness program, should ordinary retail investors be encouraged to have access to capital markets.

4.45 In the long-term, when capital market activity develops to the point where substantial supply and demand for securities can justify the use of formal exchanges and settlement systems can be developed, the CBL should first seek to develop an arrangement allowing Liberian investors and companies to use an existing exchange elsewhere in the ECOWAS region.

Proposed Actions for the Financial Sector

4.46 Given the prevailing lack of hard data on financial sector activity and the impact of ongoing programs, it will be crucial at the outset to carry out diagnostic activities to understand the specific issues facing the sector. Only through these types of assessments can policy-level actions be appropriately informed.

1. Initially, a **Financial Sector Assessment Program (FSAP)** would be the best option to provide a solid diagnostic of the sector and related recommendations.⁴⁶ The last diagnostic report covering the sector was based on 2008 data and is now largely outdated.
2. Secondly, it will be necessary to undertake a **Financial Sector Development Strategy (FSDS)**. A FSDS entails the design of development policies for a wide range of financial subsectors including banking, insurance, pensions, money and capital markets, micro finance, NBFIs, financial inclusion, mobile banking, housing finance, financial literacy and consumer protection, financial stability and crisis management, and deposit insurance. The FSDS would also deliver a time-bound and phased action plan for implementation, which would allow appropriate budgetary planning for any interventions. The value and substance of a FSDS is increased if it follows an FSAP diagnostic.
3. Finally, an **independent evaluation of the Credit Stimulus Initiative** is vital, not only to illustrate the impacts of current lending, but also to determine the allocation of additional resources in the future. There is no information on the impact and effectiveness of the Initiative on banks or SMEs. An evaluation can also provide lessons learned that could encourage the CBL to improve the management of the current program. The confirmation of concrete positive results and improvement of the initiative would decrease the risk of failure in the future.

Business Regulatory Environment

4.75 The Government of Liberia has made significant progress in putting in place a more efficient legal and policy framework to facilitate investment. Two particularly significant

⁴⁵ Developing a Capital Market Strategy was one of the Benchmarks under the previous IMF Extended Credit Facility.

⁴⁶ Unlike Ghana, Sierra Leone, and most countries in SSA, Liberia never had an FSAP.

policy reforms – a revised Revenue Code in 2009, followed by a new Investment Code in 2010 – have the potential to significantly decrease the risks faced by foreign investors in Liberia. Under the new Investment Code, investor protections were strengthened significantly through guarantees against unfair expropriation, protection of intellectual property, repatriation of capital and profits, and provision of access to international dispute resolution mechanisms. Moreover, all investment incentives have been consolidated under the revised Revenue Code, and standard incentives and eligibility requirements are now clearly defined, improving both predictability and transparency. Rather than offering tax holidays, the incentives scheme now provides tax deductions and duty exemptions based on actual investments. These incentives are offered for a fixed period with minimum thresholds which set a relatively level playing field between domestic and foreign investors (although most domestic investments will still fall below the threshold to receive incentives).

4.76 Despite this progress, some inefficiencies and distortions remain. Official investment incentives remain restricted to a specific set of sectors, thereby reducing their potential impact on the entire economy.⁴⁷ In addition, the new Investment Act retains a set of 28 sectors that are reserved for Liberian participation, 16 of which are fully reserved and the remainder of which set minimum thresholds for foreign investment. Most of these sectors are not internationally traded, minimizing their potential impact on attracting FDI.

4.77 Both eligibility and the level of incentives offered are based on a complex set of factors, including the sector, location, level of employment creation, use of local content, and in some cases requirements to meet an export threshold. This sets up a relatively complicated system from the standpoint of tax and customs administration. More importantly, however, a lengthy and high-level application process also opens up the possibility that the granting of incentives will at least be perceived to have an element of discretion. Investors hoping to receive incentives are required to make an application to the National Investment Commission (NIC), which then evaluates the investor's business plan and makes a recommendation to the Minister of Finance, who has ultimate authority over the decision. Finally, it should be noted that some of the criteria for offering incentives — specifically export requirements — face restrictions in the context of the WTO (see Box 6). While they are unlikely to be problematic in the short-term (particularly on promoting local content in extractive sectors), they may need to be amended in the future.

4.78 One significant concern about the current investment regime is that any investments above US\$10 million are outside of scope of the Investment Act, and thus open to negotiation. As a result, predictability is lost for a large share of investments, particularly those in the extractives industries, which typically entail far higher investments relative to other economic sectors. Loss of transparency is also a concern, although Liberia is compliant with the Extractive Industries Transparency Initiative (EITI), and details of negotiated incentives agreements are publicly available for these large-scale concession contracts. However, with such a low threshold for exclusion from the standard incentive regime, investments that are subject to open negotiation of incentives may eventually cover most, if not all large concessions.

⁴⁷ A simpler approach may have been to establish a negative list of investments that are ineligible for receiving incentives.

BOX 6: EXPORT INCENTIVES AND WTO COMPATIBILITY

Under the WTO Agreement on Subsidies and Countervailing Measures (SCM), countries that have reached a minimum income threshold are required to eliminate all export subsidies by 2015. Among the export subsidies that are considered non-compliant are any subsidies to a firm (e.g. the income tax exemptions or deductions) that are designed specifically to promote exports. A policy is considered “designed to promote exports” if it is only available for firms that are exporting or sets specific requirements so that the availability of the subsidy is linked to the act of exporting. In Liberia’s case, for example, some fiscal incentives exist that require the firm to export 70 percent or more of its output in order to receive the incentive. This would be an example of a prohibited subsidy.

One straightforward way to comply with WTO provisions would be to remove subsidies completely, but since these subsidies are perceived to be critical to attracting export-oriented investment, this option is not particularly attractive to many policymakers. A second option is to remove the minimum export obligations and allow the incentive to be available for firms regardless of whether they sell in domestic or export markets. In this case, the subsidies are no longer linked to exporting and so do not breach the SCM Agreement. But this, too, has significant drawbacks: It may result in unfair competition for domestic producers if export-oriented firms that may enjoy other subsidies can now compete head-to-head with them. Moreover, domestic producers will of course also seek the same subsidies in this scenario. Thus the fiscal cost of subsidies could rise out of control. Instead, most countries have opted for a third approach, which is to reconfigure the fiscal incentive model in a spatial or sectoral dimension. This allows for compliance and a level playing field, while maintaining some control over the scale of subsidy costs and linking the subsidies to targeted policy objectives.

As a Least Developed Country, however, Liberia remains exempt from prohibitions on subsidies. Under the provision of Special and Differential Treatment (SDT), least-developed WTO members and countries whose per capita gross national product is under US\$1,000 in 1990 dollars are exempt from the prohibition on export subsidies. However, it is important to note that Article 27 of the SCM Agreement includes an export competitiveness clause: If an exempt country achieves 3.25 percent of the world market in any product for two consecutive years, it is no longer exempt and must phase out all subsidies within eight years. Given Liberia’s strong concentration in specialized sectors like rubber and iron ore, this could eventually become an issue for consideration. For the time being, however, Liberia has informed the WTO that it does not provide subsidies.

Source: Derived from Farole T., 2011

4.79 The unpredictable nature of incentives under the negotiated regime is already apparent in large-scale concession contracts, which account for a large majority of existing foreign investments. The general structure and broad terms of these concession agreements is similar, and the tax code for natural resource sectors is adequate.⁴⁸ However, ad hoc incentives enshrined in these agreements mean that foreign investors may face significantly different fiscal environments in practice. However, most recent agreements tend to be more

48 IMF Art IV Report

standardized and follow good international practice, and many concerns over the disparate nature of incentives and terms can be resolved by harmonizing agreements with the existing Revenue Code whenever there exists an opportunity for renegotiation.

Policy Implications

4.80 The question of how other countries, facing broadly similar circumstance to Liberia, have managed to achieve successful diversification is salient for this analysis. A review of African countries with similar characteristics to Liberia (e.g. relatively small; landlocked or with some other difficult economic geography; economically focused on natural resources; and having faced significant social/political conflicts in the recent past) that have succeeded in diversifying in recent decades identifies a number of common characteristics, including:

- **Strong attention to deeper, structural policies beyond investment and export promotion:** Successful diversifiers focused on maintaining a stable macroeconomic context to support private sector investment, ensured substantial (and sustained) investment in education and other social sectors, and continually upgraded institutions in order to build the capacity for ongoing adaptation rather than simply crisis response.
- **Reforms targeted at providing the most attractive investment climate in the neighborhood:** Given the importance of both foreign and domestic investment for catalyzing diversification, aggressive attention to business environment reforms appears to be critical success (most notable in Rwanda).
- **Leveraging trade agreements and actively exploiting trade preferences:** In most relevant examples, governments were successful in developing and taking advantage of trade preferences, particularly in regional markets.
- **Targeted investment promotion:** Strategies for investment promotion vary from “anchor” investor strategies to approaches that target smaller scale investments and joint ventures. But in all cases, the efforts appear to be targeted and linked directly with trade and industrial strategies.
- **Partnership with the domestic private sector:** Countries that achieve successful diversification do not rely exclusively on government to establish the framework. While in all cases, governments did intervene with direct sector support, it did so in response to market signals communicated by the private sector. In the examples studied, governments worked in cooperation with the private sector, which provided critical input on the requirements for investment and led many reform initiatives.
- **Use of non-traditional instruments like SEZs:** As part of efforts at reform and to attract foreign investment, diversifiers have made effective use of free trade zones and other forms of special economic zones as catalysts.

4.81 These findings can be translated into concrete recommendations for Liberia, given the investment patterns and constraints discussed in this chapter.

1) Focus on addressing constraints rather than negotiating incentives.

When considering investment policy options, it must be underscored that the effectiveness of incentives and other instruments is associated directly and irrevocably with the overall

quality of the national investment environment and overall national competitiveness. For example, the effect of lowering effective tax rates on attracting FDI is eight times stronger for countries with good investment climates.⁴⁹ Similarly, a study on the impact of Special Economic Zones found that while incentives are associated with higher initial investment, the quality of the national investment environment had by far the strongest impact.⁵⁰ Given the very significant investment climate problems that remain in Liberia and the fact that most investment in the near term will continue to be in natural resources (where the existing constraints are somewhat less binding, given the rents that can be earned), Liberia would be best served by investing in public goods – especially infrastructure, but also institutions – rather than offering incentives to investors.

Of course, Liberia remains a relatively high-risk environment for international investors. Investment policy in Liberia should go further with the reforms introduced in 2010 to make incentives transparent and automatic, extending this further to cover all investments (including those beyond US\$10m), while retaining some flexibility for very large concessions.⁵¹

2) Ensure investment promotion efforts are well resourced, but keep them targeted.

Given the continued importance of attracting foreign investment to facilitate exports and growth, it is important that the institutions responsible have adequate resources to deliver on their mandate. It is also important that the resources available for the investment generation mandate are used as efficiently as possible. This will require not only effective target of investment promotion activities, but also ensuring that resources are not stretched thin by taking on too many roles and initiatives. At the moment, NIC is rightly focusing primarily on investment generation (foreign and domestic) and less on export promotion. It is also participating in projects and policy areas that are closely linked to its core mandate. Given the strength and influence of the NIC and the relative capacity of its staff, there will always be a risk of “mission creep,” as it will tend to be presented with requests and opportunities to be involved in a wide range of analytical work, policy initiatives, and speculative projects.

3) Improve monitoring and delivery on existing concessions.

Improving the prospects for investment, exports, and growth in Liberia will depend not only on attracting new investment but in getting more value out of those that have already invested. In this context, there is a need to be more effective in monitoring existing concession agreements, to ensure that both investors and the Government are meeting their obligations, and to take action where it will support improved outcomes.

4) Promote SEZs (or industrial parks) as an instrument in a wider program of infrastructure support

The Government has already invested significant resources in assessing the potential for implementing SEZs and in preparing a policy and potential legislation. The draft SEZ Law appears to conform to international best practices in most respects, including not offering

⁴⁹ James S. 2010.

⁵⁰ Farole T. 2011.

⁵¹

any further tax incentives outside the Revenue Code (which may be largely inconsequential given the low US\$10m threshold for negotiated incentives in the Revenue Code). Given the huge challenge of infrastructure in Liberia and the lack of access to land, it certainly makes sense to concentrate some infrastructure investments in one or two places (in the short to medium-term) to support industrial investments.

In addition to the Global Competitiveness Report, the World Bank's 2009 Enterprise Survey identified constraints faced by local enterprises to grow their business. Indicators on infrastructure, particularly electricity, imply a more serious obstacle for the businesses in Liberia than those of other sub-Saharan African countries. Roughly 60 percent of the surveyed firms identified electricity as a major constraint, compared with 49.2 percent for the regional average. Fortunately this reality has been reflected in the PRSII, as well as the ongoing Government-prioritized public investments in electricity.

B. Improving Backbone Services

4.47 The low availability and high cost of energy – in particular electricity – remains one of the most severe constraints to exports, investments and economic activity in Liberia. The sector suffered greatly during the civil war, and today is not even able to supply consistent electricity to meet demand in Monrovia. The severe shortage and cost of electricity has resulted in the virtual atrophy of various public services catering not only to citizens, but also to businesses and exporters. As recognized in the recent Poverty Reduction Strategy II issued in 2013, the country desperately requires both short and medium-term actions to cope with this situation.

4.48 Liberia remains far below average in terms of generation capacity within sub-Saharan Africa. Prior to the civil war, Liberia had an installed capacity of 46 MW base load and 65 MW peak load, serving 35,000 customers or roughly 7 percent of the population.⁵² Vital generation and transmission infrastructure was either completely destroyed or seriously damaged during the war, and the rate of recovery in the sector has been abysmal, with public access to electricity remaining close to zero in mid-2011. The Liberia Electricity Company (LEC), the national electricity utility, serves roughly one percent of Monrovia's urban population, and this lack of access has resulted in near-total dependency on private (and costly) generators for almost every activity requiring electricity.

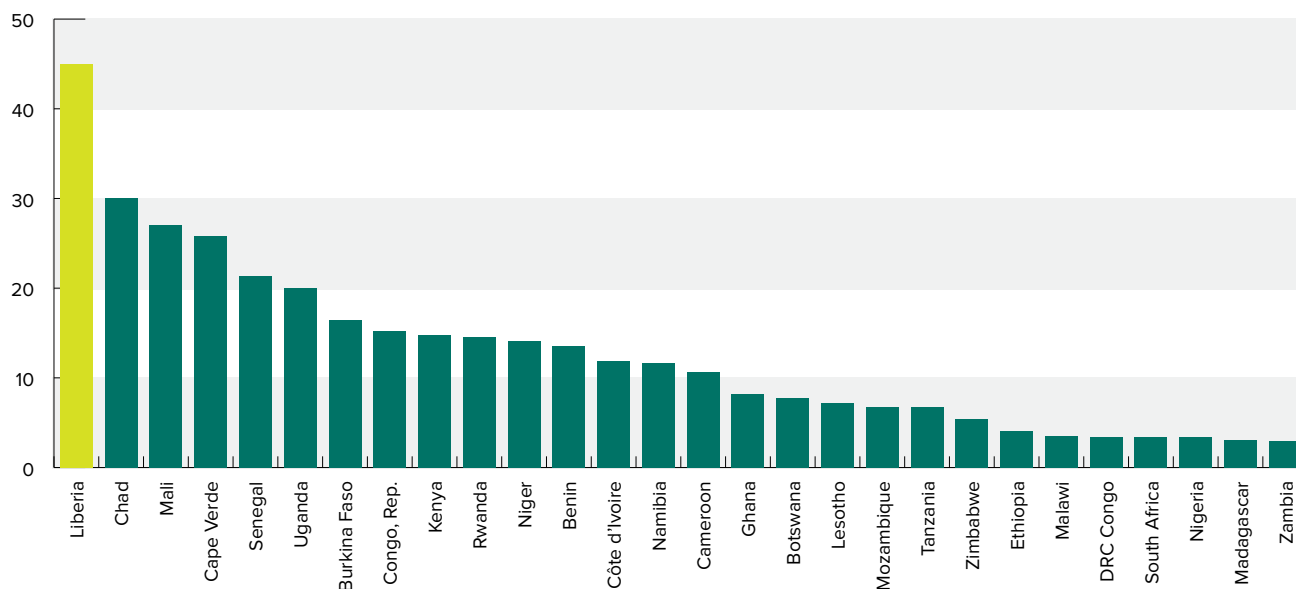
4.49 The cost of electricity, when it is available, remains a serious hindrance for productive economic activity. The prevailing power tariff is one of the highest in the world at US\$.50/kWh (the average for sub-Saharan Africa is US\$.15/kWh). The primary reason for this high cost is the near-total dependency by LEC on costly diesel generation to provide the country's base load. In addition, system losses remain high due to poor commercial and technical performance. LEC recorded approximately 24 percent losses on average, reaching 40 percent for a period in 2012.

4.50 LEC ceased operations during the civil war, and only resumed functions in 2010. Soon after, a management contract was signed between Ministry of Lands, Mines, and Energy

52 Project Appraisal Document for Accelerated Electricity Expansion Project (WB, 2013)

(MLME) and Manitoba Hydro International (MHI) to reestablish electricity supply services and to improve LEC's overall performance in the Monrovia area. Although this arrangement is making progress, there are still many areas where improvements are needed.⁵³

FIGURE 11: Regional Electricity Tariffs in 2009 (US cents per KWh)



Source: Authors' calculations based on World Bank data.

4.51 Liberia faces steep untapped demand for electricity, but real demand growth will depend on the capacity of LEC to deliver. LEC's 2012 Master Plan projects various scenarios for peak demand growth, as illustrated below. The base scenario assumes a gradual increase in grid connections to small and medium-sized users, contingent on LEC's ability to deliver adequate generation capacity, reduced tariffs, and the expansion of transmission and distribution networks.

Interventions in Liberia's Power Sector

4.52 The Government's objectives for the power sector have shifted beyond emergency management to developing the sector sustainably through expanding and improving services. LEC has set ambitious targets to increase electricity coverage to 70 percent of the population in Monrovia and 35 percent nationwide by 2030. To this end, MLME has prepared a Least Cost Power Development Plan (LCPDP) and an associated investment program. The latter highlights priorities in a short-term investment schedule, including the construction of heavy fuel oil (HFO) storage and associated infrastructure to replace diesel-based generation, and connecting Liberia to the regional Western Africa Power Pool (WAPP) to provide a reliable and cheap backup source for electricity.

4.53 The rehabilitation of the Mount Coffee Hydropower Plant, which was used to generate electricity for Monrovia and severely damaged during the war, is a crucial and

⁵³ The contract includes i) 33,000 new connection over a five year period, ii) reduction in technical and commercial losses from 25 to 12 percent, iii) increase in collections by 5 percent, iv) capacity-building to promote LEC's ability to sustain improved operational performance over the long-term.

TABLE 9: LEC generation capacity scenarios, 2012-2030

	2012	2018	2030
Peak load demand scenario	8 MW	94 MW	202 MW
Conservative growth scenario	8 MW	83 MW	194 MW
High growth scenario	8 MW	106 MW	227 MW

Source: AfDB, 2012

indispensable initial step for increasing power supply stability. Its rehabilitation is currently underway with funding from several donors and is expected to be completed in 2016. The reconstruction of Mount Coffee is one of the Government's highest-priority infrastructure projects currently undertaken.

4.54 Beyond short-term investments, it will be necessary to develop alternative energy sources to promote sustainability in the medium and long-term. Given Liberia's unique characteristics (i.e. seasonal hydroelectric production), the country must maintain a balanced approach to power supply technologies to compensate. In 2011 the World Bank carried out a detailed analysis based on a conservative electricity demand scenario to develop a least-cost power system.⁵⁴ The analysis suggested that a mix of hydro and thermal generation (i.e. diesel, HFO), and WAPP connectivity would be the most economic option to expand the power system. In particular, hydropower generation has great potential to cover roughly half of peak demand in 2020. The rehabilitation of the Mount Coffee, Saint Paul River, and Mano River hydropower projects would enable Liberia to provide significant amounts of cheap power. However, hydropower capacity depends on prevailing water levels, and these vary greatly from season to season. Moreover, as Liberia phases out older diesel generators, HFO-based thermal generation and electricity traded within the WAPP will be crucial to support this transition. It is expected that a diversified approach to increasing power supply will allow the power sector to expand in a sustainable and a cost efficient manner.

4.55 In the long-term, biomass-based power generation has the potential to play a significant role in the power supply mix. Considering Liberia's significant renewable energy resource endowment, biomass can be a strong alternative for pursuing a least-cost power expansion plan. In the short and medium-term, however, due to the high unit capital costs currently associated with biomass (US\$4,167/MW), this option is highly unlikely to figure into a least-cost power system until its cost drops significantly (at least to US\$2,419/MW, depending on the feedstock used). Nevertheless, if these cost reductions were realized and a biomass plant were to come online in 2015, it is assumed that more than half of peak supply could be generated via biomass in 2020.

4.56 On the distribution side, the World Bank has financed the Electricity System Enhancement Project (LESEP) to expand and enhance LEC's distribution network in Monrovia. The project aims to provide new grid connections for low-income customers, and was originally expected to be completed in December 2014, although Ebola-related concerns will likely delay completion. In addition to physical interventions, a contract with

54 Options for the Development of Liberia's Energy Sector. World Bank 2011.

MHI to improve LEC's organizational performance is underway with upgrades to technical/commercial systems and capacity-building for management personnel.

4.57 More projects currently in the pipeline will contribute to reductions in the cost of electricity by changing generation and connection models. Given the cost-focused shift from diesel to HFO-based generation, three HFO plants with individual capacities of 10MW have been slated for completion in 2014, partially financed by the World Bank. In addition, the World Bank's West African Power Pool Project (WAPP-CLSG), approved in March 2012, is financing a 1,349-km 225 kV transmission line to connect Cote d'Ivoire, Liberia, Sierra Leone, and Guinea.⁵⁵ It is expected that these projects will lead to a substantial reduction in electricity costs.

C. Conclusions and Policy Options

4.58 Stable electricity supply is crucial for both public services and the private investment, and the decisions taken by the Government thus far are strong steps in the right direction. In particular, participation in the WAPP and the transition to the HFO-based production will bring profound structural improvements in provision of electricity. The WAPP-CLSG project will enable Liberia to have access to cheaper electricity, while at the same time encouraging deeper regional integration. Overall, this project alone will reap net benefits of US\$38 million and an economic rate of return of 42 percent for Liberia under base case assumptions. As sustained efforts at improving the power supply to Monrovia are already underway led by LEC, these two parallel developments promise cheaper access to electricity for both urban and rural communities.

4.59 HFO-based thermal generation will continue to be a least-cost supply option, as well as an opportunity to work with concessionaires for public good. Due to the associated infrastructure requirements for HFO-based generation (landing station, storage, etc.), it was impossible until recently for HFO to be considered as a realistic source for electricity generation. Ongoing investments in this infrastructure, financed by donors, have unlocked HFO's potential, and the reliance on private concessions to operate this infrastructure will enable the Government to spend less while still providing the public with low-cost electricity.

4.60 However, the operation, maintenance and fuel costs will be significant, and LEC's management capacity will be crucial to manage these developments. In this regard, close monitoring and management of these projects' implementation will be crucial. Furthermore, efforts at improving the management and technical capacity of LEC personnel must continue in order to reduce technical and commercial losses to a 12 percent target. Currently, most key technical positions are filled by foreign nationals, and in order to make operation and management both sustainable and equitable, Liberian personnel must also be trained.

⁵⁵ Project Appraisal Document for West Africa Power Pool integration and technical assistance project.

CHAPTER 5

TRADE FACILITATION

5.1 This chapter presents the findings of the Trade and Transportation Facilitation Assessment (TTFA) Phase 1 study, conducted as part of the DTIS Update. This assessment provides an overview of the current state of trade and transport logistics in Liberia, identifies constraints related to infrastructure, services, and regulations, and proposes specific priority policy actions to address the bottlenecks that are constraining the country’s further integration into the global economy, as well as into the regional market with its Mano River Union (MRU) partners (Cote d’Ivoire, Guinea, and Sierra Leone). It also highlights the importance of leveraging third-party use of mining transport infrastructure for trade facilitation.

5.2 This assessment is organized along four pillars, namely: (1) Customs and Cross-Border Management, (2) Infrastructure Condition and Performance, (3) Logistics and Freight Services, and (4) Intra-regional Integration. Cross-cutting all these four pillars is capacity building, dealt with separately under each (while capacity development needs are interconnected, the challenges are unique). Figure 12 shows the components of Liberia’s trade and transport logistics facilitation system that must function together to facilitate the efficient flow of goods and to influence the speed, costs, and ease of good movements across the country’s borders. The institutions, operational framework, regimes, processes, customs and border management, and freight services must all work in harmony with the various physical networks to reap the best achievable outcomes.

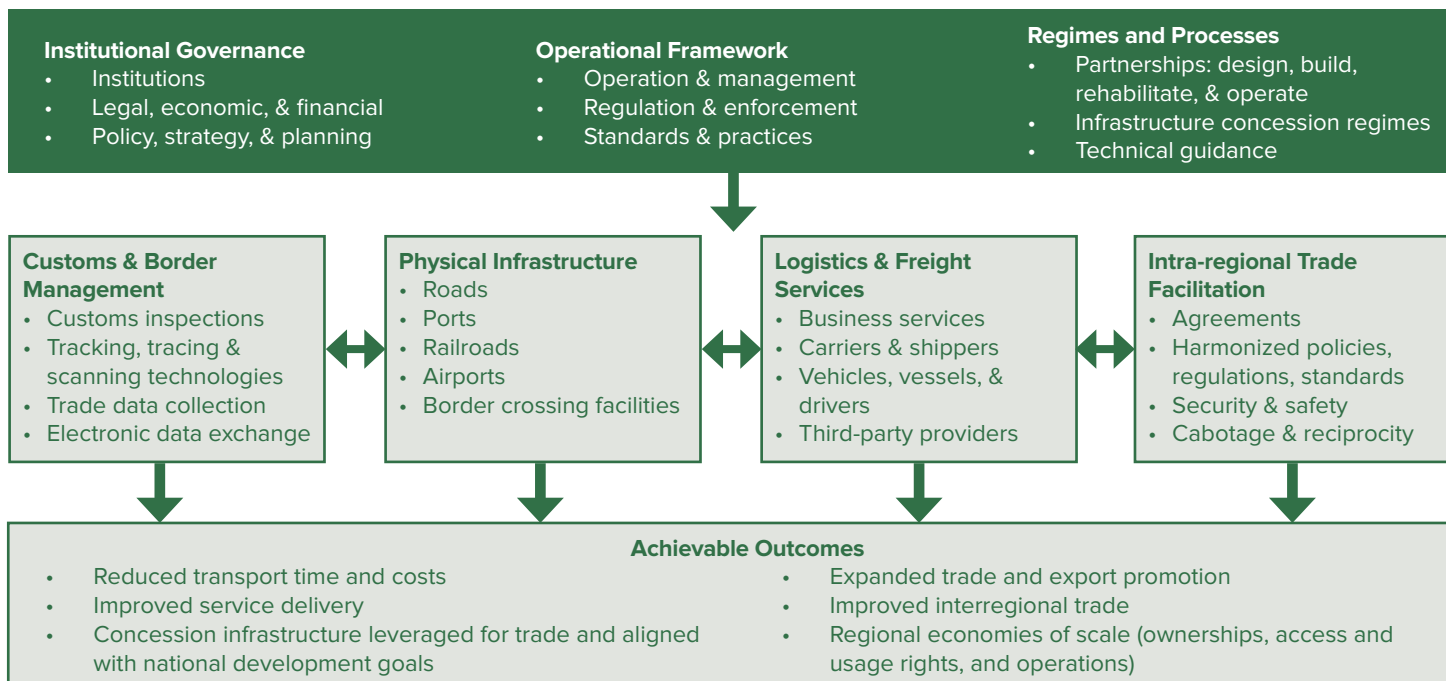


Port of Monrovia: National Port Authority, Liberia

A. Customs and Cross-Border Management

5.3 As a low-income developing country, Liberia is dependent upon customs duties as a source of fiscal revenue, and Liberia Bureau of Customs and Excise (BCE) has to reconcile two twin goals: safeguarding customs revenue, and facilitating trade by expediting the clearance of traders. Liberia recently went through a three year strategic customs modernization program, launched in 2009 and focusing on automation and training, communication and change management, infrastructure development, and policy and legislation. The program also put in place risk-based systems, so that only importers deemed “high-risk” would be subject to time-consuming physical inspections. This plan also seeks to modernize trade administration through streamlining customs processes, strengthening the standards bureau, and capacity building efforts, and targeting both officials and businesses on export/import requirements in line with WTO and ECOWAS standards. The program also developed a robust copyright and industrial property office within the Bureau of Customs and Excise and the Ministry of Commerce and Industry.

FIGURE 12: Typology of Liberia’s Trade and Transport Facilitation System



Source: Authors

ASYCUDA Implementation

5.4 Since the 2008 DTIS, BCE has made progress in the modernization and automation of procedures with the use of the ASYCUDA web-based system.⁵⁶ ASYCUDA enables Customs to file clearance documents electronically, saving time and resources while also providing more accurate and timely data collection. While ASYCUDA is being successfully rolled out to 10 of 17 key ports and border crossing points, the overall border management and modernization effort has been hampered by some institutional arrangements (i.e. excessive roles and number of security agencies administering different requirements at the ports) and resource constraints (including full rollout of the system and training in the use of the system).

5.5 ASYCUDA implementation is clearly improving customs clearance times, and the implementation of the system is making it easier for customs brokers to submit accurate and properly valued declarations, which saves time in resolving incomplete and/or false shipment declarations. A time-release study was financed by USAID in 2012, using data provided by BCE to measure the total time required for goods to move from arrival to their release and to an importer or a third party agent.⁵⁷ The report found that it took 5 days on average for BCE to clear goods at the Freeport, compared with 0.82 days on average at Roberts International Airport. According to BCE, the maximum customs clearance time in 2012 was 7 days, a 50% reduction from 2008.⁵⁸

⁵⁶ The Automated System for Customs Data (ASYCUDA) is an Internet-based software developed by the United Nations Conference on Trade and Development (UNCTAD) that allows Customs Administrations and traders to handle most of their transactions via the Internet. This is done by implementing simplified and harmonized procedures and standardized trade documents. The system allows for the electronic processing of declarations, risk management, transit operations and expedited clearance of goods, in addition to collecting timely and accurate statistical data for fiscal and trade policy objectives.

⁵⁷ USAID, Liberia Trade Policy and Customs: Time Release Study, May 2012.

⁵⁸ The Time Release Study only used statistics from the BCE and APM Terminals and for a limited period due to constraints in data collection, but it is obvious that the clearance time has reduced dramatically after rolling out of ASYCUDA.

5.6 The same study identified several bottlenecks causing undue delays in port operations. For example, unloading of items from ships takes 24 hours on average, and traders claimed that the process of matching documents to their corresponding containers takes excessively long, due to the inefficient way the port operator stacks containers. Moreover, brokers sometimes had to wait for reimbursement from importers before collecting the containers. Finally, although the installation of ASYCUDA has reduced physical inspection from 100 to less than 85 percent of imports in the Freeport of Monrovia, this remains higher than necessary as the physical inspections often yield no violations.

5.7 According to BCE, the rollout of ASYCUDA at the remaining ports and border posts was expected to be completed by mid-2014. Once the system is installed at ports and border crossings, BCE still needs to improve communications between these posts and headquarters in Monrovia, as well as provide additional staff training to ensure effective use of the individual ASYCUDA modules to aid in cargo valuation, assessment, inspection, clearance, and elimination of paper documents.

5.8 The overall impact of ASYCUDA on the customs reform agenda for implementing risk management remains unclear, particularly at the Port of Monrovia. Further training of customs staff and the private sector (traders, customs brokers, and clearance agents) on the use of ASYCUDA would allow customs staff to better identify misrepresentation of cargo type and value, and improve the process of categorizing shipments into the proper risk management categories.⁵⁹ This would in turn reduce the number of physical inspections and increase cargo clearance upon submission of all required documents by traders. Better integrating ASYCUDA into the risk management process would also accelerate the efforts to implement risk profiles among traders and shippers and expand the number of authorized shippers with “favoured trader” status whose cargo could be fast-tracked through the clearance process. With an expanded authorized shippers program, physical cargo inspection would be used to facilitate clearance instead of used as another layer of cargo security. The cargo of favoured traders would not be subject to the same level of inspections, allowing customs to prioritize the limited inspection resources on the remaining cargo.

5.9 ASYCUDA is improving the collection of detailed trade statistics for imports and exports at the Harmonized Schedule (HS) commodity code level. This is particularly relevant for the Port of Monrovia, which handles over 90 percent of Liberia’s total international merchandise trade by value. However, until ASYCUDA is fully implemented at all ports and border posts, the gathering of wholly reliable statistics on Liberia’s cross-border trade (as well as the transfer of this data to BCE headquarters) will be hampered.

5.10 The persistent lack of basic infrastructure, such as electricity, office equipment, reliable internet connections, and customs staff accommodation at small border posts remain a major challenge for the BCE. Even at the Port of Monrovia, serious shortages of electricity persist. Until these bottlenecks are addressed, along with creating more secure office premises, BCE cannot make best use of the ASYCUDA system.

⁵⁹ Customs should consider establishing a “Training of Trainers” program to allow UNCTAD to train customs staff and expand knowledge to the entire trading community.

5.11 In the medium-term, following ASYCUDA's full rollout, BCE should consider giving traders direct access to the system. As the freight forwarding business in Liberia remains small, all cargo clearance is carried out by customs agents and therefore only licensed agents are provided access to the system currently. With training, it would be possible to expand access to large traders to allow them to prepare customs and trade documents and submit them electronically, thereby reducing the cost of processing trade documents and accelerating the clearance and release of imported merchandise.

Pre-Shipment Inspections

5.12 All exports from Liberia are subject to either Pre-shipment Inspection (PSI), unless officially exempted because the shipper is a designated entity, or the cargo is valued below the official thresholds.⁶⁰ The threshold value of imported goods subject to PSI is US\$3,500 for ocean cargo; US\$1,500 for air cargo and land border posts; and all vehicles (excluding duly authorized exempt vehicles) are subject to inspection, regardless of value. PSI forms the physical and documentation assessment on products at the time of export in the country of origin, before shipment of cargo. Imports not subjected to PSI prior to shipment are required to be inspected upon arrival in Liberia as Destination Inspection (DI).

5.13 Currently, PSI inspection is conducted via private contractor, the Bureau of Inspection, Valuation, Assessment and Control (BIVAC).⁶¹ BIVAC has been providing PSI contracting services to the Government since 1997 and has been the exclusive PSI provider since 2004. In 2012, Customs renewed its PSI contract with BIVAC for an additional three years through 2015. The Government has also contracted with SGS Inspectors to perform inspections of forestry products prior to export.

5.14 Following complaints by traders concerning the BIVAC overly cumbersome process, the PSI fee has been reduced from 1.5 percent of the free on board (FOB) value to 1.2 percent (regardless of whether a shipment is inspected at the port or not), and for some specific commodities of general interest such as rice and cement, this fee has been further reduced. Once the current contract expires in 2015, the Government of Liberia should consider negotiating for further reduction of PSI fees to below 1 percent, in conformity with most African countries. The Government should also consider a more open and competitive private inspection regime, with many players.

5.15 There is often duplication of inspections by customs and BIVAC, which contributes significantly to extra delays. Discussions with BCE officials confirmed inefficiencies in the inspection process, explaining that it conducts these follow-up inspections because of perceived inaccuracies in the value of the goods, the risk profile of the customer, misclassification of products, under-valuation of products, and inaccurate and mismatched shipment information. There is an urgent need for BCE and BIVAC to investigate the underlying reasons for these performance challenges, and take immediate corrective actions to reduce the need for duplicate inspections.

⁶⁰ Only designated entities are exempt, such as diplomatic consignments, UN organizations, NGOs, etc. If traders opt out of PSI, they must undergo a destination inspection to avoid penalties imposed by BIVAC.

⁶¹ BIVAC International Liberia is a wholly-owned subsidiary of Bureau Veritas Group, headquartered in France.

5.16 The high inspection rate and multiple inspections imply that ASYCUDA World has not been efficiently used to strengthen the risk management. Additionally worrying is that many traders report the charging of extraneous fees by BIVAC, i.e. traders must pay for inspection fees regardless of whether or not an actual inspection is performed. Although the Government depends on these fees to be able to provide basic services, these fees in particular hinder business expansion by imposing significant costs and unnecessary delays.

5.17 It remains unclear whether the Government will exercise its option to not renew the current contract in 2015. Indeed, it may be possible for BCE to conduct PSI and DI on its own following the expiration of BIVAC's current contract, although this would require significant capacity-building activities. Some capacity-building activities were required under BIVAC's recent contract extension, and 20 customs personnel were trained as of July 2013. Additionally, more than a dozen staff at MoCI has also been trained in valuation, standards, and other inspection-related thematic areas. Several donors such as USAID and SIDA have been instrumental in financing these activities.

5.18 Nevertheless, BCE had not developed an implementation plan with measurable milestones in preparation for the termination of the BIVAC contract as of October 2013, and BCE will require significantly more specialized training before it will be ready to conduct PSI and destination inspections.

Other Border-Related Issues

5.19 **Agency Coordination:** As described above, the redundancies resulting from multiple agencies tasked with inspections and clearance negatively impacts trade facilitation at the Port of Monrovia and border crossings. There is a need to collaborate the functions and roles of these organizations, including BCE as well as various national security and investigation agencies. The border management agencies at the port do not have electronic data processing systems capable of being linked or harmonized to the broader customs data gathering system, including ASYCUDA. There is an urgent need for BCE to assume the leading role at the port and coordinate all non-customs procedures and security alerts into its risk management duties. This would make cargo clearance easier, more predictable, transparent, and less subject to corruption. This issue of multi-agency coordination should be urgently addressed by the Trade Facilitation Forum, the ministerial-level coordinating body responsible for trade issues affecting Liberia. A specific memorandum of understanding should be considered to authorize and empower BCE to take the necessary steps to reduce and remove duplication of functions and roles at the port.

5.20 **One-Stop Shop:** A customs-clearance “one-stop shop” is in operation at the Port of Monrovia with all related agencies now in the same building, thus easing the customs clearance process to some extent. This facility houses Customs, Ministry of Commerce and Industry, BIVAC, and commercial banks. Having representatives of these entities co-located



Port of Monrovia: National Port Authority, Liberia

has streamlined the process for completing regulatory procedures for cargo clearance and reduced the time required for obtaining official signatures on all the required documents.

5.21 Documentation Requirements: While Liberia has made progress in reducing the number of required documents and permits for import/export activities, these reforms have not benefited some traders due to poor dissemination of the new requirements.⁶²

5.22 The Ministry of Commerce and Industry reduced the numbers of product categories for which Import Permit Documents (IPD) and Export Permit Documents (EPD) are required.⁶³ Currently, IPDs are required for 17 import product categories and EPDs for 4 export categories. This reduction is expected to improve trade facilitation and directly reduce cost and time for traders and shippers.

5.23 Despite these improvements, cumbersome duplication of paper documents still continues. There is no electronic submission of documents, and traders are required to submit multiple transaction documents in paper form to multiple trade agencies. ASYCUDA should be able to play a role in resolving these obstacles, and provide a basis for pre-arrival processing of some of the documents including electronic manifests, declarations, and shipping documents.

5.24 Outreach and Communications: MoCI and BCE should strengthen their outreach and communications to the trading community in order to more effectively disseminate information on current developments, thereby helping increase compliance. Many traders have noted that they were unaware of various procedural changes over the past several years, resulting in unnecessary administrative burdens. Although some announcements regarding these changes are available on the MoCI and BCE websites, it remains difficult for the trading community to keep up to date on trade and customs regulations. The Trade Facilitation Forum should consider launching a single website to provide information and links to all relevant trade-related information, and instituting periodic email updates to the trading community on major changes and announcements.

5.25 With informed compliance as a goal, Customs and the MoCI should make information on changes to trade documents (such as IPDs and EPDs) more readily available, potentially through automating the process of communicating with businesses and trade associations like the national Chamber of Commerce. Additionally, MoCI should promote the publication of trade information at border posts to encourage enforcement and facilitate goods movement with MRU neighbours.

5.26 New Customs Code: Despite the rollout of ASYCUDA, regulatory reforms continue to lag behind. A new Customs Code, which complies with international standards and fully consistent with the Kyoto Protocol, stipulates a transition from Brussels Definition of Value (BDV) to transaction value, and is awaiting ratification by Parliament.

5.27 The new Customs code is expected to improve the overall customs modernization effort, especially through the aforementioned updating of valuation methods, the role of security agents, and licensing for customs agents. Once the new Code is operational, BCE

⁶² As of June 2013, shippers were required to submit 11 documents for imports and 10 documents for exports.

⁶³ Ministry of Commerce and Industry, Administrative Notice MCI / No. 006/06/2012, June 25, 2012 and Administrative Notice MCI / No. 008/06/2013, June 12, 2013.

will be better positioned to collaborate with BIVAC and various security agencies on risk management issues. This would further allow data from ASYCUDA to be shared among security-related agencies to reduce and ultimately eliminate multiple physical inspections. Without restructuring the physical inspection system, the impact of ASYCUDA's rollout and other modernization efforts will be minimal.

5.28 Risk Management: The effectiveness of the current risk management protocols deployed by BCE is unclear. As of September 2013, the impact of a new risk cargo profiling system using four risk channels —Green (submission of declaration/documents), Yellow (review of declaration and documents), Blue (scanning), and Red (physical inspection) — were uncertain. Information was not available on the proportion of imports assigned to each category, or on detection rates, nor was it possible to determine whether this method has helped to identify “preferred” or “safe” shippers for fast-tracking. Improved data collection on risk profiling is critical for monitoring performance of physical inspection duties, as well as reducing the number of shipments requiring inspection. BCE should improve the risk management protocol based on enforcement and intelligence criteria.

5.29 To improve the risk management program, BCE should consider forming a Risk Management Committee, with representatives from various customs-related entities with the task of setting, assessing, and monitoring the effectiveness of the new risk criteria. Additionally, BCE should expand its Risk Management Unit and seek additional training for personnel in order to improve management and operation of the system, as well as to accelerate the adoption of electronic manifests to provide advance identification of high-risk shipments.

5.30 BCE should also complement the targeted controls based on risk management with audit-based controls and compliance measures to simplify procedures for fast-tracking authorized traders. These fast-track procedures would require minimal intervention by customs officials in the release and clearance of goods. Traders and logistics providers who are sufficiently known and trusted by BCE staff based on their compliance record could be exempted from ordinary controls and subject to fewer procedures and requirements. Results of post-clearance audits are essential for gathering data on compliance measurement and determining the extent to which traders conform to customs requirements.

5.31 Hours of Operation: Liberia's trade performance would be improved significantly by extending the hours available for cargo clearance at the Port of Monrovia. Currently, business hours are 8:00am-5:00pm Monday-Friday, and Saturday 9:00am-2:00pm. According to customs officials and the terminal operator, however, the effective operating weekday hours are far shorter, mostly ending around 3:00pm. Because of this, some shippers must wait until the following day to exit the port gates, even after all required procedures have been completed and their containers are secured to a truck. These loaded trucks must wait overnight outside the freight storage yard, but inside the NPA authorized waiting area. These hours of operation are a major constraint that should be reviewed by the Trade Facilitation Forum and resolved quickly to allow for expanded and efficient operations. Simply extending the effective hours of operation to until 8:00pm on weekdays would have an immediate positive impact on reducing overall logistics costs for shippers and increasing just-in-time deliveries.

5.32 Training Customs Brokers: The performance, quality, and capacity of customs brokerage service at the Port of Monrovia are low and remain an impediment for trade facilitation. BCE should enhance its ongoing training program for brokers to improve their understanding and use of ASYCUDA, and should proactively work with the National Customs Brokers Association of Liberia to effectively improve testing, certification, and re-licensing procedures. Improving brokers' use of ASYCUDA would sharply reduce the filing of inaccurate declarations, the need for re-evaluation by Customs, directly improve the risk management regime, and significantly reduce cargo clearance time. Additionally, improving brokers' use of ASYCUDA would reduce the direct contact between brokers and BCE officials, thereby reducing the potential for brokers to pay unofficial fees for illegal freight expediting outside normal procedures.

B. Infrastructure Condition and Performance

5.33 Maritime accounts for the vast majority of international freight, handling over 90 percent of the national volume of imports and exports. By contrast, road transport accounts for less than 10 percent of Liberia's overall foreign trade.⁶⁴ Nevertheless, road transport continues to dominate domestic freight movements as there is no interconnected rail network for moving commercial freight and inland waterway transport remains negligible.

5.34 The physical infrastructure network has improved since the 2008 DTIS. Between 2008 and 2013, the Government completed privatization of operations at the Port of Monrovia, rehabilitated several key road corridors, improved the conditions of some urban access roads, and upgraded Roberts International Airport in Monrovia. While the physical condition of large segments of the urban and rural roads remain a constraint to trade facilitation, the situation is slowly improving.

Maritime Transport Sector

5.35 Liberia has four seaports located in Monrovia, Buchanan, Greenville, and Harper. The Port of Monrovia remains the only port with the handling capacity (berths) for commercial containerized, general, and bulk cargo, and dominates the others in terms of annual volume. All four ports are managed by the National Port Authority (NPA), an autonomous agency with the statutory responsibility for planning, administering, regulating and operating in the ports sector in Liberia. The NPA has the authority to levy and collect tariffs and charges for services and facilities it provides to port users — including terminal operators, ocean carriers, shippers, and logistics service providers.

5.36 The Port of Monrovia handles more than 95 percent of the volume of total ocean-borne international trade and has the potential to become a maritime hub for mining traffic from the eastern side of Sierra Leone due to its geographical proximity. The Port of Buchanan could potentially serve as a primary gateway for iron ore exports from neighbouring Guinea. The total cargo handled by the National Port Authority was more than 1.7 million tons in 2010, a 24 percent increase from 1.4 million tons in 2009. Infrastructure and security

⁶⁴ Reliable data on the modal shares of international trade by value and weight is not available.

improvements at the Monrovia port account for the continued growth in cargo volumes.

5.37 As an autonomous agency, NPA is responsible for regulatory issues as well as provider of port services. As recommended by the Transport Master Plan, the Ministry of Transport should consider reviewing this arrangement to determine whether it is best to split the responsibility for port management and operational issues and establish a Maritime Transport Authority to deal with regulatory matters. Such a governance framework would be similar to how the aviation sector is currently administered, with the Liberia Airports Authority (LAA) handling management and operations while the Liberia Civil Aviation Authority (LCAA) handles regulatory issues.

Port of Monrovia

5.38 The Port of Monrovia handles containerized cargo, general cargo, break bulk, dry bulk, liquid bulk, cement, and roll-on/roll-off (RoRo) cargo. The port consists of four piers and one main wharf with four berths. While the Port's two breakwaters are in reasonable condition, the primary physical impediment is the shallow access channel. This channel was originally dredged to between 14.0-15.0 meters to allow large iron ore carriers, although currently depths are reported to be as low as 9.0 meters in key areas of the Port. There are no immediate plans to widen or deepen the channel. All approaching vessels are towed and berthed by two old tugboats, a mandatory measure even when vessels have bow thrusters. Pilots boarding calling vessels launch from a small speedboat, and there are no lighted navigational aids in the approach channel, thus limiting vessel operations to daylight hours.

5.39 The Marginal Wharf, i.e. the primary facility for handling containers and general cargo, is in good condition after rehabilitation by A.P. Moeller (APM), which assumed management of the Port in February 2011 after signing a 25-year contract worth US\$115 million with the Government. A collapsed quay has since been completely rebuilt, facilitating cargo handling and increasing productivity.

5.40 The volume of cargo and the vessel traffic handled at the Freeport of Monrovia continue to rise. Before APM Terminals took over the port operations in December 2010, the port handled approximately 51,000 TEUs per year. By 2012, the volume has increased to approximately 85,000 TEUs, growing more than 25 percent per year. As traffic continues to grow, a main challenge will be expanding the infrastructure to handle the growth in containerized cargo as and new facilities to cargo break bulk cargoes.

5.41 The Port is equipped with minimum operational infrastructure and equipment. Nearly all cargo is handled using vessel-mounted gear and equipment. Containers are not released directly to shippers from the vessels, but are first stored at the adjacent APM container storage yard. The berth dedicated for container vessels has no gantry or mobile cranes, hampering the ability to quickly load/unload containers. APM has indicated that the container yard is being rehabilitated as part of the second phase of its 18-month improvement project, which it expects to complete by mid-2015.

5.42 APM's operation of the container storage yard is a source of concern for many shippers who complain of delays in having their containers located and released, even after they have obtained all required clearance documents and signatures. In the past, APM officials have blamed these setbacks on temporary delays relating to equipment malfunction. As of September 2013, APM claimed it had all necessary cargo handling equipment in place to prevent future delays in clearance.

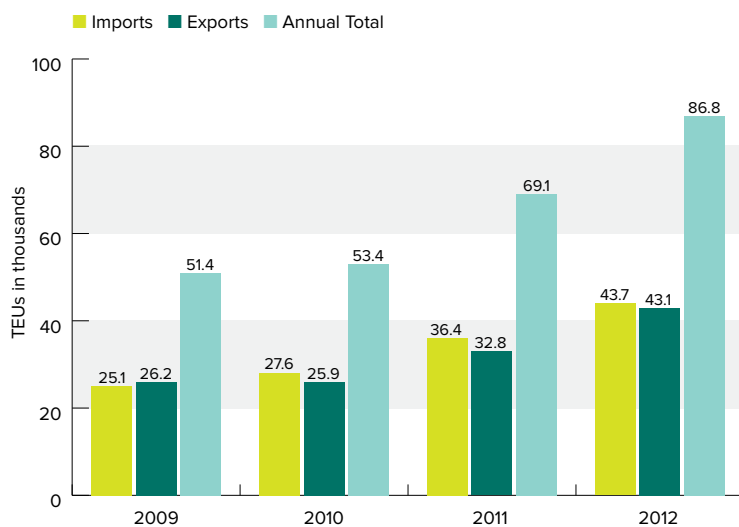
5.43 A persistent obstacle to the efficient handling of containers at the Port is the manual system used for tracking containers onsite. APM can improve this situation by transitioning to an automated system that provides real-time location of containers. These systems typically combine RFID tags with wireless technology, enabling a far more rapid process for moving, storing, monitoring, screening, and releasing containers.

5.44 A related and equally severe problem is landside access to the Port, and parking for trucks inside the terminal facility in particular. Land access to the Port remains a major issue, with heavy traffic congestion outside the terminal forcing trucks to park haphazardly within the NPA-authorized area. This situation is worsened by the poor road conditions in this area.

Cargo and Vessel Traffic

5.45 The Port handles mostly imports, accounting for over 75 percent of total freight handled by value. Export traffic can be anticipated to increase dramatically as the mining, agricultural and forestry sectors increase production bound for foreign markets. It is estimated that total export traffic could increase from under 500,000 tons annually in 2011 to over 80 million tons annually by 2030. Although future exports will likely be dominated by iron ore, this estimate includes potentially 3 million tons annually of agricultural and forestry exports.⁶⁵

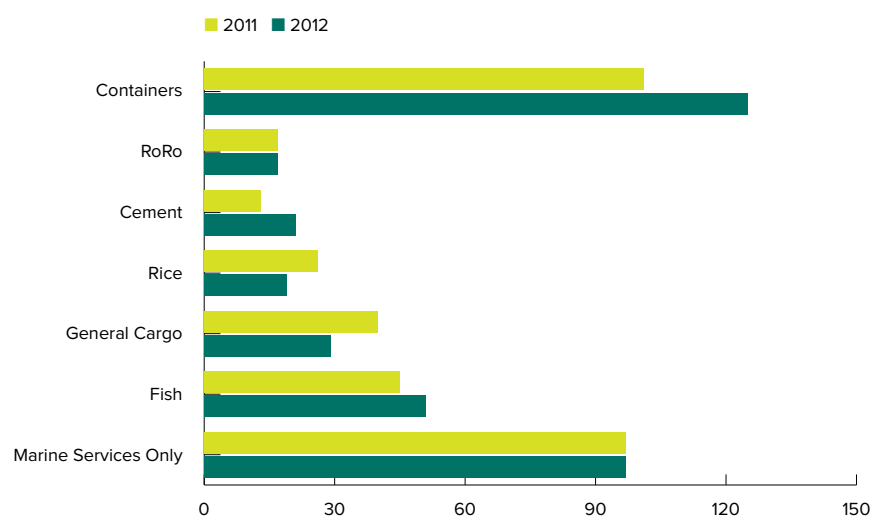
FIGURE 13: Number of Containers Handled at Port of Monrovia: 2009-2012



Source: Authors, National Port Authority, APM Terminals Statistics (NPA, 2010).

⁶⁵ World Bank (World Bank, 2011) Infrastructure Policy Notes Leveraging Investments by Natural Resource Concessionaires. Washington, D.C.: World Bank.

FIGURE 14: Number of Vessel Calls at Port of Monrovia: 2011-2012



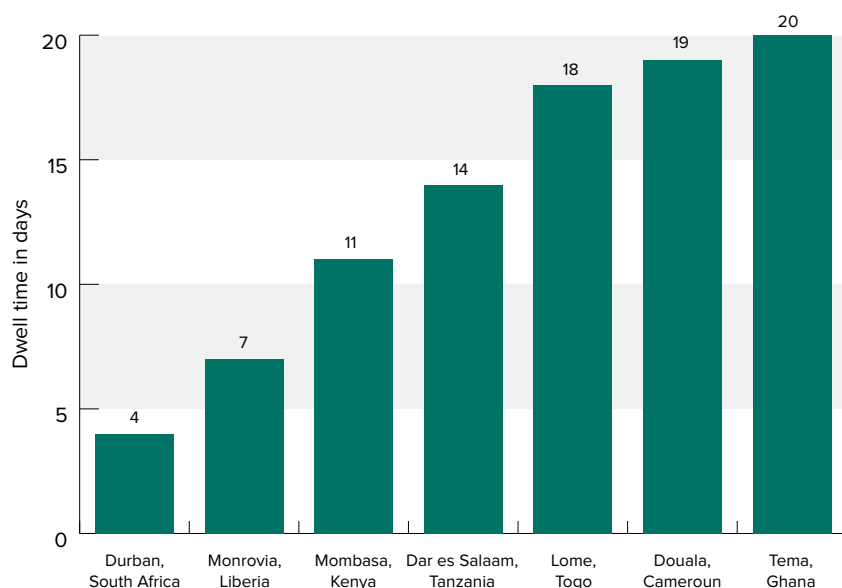
Source: Authors, National Port Authority, APM Terminals Statistics, 2010.

5.46 The number of vessels calling at the Port of Monrovia has risen steadily over the past several years. In 2012, a total of 359 vessels called at the Port, an increase of 6 percent from 2011. Container ships accounted for 35 percent of total calls in 2012, followed by marine service and fishing vessels.

Cargo Dwell Time

5.47 The Port's performance in terms of cargo dwell time is comparable to that of other ports in Africa (see Figure 15 below). Container dwell time has declined from 14 days in 2008 to 7 days in 2012, and APM aims to reduce it further to 2 days by 2015.

FIGURE 15: Container Dwell Time (Days) for Liberia and Selected African Ports



Source: Authors, based on Raballand et al and DTIS mission to Liberia (2013).

5.48 Although the Port provides a period of free storage for traders to facilitate the customs clearance process, the root cause of unnecessary dwell time could be due to several factors, including the limited effective opening hours for cargo clearance. A USAID Time Release Study identified a number of other factors contributing to undue delays in cargo movement, including lengthy customs procedures, document requirements, risk management protocols, and overlapping responsibilities among various trade-related public agencies, as previously identified.

Ports of Buchanan, Greenville, and Harper

5.49 The Port of Buchanan, situated approximately 90 km southeast of Monrovia, is primarily an iron ore export terminal, and is also used to a lesser extent for export of timber and wood chips, and import of mining-related cargo, cement, and vehicles. The Port has two breakwaters in fairly good condition, a channel depth of 12.8 meters, two berths (iron ore and oil), and a multipurpose commercial quay. The iron ore berth has been fully rehabilitated by Arcelor Mittal as part of a mining concession arrangement signed in December 2008. The oil berth requires rehabilitation and is not being used, although Chevron has expressed some interest in refurbishing it. The commercial quay is in fair condition, although all cargo handling must be done using ships' own gear as the single mobile crane is in poor repair. Customs inspection is performed on the quay by local customs staff. Major obstacles include the absence of lighted navigational aids and presence of wreckage in the channel (although port officials have indicated that two of the wrecked vessels are expected to be removed in the near future). Arcelor Mittal has installed some lighted navigational aids, although these have yet to receive final approval from the NPA. Given that the channel depth is too shallow for most commercial ore carriers, ArcelorMittal is forced to use smaller vessels to transfer iron ore from the terminal to larger vessels anchored far offshore. Although this is an inefficient method, the existence of solid rock near the iron ore berth precludes the possibility of deepening of the channel. Maintenance dredging is expected every 15 years. There is strong potential for an additional ore berth to be added at Buchanan if BHP Billiton proceeds with its proposed mining concession, given the limited capacity of the existing ore berth.

5.50 The Port of Greenville, located 241 km southeast of Monrovia, is not operational due to a sunken ship constricting access to the harbor and preventing dredging operations. The Port is protected by one breakwater, and has two quays. The Port is under consideration for a sizeable expansion as an export outlet for new iron ore projects.

5.51 The Port of Harper, located 473 km southeast of Monrovia, is protected by a breakwater although its usable depth is approximately 5.5m and vessels must berth using their own power. The Port is used on a small scale for coastal shipments of equipment and supplies for the UN. It has strong potential for timber and palm oil.

5.52 The port facilities at Buchanan, Greenville, and Harper need to be improved, ideally through public-private partnerships. The Government should task the NPA with actively seeking and developing PPPs for these three ports in its Port Master Plan.

Coastal Shipping

5.53 There is very limited coastal shipping among the four seaports at present. With no transshipment of international merchandise, intra-coastal shipping is largely limited to project cargo for UN personnel and programs. As of June 2012, a German shipping company, Coastal Marine Limited, had officially launched a coastal commercial service for both passenger and freight from Monrovia to cities along the south-eastern region.⁶⁶

Road Transport Sector

5.54 Roads in Liberia are the main surface transport mode for moving freight among production, consumption, and external markets. The majority of roads are unpaved and do not provide all-year access to county capitals or major border posts. According to the Transport Master Plan, less than one-third (28 percent) of the primary road network is paved.⁶⁷ More than two-thirds (72 percent) of these major roads have gravel surface. All secondary and feeder roads are unpaved. This directly impacts connectivity of the road network, and during the rainy season increases travel distance, time, and vehicle operating costs, resulting in high freight charges.

5.55 The pace of road infrastructure growth during the past decade has been led by the Government and the companies operating forestry, mining, and agricultural concessions. The re-engagement of donors since the mid-2000s has helped to ensure a source of funding for much-needed road construction. As a result, Liberia has been spending roughly 1.4 percent of GDP on road rehabilitation per year. This is one of the higher levels of public spending on roads in West Africa.⁶⁸

5.56 A major source of road infrastructure is the multinational companies investing in Liberia. Most mining companies have built their own roads, and own significant portions of the rural road network.⁶⁹ This transport infrastructure links the concession sites directly with ports, airports, and areas that serve as feeder locations. Privately developed infrastructure is likely to increase dramatically in the next few years as Liberia negotiates a major round of concessions, each with major transport requirements attached.

5.57 According to the Transport Master Plan in 2012, two Mineral Development Agreements (MDAs) out of the five signed by the government with concessionaires make specific commitment to provide roads infrastructure.⁷⁰ China Union is required to rehabilitate, extend, and build 40.23 km (25 miles) of secondary roads from Kakata to Hyendi. In addition to roads, China Union also is required to rehabilitate and extend an existing railway (total of 90 km) to reach the Freeport of Monrovia. The Putu Ore Mining Company is required to pave the 191.5 km (119 miles) Zwedru to Greenville primary road link. The various MDAs state the obligation of concessionaires to pave a total of 227.3 km (141.24 miles) of primary roads and 40.23 km (25 miles) of secondary roads in five years.

66 Ministry of Transport (Ministry of Transport, April - June 2012). Page 15.

67 Primary roads are defined as links between county capitals and major international connections. Secondary roads are links between district capitals to the primary roads.

68 Liberia's Infrastructure: A Continental Perspective., Washington, D.C.: World Bank, 2011.

69 World Bank, 2011.

70 China Union (Hong Kong) Mining Co.,Ltd. / China Union Investment (Liberia) Bong mines Co., Ltd. and Putu Iron Ore mining Inc. / Mano River Iron Ore mining Ltd.

Extent and Condition

5.58 Although Liberia’s current road network covers roughly 10,600 km, paved roads account for barely 6 percent of the total road network, and less than a quarter are classified as all-weather roads.⁷¹ In 2011, approximately 60 percent of the road network was rated in “good” or “fair” condition, representing a strong improvement compared to their immediate post-conflict condition. Nevertheless, during the rainy season, significant portions of the non-urban roads linking agricultural production centres become unusable for days at a time. The poor condition of a large percentage of the road network and the collapse of associated bridges remain a serious bottleneck.

5.59 The National Transport Policy and Strategy and the Transport Master Plan highlight the major constraints for the road transport sector, including muddy roads during the rainy season which cause delays and high transport costs; restrictions and lack of proper bridges for water crossing; and lack of resources for sustained periodic and annual road maintenance. The Transport Master Plan outlines the introduction of a Road Fund as a semi-autonomous agency to secure a sustainable basis of funding for road maintenance (potentially via a fuel levy or toll tax).

Existing and Planned Road Infrastructure

5.60 The development of the roads sector in Liberia has experienced mixed progress during the implementation of the 2008-2011 Poverty Reduction Strategy (PRS1). The construction of primary paved roads was in some cases delayed with no obvious contingency plans for resumption. For example, only 40 percent of the planned feeder roads are now built. As a result, the access to primary roads by rural Liberians is still limited, impacting local travel and economic activity.

TABLE 10: Status of PRS1 (2008-2011) Deliverables in miles

Roads	PRS (2008-2011) Output goals	Total Completed	Total On-going	Total outstanding (by end of Dec. 2011)
Primary Paved Roads	100	38	6	56
Primary Laterite Roads	1,187	991	196	0
Secondary Laterite Roads	300	219	84	0
Urban Laterite Roads	150	150	0	0
Urban Paved Roads	69	14	33.85	21.15

Source: Ministry of Transport, (MoT, 2012)

5.61 Building on the plans made by the PRS1, the PRS2 set new targets for the period 2012-2017. These include rehabilitation and maintenance of roads and bridges noted in the Transport Master Plan. Notably, the Transport Master Plan places substantial emphasis on maintenance, and GIZ supports the MPW in establishing a sustainable maintenance system.

⁷¹ Liberia: Logistics Capacity Assessment, World Food Program, 2009.

5.62 According to the Transport Master Plan, priority roads need to be built, and maintenance of roads should be systematized. Furthermore, a regional road network connecting Liberia with Guinea and Sierra Leone should be strengthened under ECOWAS and MRU schemes to further facilitate the flow of trade.

TABLE 11: PRS2 Deliverables in Miles: 2012 to 2017

Item	Deliverable
Roads & Bridges	PSR 2 Outputs (2012-2017)
Construction, rehabilitation & maintenance of Primary, Secondary and Urban Roads	8,174.97 mi (13,156.04 km)
Construction and rehabilitation of Feeder Roads	2,092.38 mi (3,367.36 km)
Construction and maintenance of Bridges	165 bridges
Urban Paved Roads	69

Source: Ministry of Transport, (MoT, 2012)

5.63 Based on Road Economic Decision (RED) model analysis, the Transport Master Plan provides several scenarios which correspond to available budget levels. These scenarios reflect the following recommendations of the Transport Master Plan: rehabilitation of the all-weather primary network linking Monrovia with county capitals and main border crossings with Sierra Leone, Guinea, and Cote D'Ivoire; construction of two main trunk roads that could substantially reduce travel costs — Buchanan to Tappita, and Buchanan to Harper — provided that these new developments do not draw from the resources needed to maintain existing infrastructure.

5.64 Although the Government has a well-researched Transport Master Plan, it is nevertheless constrained in the Plan's implementation. For example, although the road between Buchanan to Harper has been recommended, no plans have yet been made for this road, mainly due to the lack of resources and capacity to implement it. Moving forward, the Ministry of Transport should prioritize and align the projects identified in the Transport Master Plan with the development goals of the Agenda for Transformation.

Rail Transport Sector

5.65 Liberia has a limited rail network of about 500 km. This was constructed by mining companies for transporting iron ore in the Mano River basin to the Port of Monrovia, and from Nimba to Buchanan. Most of the rail network was damaged during the civil war. In 2006, Liberia renegotiated a mining concession with Arcelor Mittal which included the rehabilitation of 240 km of railroad from Yekepa to Buchanan. China Union also signed a concession in 2009 to rehabilitate the Bong railroad. There are ongoing negotiations with Western Cluster to develop the railroad link between Monrovia and the Sierra Leone border.

5.66 The Government recognizes the importance of railways in its overall development plan and should continue to explore ways to develop and promote an incentive structure for current and future private investors to rehabilitate, develop, use, and operate railroads through concession and PPP agreements. As noted in the Transport Master Plan, Liberia

currently has no legal framework for constructing and operating railways, and concession agreements form the only legal basis for regulating and administering railroads in the country. There is an urgent need for the Government to consider reviewing the current framework, particularly since the National Transport Policy and Strategy aims to improve and expand the national rail network by integrating it into the rest of the transport network. This would require coordinated planning of any future transport infrastructure in all future concession agreements. A coordinated approach would allow the Government to better address the primary issue of third-party access and usage of the rail network.

5.67 Third-party access to concession infrastructure is currently required as long as spare capacity exists, there is no interference with incumbent operations, and associated costs are covered by third parties (these provisions are weakest in the case of Arcelor-Mittal and strongest in case of Putu). While MDAs give the Government the right to use any “excess capacity,” this term is not explicitly defined, leaving significant space for legal disputes and contractual challenges. Further, MDAs do not clarify or specify who the rail network operator should be in case there is a commercially viable third-party investor interested in having access to the railroads.

5.68 Creating a regulated structure of usage rights could be a win-win for all stakeholders and investors. For Liberia’s long-term development goals, all future concessions involving infrastructure development should require that the infrastructure be available for third-party access and use—clearly specifying both usage and haulage rights as well as a structure for the service provider and operator. This is critical for private sector involvement and promoting a sustainable investment climate due to the cost savings. For example, allowing double tracking on the Yekepa to Buchanan corridor instead of constructing parallel tracks to a different mine would bring an estimated savings of US\$313 million over 20 years, about 23 percent of total costs.⁷²

5.69 For promoting intra-regional trade with the Manu River Union partners, Liberia should continue to pursue a program to harmonize rail development strategy and policy with the other three countries and enhance rail safety and security measures across the region. While this is not an easy task, the benefits of starting are tremendous and the results of inaction will be preventing Liberia from achieving its regional economic development goals. An immediate scenario is if Government is successful in bringing Arcelor Mittal and BHP Billiton to negotiate a joint venture that will extend rehabilitation of the railroad to Yekepa and possibly to new mines in Guinea. This extended corridor could eventually be used for iron ore from the Simandou range in Guinea, facilitating intraregional cooperation and trade.

Air Transport Sector

5.70 Liberia has 12 airports and airstrips providing air cargo and passenger services. Roberts International Airport (RIA), located about 45km outside of Monrovia, is the country’s only international airport and is managed by the International Airport Agency.

⁷² Infrastructure Policy Notes Leveraging Investments by Natural Resource Concessionaires. Washington, D.C.: World Bank, 2011.

Other significant airports include James Spriggs Payne Airport, Foya Kamara, Greenville, Harper, and Voinjama. The state of airport infrastructure is generally poor with the exception of RIA.

5.71 Following the Peace Accords in 2003, RIA has been restored to the minimum International Civil Aviation Organization (ICAO) standards through the purchase of essential equipment.⁷³ The runway, terminal buildings, navigational facilities, and security equipment have been mostly restored, and the Government has developed a new master plan for the airport. An ongoing challenge will be to improve the infrastructure at the other domestic airports to the minimum ICAO safety and security standards using various forms of PPPs.

C. Intra-Regional Trade

5.72 Improving overall trade and transport logistics performance remains a key challenge for Liberia's trade competitiveness agenda, particularly in term of regional trade with the Mano River Union partners and other West African countries. Trade facilitation remains a key instrument in advancing regional integration by fostering intra-regional trade which in turn enhances economic opportunities and competitiveness. From a trade facilitation perspective, regional trade integration efforts should complement national trade facilitation initiatives. Moreover, trade facilitation measures support closer regional integration through regional trade infrastructure, such as trade corridors, but also by supporting bilateral cooperation at the border. For example, the goal of one-stop border posts is to reduce paperwork and waiting times; this requires not only physical infrastructure but also detailed agreement on mutual recognition of process and procedures.

5.73 Yet, at present there are no mechanisms to support the coordination of transport infrastructure investments and the policy reform agenda that is essential to ensure that improvements in transportation deliver development benefits.

D. Logistics and Freight Services

5.74 Given the importance of transport infrastructure services to the nation's overall economic activities, improving the delivery of services should remain a central national strategic goal. Logistics and freight services in Liberia are primarily provided at the major ports, land border crossings, and along the major road corridors. During the past decade, a key element of Liberia's goal of promoting trade facilitation and improving the country's trade competitiveness has been the revitalization of the role of private sector, improving delivery of transport infrastructure services, and enhancing the security environment at key transport facilities.

5.75 One of the goals of the Ministry of Transport's 2009 National Transport Policy and Strategy was to improve the quality of transport services through the privatization of port and maritime services. The objective was to fully utilize the ports infrastructure assets,

⁷³ Liberia Country Evaluation Program Evaluation: 2004-2011. Washington, D.C.: World Bank, 2012.

increase the port's cargo throughput, and enhance the Port's overall performance by offering integrated transport and logistics services. By December 2010, the Government achieved this goal through a concession with APM as port operator. Today, nearly 100 percent of all the general cargo is handled by professional cargo handlers. The improved services and rehabilitated infrastructure are enabling the NPA to generate increased revenues.

Maritime Transport Services

5.76 At the Port of Monrovia, the port operator has improved its performance in handling increased cargo volumes and in reducing container dwell time at the port. However, as mentioned, key stakeholders insist that delays in releasing containers at the port are mostly attributed to APM's lack of proper tracking, and the efficiency of port operations has been affected by the lack of equipment to load and release containers to traders.

5.77 Since currently high-value and time-sensitive goods are limited in Liberia's exports, maritime ports will likely remain the preferred transport mode for Liberia's foreign trade.

5.78 The fact that Liberia is showing moderate improvement in trade facilitation and logistics services over the last few years indicates that interventions made thus far have brought some positive changes. However, the speed of improvements remains very slow. More efficient interventions and comprehensive reforms are necessary, and the Government must take early actions to keep up with its growth in terms of both physical investments and policies.

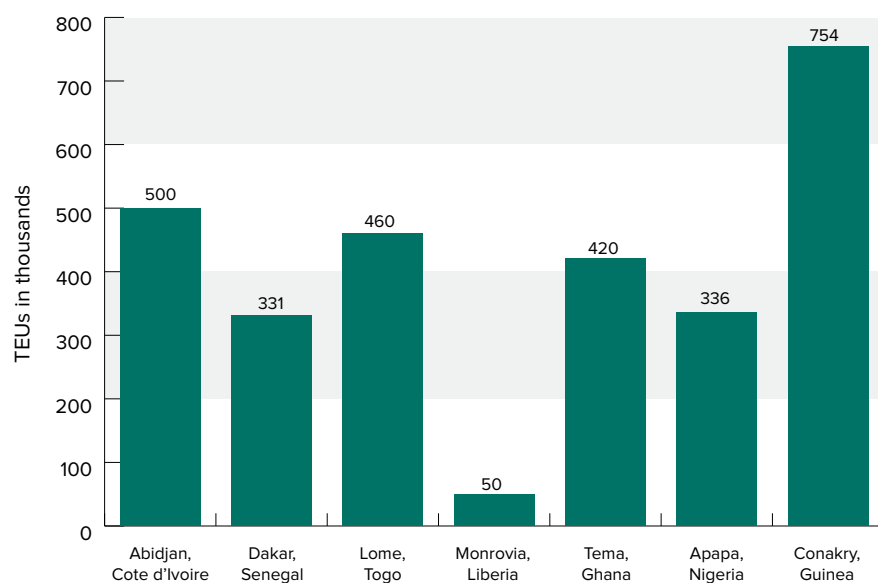
5.79 In Liberia, most of the time is not spent in motion, but typically, at initiation of transit, at borders and at the main ports; as a result, the reduction of costs and stable logistics services provision will come from the improvement in service delivery.

Transshipment

5.80 The modernization and improvements at the Port of Monrovia are expected to revive the regional transshipment industry in Liberia. A prosperous transshipment port requires not only a good port performance, but seamless road networks to neighbouring countries are important as well. Too often, road conditions vary too greatly from one region/country to the next for a transshipment industry to make economic sense. There are currently prospects to regain some of the transshipment business from rubber plantations in Guinea. If the regional road network improves sufficiently, the booming mining sectors in Guinea and Sierra Leone could be catalysts to revive Liberia's transshipment industry.

5.81 On the whole, ECOWAS lacks appropriate transshipment links, and major shipping lines tend to use European ports as their trade hubs for West Africa. Although there are numerous small ports in West Africa, there are too many obstacles – both physical and regulatory – to make the region a competitive location for large-scale transshipment activities. Port performance in this region is relatively lower than in other regions, even at the most granular level – it has been noted that crane productivity in ECOWAS ports is less than half of international benchmarks, and container dwell time is typically twice as long than in Southern Africa. However, given the landlocked status of many West African countries, (particularly Burkina Faso, Niger, and Mali), efficient transshipment hubs will always be in demand within West Africa.

FIGURE 16: Total Container TEUs Handled at Liberia and West African Seaports



Source: (ADB, 2013)

5.82 If Liberia wants to revive its transshipment business, it must plan strategically to compete with other ports, but also consider specialization in export commodities. The Port of Monrovia remains small compared to other ECOWAS ports, and will only attract transshipments to the landlocked countries when the upgrading of its infrastructure and facilities is complete.

Road Transport Services

5.83 Liberia has a severe deficit in road transport services, and the underlying causes of this deficit are particularly deep-seated. Although there has been measurable improvement in the physical condition of parts of the road network since 2008, there has been negligible improvement in the delivery of transport services commensurate with the infrastructure improvements.

5.84 The Ministry of Transport (MOT) is the agency responsible for regulating the quality of road transport services in Liberia, while the Ministry of Public Works (MPW) is tasked with constructing, rehabilitating, and maintaining roads. Together these two agencies have the responsibilities to ensure the safe and efficient movement of goods on the domestic road network, as well as through the international ports and land crossings.

5.85 The capacity and quality of trucking services in Liberia is unsatisfactory due to weak industry structure, over-reliance on outdated vehicles, excess capacity, and lack of back-haul which results in relatively high vehicle operating costs. This is worsened by poor road safety measures, and rising costs of fuel. In particular, poor road conditions contribute to high vehicle maintenance costs for the truck carriers who are mostly independent owner-operators.

5.86 Liberia would benefit from a major restructuring and organization of the trucking service industry, as a necessary step for improving trade facilitation and movement of

imports and exports to and from ports and throughout the country. MoT should develop the necessary regulations for developing the trucking service industry further, including driver/vehicle safety training, attracting private investors and microfinance schemes to modernize the truck fleet, simplifying vehicle registration and insurance procedures, decentralizing the functions for commercial vehicle registration to the major county capitals, and harmonizing truck services with regional MRU frameworks. These enhanced regulatory interventions would also include working with the Ministry of Justice and the Liberia National Police to develop an enforcement standard for axle load and overloading, and form multi-agency unit for developing guidelines and standards for commercial vehicle safety and inspections.

Major truck service-related challenges facing the MoT in performing its critical trade facilitation role include:

- **The enforcement of regulations** regarding restrictions on types of road vehicles that could operate trucking services, the kinds of commodities that could be transported, and the dimensions, size, and weight of freight vehicles.
- **Controlling and monitoring licensing of road transport service providers** to guarantee that only those providers who meet minimum safety, technical, environmental, and insurance requirements continue to be in service.
- **Controlling and enforcing rules on truck overloading** which has a direct impact on deterioration of the road network — especially for unpaved feeder roads.

5.87 To make progress on these well-known challenges, MoT needs significant capacity building for transport regulators, enforcement officers, and dedicated funding sources for public awareness campaigns that would ideally involve the private sector. MoT must prioritize its capacity needs to include building both public and private sector capacity for the trucking service sector; re-establishing a regulatory framework for axle-load control; and securing funding for strategically located weigh-bridges to monitor and enforce weight restrictions.

E. Third-Party Use of Mining Transport Infrastructure for Trade Facilitation

5.88 Between 2003 and 2012, over 30 concession agreements have been negotiated and several more have been identified for future negotiations. In view of the huge infrastructure gaps in Liberia, concessionaires are often given incentives to more easily finance their own infrastructure development needs. The total infrastructure investments of the mining concessionaires alone could exceed US\$5 billion in recent years.⁷⁴ The resulting collection of roads, railways, and port facilities could provide support to the development of a transport network for not only hauling cargo of the concessionaires, but also for facilitating the movement of internationally traded goods and domestic freight. The key policy challenge is how to harness the spillover effects of such investments by promoting third-party usage and supporting the development of transport infrastructure along the growth triangle corridors.

5.89 Evidence from different parts of the world suggests that mining-related infrastructure

⁷⁴ Infrastructure Policy Notes Leveraging Investments by Natural Resource Concessionaires. Washington, D.C.: World Bank, 2011a.

investments are potential enablers of increased trade, productivity, and economic growth.⁷⁵ Liberia has had little success in this regard, as third-party access to transport infrastructure under mining concessions has been limited. To address this challenge, future transport infrastructure development agreements under the various concession agreements should be better structured in terms of ownership, public and third-party access, and usage rights. It should also be ensured that transport projects in individual concessions align with the short, medium, and long-term national development goals.

5.90 Leveraging Liberia’s concession-related transport infrastructure to facilitate trade can have significant positive effect on the country’s economic development and poverty reduction goals. Combining access to infrastructure with improvements in the efficiency of customs operations and international trade procedures can reduce trade transaction costs, increase trade volumes, increase competitiveness, attract more foreign investors, and enhance revenue collection. Given these benefits, a critical component of advancing Liberia’s trade facilitation goals must be a concerted push to work together with concessionaires, especially because concession-related transport infrastructure is likely to increase dramatically as the country negotiates the next round of concession agreements in the coming years. As private companies develop their own roads, rehabilitate deteriorated railroads or build new ones, and develop their own ports and marine facilities, privately owned infrastructure will become a dominant component of the national transport network.⁷⁶ Without third party access to such transport infrastructure, the latter will only serve as a “quasi-private good.” Steps must therefore be taken to promote infrastructure development as a “public good,” so as to maximize the spillover effects of mining concessions.

Linking Mining-related Transport Infrastructure to the Growth Triangle Corridors

5.91 It has been estimated that by 2030, the mining sector will account for more than 90 percent of national demand for port capacity and close to 100 percent of national demand for rail freight.⁷⁷ Together these large-scale mining operations will depend on the three existing railroads and/or newly built railroads connected to the major seaports. The location of these mines in relation to the railroads and seaports creates a growth triangle corridor anchored around Monrovia to Yekepa to Greenville, with Buchanan on the coastal corridor. Connecting these major growth centers are primary roads in various stages of rehabilitation — with the opportunity to substantially reduce travel time and cost when these primary roads become all-weather roads.

5.92 As development of new transport facilities follow these mining concessions, it will be important for the Government to follow the recommendations of the Transport Master Plan in ensuring a multimodal network of roads, rail, and coastal ports that is capable of meeting the current and future needs of mining as well as agriculture, forestry, and manufacturing. Under such a multimodal policy, the Yekepa to Buchanan and Yekepa to

⁷⁵ Fostering the Development of Greenfield Mining-related Transport Infrastructure through Project Financing, IFC, April 2013.

⁷⁶ According to the World Bank, (2011a) by 2030, mines could represent more than 80 percent of national power demand, more than 90 percent of national demand for port capacity, and close to 100 percent of national demand for rail freight. Moreover, about one third of Liberia’s feeder road network will lie on land managed by mining, forestry and agriculture concessionaires. This underscores the critical importance of being able to leverage the transport for broader economic goals.

⁷⁷ World Bank (2011a)

Monrovia corridors could be linked to the ports by both all-weather primary roads and a railroad. Similarly, all-weather roads on the Monrovia to Foya and Greenville to Zwedru corridors will extend the boundaries of the growth triangle corridors. Such an intermodal network of rail and roads will meet the expected needs of multiple sectors and also serve multiple clients moving mine and general freight.

Key Issues to Successful Leveraging of Concession Infrastructure

5.93 Leveraging mining concession infrastructure for trade facilitation will require strong Government commitment in two areas: (1) pushing for deep changes in the structuring of the infrastructure components in concessions and (2) embracing a new regime of innovative financing of transport infrastructure that are in demand by concessionaires.

Changing Infrastructure in Concessions

5.94 In order to move away from the absence of third-party use of mining-related transport infrastructure, the Government will need to embrace the principle of promoting transport infrastructure as “public goods” as opposed to being “quasi-private goods.” This principle underpins how the issues of ownership, open access, and third-party use rights are carefully customized into individual concession agreements. In Liberia’s case, this principle should be considered for all future concessions.

5.95 This “public good” principle also draws from examples of infrastructure concessions in East Africa, Brazil, and Asia, and Australia which show that integrated mining projects (mines, rail, ports) need not be 100 percent owned by private sector concessionaires. It is this model of 100 percent private sector ownership that has the potential to create patches of isolated enclaves with sparse interrelations to the rest of local economies.⁷⁸ Instead, there are several proven models for structuring pragmatic partial equity ownership arrangements, particularly in PPP regimes. A good case example is the Maputo Port PPP (see Box 7 below). While there are urgent and competing demands on the Government’s budget and borrowing capacity, this in itself should not limit the Government’s options to strongly preserve its stake and equity in future concessions and be in a stronger position to negotiate better open access regimes in each concession.

5.96 Pragmatic options that strengthen the Government’s position for open access regimes include:

Future Opportunities

- Clearly and consistently identifying terms for multi-client and/or multi-use access of underlying transport infrastructure in future concessions.
- Clearly specifying the conditions for third-party access rights and/or “haulage” rights—with haulage rights allowing the primary anchor concessionaire to have the contractual obligation to haul cargo for other investors while controlling the operations, efficiency, safety, maintenance, and profits.
- Promoting third-party ownership of underlying rail and port infrastructure. When structure

⁷⁸ Fostering the Development of Greenfield Mining-related Transport Infrastructure through Project Financing. IFC, April 2013.

well this will allow the very large investments required for mining projects, for example, to be amortized over multiple clients and/or users to make the projects more bankable.

- Assess each underlying concession-related transport infrastructure as a standalone public good project, available to generate net profits from all operations and multiple users. And allowing third-party ownership ensures open access since the infrastructure owner will seek to maximize revenue by attracting multiple clients.
- Under carefully structured PPP arrangements, the third-party owner of the infrastructure could be a consortium of the anchor mining companies.

Current Opportunities

- Follow the recommendations of the Transport Master Plan and accelerate the re-prioritization and identification of critical transport infrastructure projects that will speed up economic growth beyond the current mining concessions.
- Identify and designate a new “National Highway Network” of both primary and secondary roads that will form an interconnected network linking the coastal regions, east-west, and north-south corridors.
- Begin strategic dialogue with current concessionaires as a group to develop mutual consensus on best approaches to eventually transitioning from various forms of shared ownership of concession-related port, rail, and road facilities.

Innovative Financing of Infrastructure in Concessions

5.97 An equally important complementary policy that the Government should embrace is to ensure continued financial profitability for current and future concessionaires, especially when it begins considering and implementing steps towards better open access rights. This step is particularly relevant when considering new PPP agreements because securing concessional financing from multilateral institutions assures concessionaires that any demands for multi-use access to pre-existing transport infrastructure would always be made with strong consideration of the anchor investors’ financial bottom-line.

5.98 Using various innovative financing arrangements, it is possible to structure future concessions to preserve the Government’s national interests in retaining partial ownership and therefore control in the use of concession-related infrastructure.

BOX 7: CASE STUDY EXAMPLE: MAPUTO PORT PPP (MOZAMBIQUE)

Description: The rehabilitation of the two terminals of Maputo Port in Mozambique under a 15-year BOT concession, that was extended 15 years in 2010, with an optional 10 years after 2033. The Port was to be developed in conjunction with an 88 km railway, as part of the broader Maputo Development Corridor.

Total project cost: USD 68 million with financial close in March 2003

The PPP Structure and Financing

The concession for the rehabilitation and operation of the Port was signed in 2003 by Maputo

Port Development Co. (“MPDC”). The concessionaire is a joint venture between the public sector, represented by CFM and the GOM (which owns 49 percent of the concessionaire), and a UK-led consortium. MPDC agreed to finance, develop and rehabilitate two terminals of the Port, in exchange for the right to operate it for 15 years (in a classic BOT structure).

The concession includes fixed annual payments (rent) of USD 5 million. Further, MPDC is required to pay to the Public Port Authority 10 percent of gross income during the first five years, 12.5 percent during year five to 10, and 15.5 percent in years 11 to 15.

The rehabilitation of the Port, which was expected to last three years, was estimated to cost USD 67.5 million. The financing plan consisted of:

Equity of USD 32 million;

Senior debt of USD 27 million in form of two term loans. A USD 14 million, 12-year term loan from Standard Bank included political and partial commercial guarantee from the Swedish International Development Agency (“SIDA”), a Swedish government agency focused on poverty reduction. A USD 13 million, 10-year loan was provided by DBSA and FMO, respectively the South African and the Dutch government development banks; and

Subordinated debt of USD 8.5 million, consisting of a 10-year loan from FinnFund (a Finnish development finance agency) and Nordic Development Fund (a regional IFI).

Lessons Learned

The Maputo Port PPP is an example of a multi-client/multi-modal project that was designed on an un-bundled basis (whereby a key component of the infrastructure — the railway — was designed and executed as a separate project). It demonstrates the key challenges of un-bundling mining-related. In this case, the Port had connections to alternative transportation facilities which supplied sufficient volume to replace the lack of Rail traffic.

This case also demonstrates the productive role IFIs and development finance agencies can play in bringing mining-related infrastructure PPPs to market. Without the funding and guarantees of the various unilateral and regional finance development institutions, it is difficult to imagine that commercial lenders would have deemed the project bankable, and without credit financing, it is very unlikely that the private sector sponsors would have been interested. The development financing agencies addressed a funding gap and helped develop what has turned out to be a successful project.

Source: (IFC, 2013). *Fostering the Development of Greenfield Mining-related Transport Infrastructure through Project Financing*. April 2013.

5.99 In order to enable the Liberian Government to better understand its options and what specific actions to consider, it would need assistance to conduct a comprehensive feasibility study on innovative financial models for improving the feasibility of transport corridor projects and providing the necessary incentive structures in infrastructure concession arrangements. Designing transport infrastructure PPPs that are likely to attract investor support and financing will depend on various combinations of:

- *Concessional funding from donor agencies*—through direct lending or credit enhancements.
- *Corporate financing*—where the creditworthiness of the single or multiple sponsoring concessionaires complicates request for third-party user rights after project completion.
- *Limited recourse project financing*—where the cash flow of the project itself, not the balance sheets of the sponsoring concessionaires or the credit ratings of the host country.

5.100 Regardless of what concession regime the Liberia government decides for particular transport infrastructure, what remains critical for successful concessions are the negotiated incentives that provide a right balance between the needs of the country and private investors. The benefit to concessionaires is that the level of sunk cost needed to start a mining operation will be reduced, thus increasing further the number of potential foreign investors.

F. Conclusions and Recommendations

5.101 Liberia showed moderate improvement in trade facilitation and logistics services over the past several years yet the speed of improvement remains slow, suggesting the need for more efficient interventions and comprehensive reforms. Interviews with stakeholders and logistics professionals in the Government and the private sector have indicated several key challenges to improving trade facilitation in Liberia, particularly in customs operation and risk management, basic infrastructure and equipment, and coordination with concessionaires and regional communities for developing the roads network.

5.102 The Government of Liberia recognizes the need for efficient transport and trade logistics reforms, which can enhance intraregional exports. One of the main limitations in implementing the aforementioned Action Plans is the low effectiveness of the single coordinating agency created in 2012 and charged with overseeing and monitoring both the implementation and performance of the Plans. This preliminary assessment suggests that while many of the recommendations of the 2008 DTIS have been implemented, there are still priority action items that should be addressed:

Customs and Cross-Border Management

Short-term

- Continue roll out of ASYCUDA to all border facilities and equip the border posts with basic infrastructure (electricity, internet, etc.)
- Reduce pre-shipment inspections and duplication of inspections by BIVAC and BCE.
- Implement new Customs Code to streamline the role and mandates of public agencies at the ports and border facilities. The new Code is critical for the overall customs modernization program, especially in clarifying the role of security agents and streamlining the risk management approach.

Medium-term

- Introduce extended hours of operation at the Port of Monrovia to facilitate fast, smooth, and continuous operations to reduce delays and increase efficiency and

- productivity.
- Push for increased and sustained capacity enhancement and expanded training for enforcement, inspections, and data collection. The in-house capacity of customs staff is a necessary condition for improved risk management protocols. In addition to the capacity building plans undertaken by BIVAC, BCE staff need more training on ASYCUDA.

Maritime Transport Sector

Short-term

- Continue plans to renovate the container yard at the Port of Monrovia to better utilize the available space.
- Procure and deploy a computerized container tracking and tracing system in the container yard to reduce the time necessary for containers to be located after they have been cleared.
- The terminal operator should follow through on plans to modernize and upgrade key port equipment and facilities, including parking areas for trucks awaiting clearance.
- The NPA should begin to plan for expansion of the terminal, to accommodate the expected growth in container vessels calling at the port.

Medium-term

- Secure sustainable funding for maintaining adequate dredging to prevent siltation in the Port of Monrovia.
- For the ports of Buchanan, Harper, and Greenville, secure sustainable funding through PPPs for the repair of basic infrastructure, wreck removal, and dredging.

Road Transport Sector

- Continue assessing the establishment of a Road Fund to secure dedicated financing for sustaining critical nationwide roads projects.
- Review the existing procurement regimes for deploying construction and maintenance contracts to speed up the role of the private sector in hastening the rebuilding program.
- Enhance the capacity of MoT and MPW to effectively manage the expected growth in the road rebuilding program. Many specifics have been provided on the enormity of this need in the National Transport Policy and Strategy, the Transport Master Plan, and several other World Bank and donor reports. Urgency is growing particularly for local technical capacity for enforcement and safety personnel, in light of increasing mining sector activity.
- Conduct a comprehensive study to determine critical roads of national significance for broader reach of farmers nationwide.
- Conduct an asset management program to compile an inventory of critical road infrastructure that will form the basis for an expanded road maintenance monitoring system.

Intra-Regional Trade Integration

- Support bilateral cooperation at the border and agree on an implementable transit regime;
- Ensure that upgrading of physical transport infrastructure is coordinated with establishment of new institutional and regulatory framework for the MRU. It will be important, therefore, to address policy constraints as an integral part of programs for improving the physical infrastructure that links the regional markets.
- Address the policy constraints on the harmonization of safety standards and mutual recognition of drivers in cross-border trade.
- Review how MRU could improve the environment for growing a viable and healthy long-term insurance industry by making a continuous and concerted regional effort to ensure insurance companies pay claims in a timely and fair manner.



Farmer inspecting grass field: World Bank Photo Library

CHAPTER 6

ASSESSMENT OF AGRICULTURAL VALUE CHAINS

6.1 Liberia's competitiveness in the agricultural commodities' market, like most African countries, is faced with not only improving production and productivity to gain significant market share but also to create the desired linkages and branding as well as to ensure quality and standards along the commodity value chain. Achieving this requires partnership and commitment by both the public and private sectors in the country. A critical first step to gaining competitive position is to understand the status quo of the various stages and players of the value chain i.e. inputs, production, assembly, processing, and marketing.

6.2 In December 2008, the Government adopted its Food and Agriculture Policy and Strategy (FAPS), which aimed at attain a “revitalized and modernized agricultural sector that is contributing to shared, inclusive and sustainable economic growth and development.” A key prerequisite for attaining this long-term vision will be a wholesale revitalization of the economic rationale for the sector, moving away from subsistence agriculture and focusing on dramatic increases in productivity, competitiveness, value addition, diversification, and linkages to international markets. Accessing and getting markets to work effectively have proven to be a major challenge for Liberia, as the sector must transition from low-production subsistence farming to high-productivity commercial enterprises amid poor infrastructure and the near-complete absence of an agribusiness culture.⁷⁹

6.3 This chapter provides an analysis of agricultural value chains for selected commodities – rice, rubber, cocoa, and palm oil – in order to analyze Liberia's agricultural competitiveness and determine what actions along these value chains could be taken to minimize costs, improve performance, and contribute towards economic diversification. Although these particular commodity value chains represent the bulk of sector output, they are all at various stages of development, with few up- or downstream linkages that could potentially boost competitiveness. Figure 17 shows the performance of these four Subsectors.

6.4 While rice's impact on national food security is evident, the traditional cash crops in Liberia – cocoa, rubber and palm oil – have the greatest potential to impact Liberia's competitiveness in global markets and positively expand national income from trade. At the same time, given their outward orientation to global markets, these commodities are subject to global cyclical price trends, and the structure of their value chains reflects this exposure.

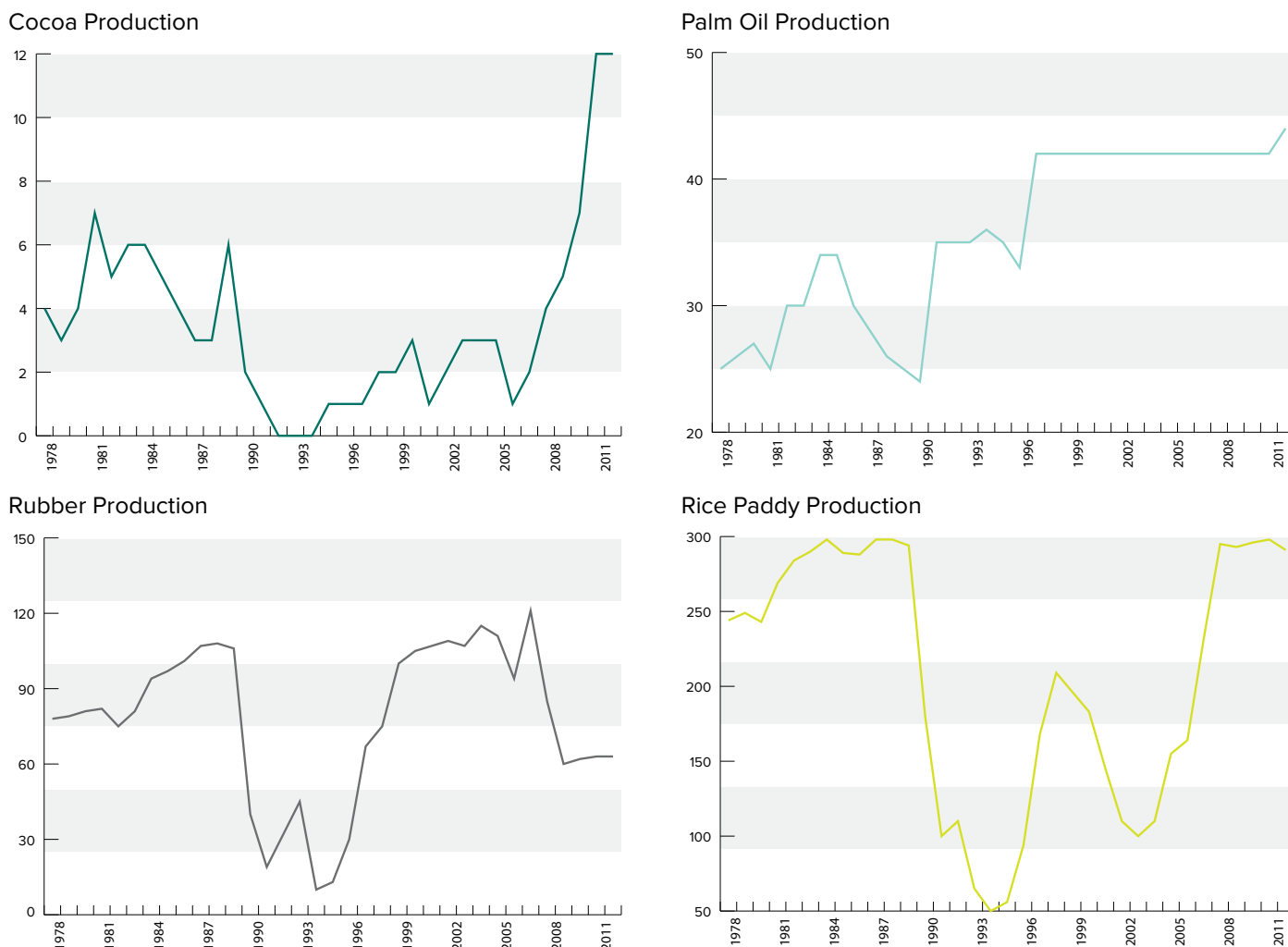


Rubber Plantation: Firestone Liberia

79 MOA Liberia Agriculture Sector Investment Program, CAADP.

6.5 Overall, there is need to facilitate greater competitiveness among all four of these value chains through instituting supporting policies, sustained public and private investments, and strong public-private partnerships. In the short-term, the Government can and must pursue several interventions to help catalyze greater production. In the medium and long-term, individuals and enterprises must have the proper incentives in place to make better investment decisions based on improved inputs, market intelligence, and technical knowledge.

FIGURE 17: Performance of Key Agriculture Value Chains in Liberia



Source: FAOSTAT

A. Rice Subsector

6.6 Rice is a major staple of the Liberian diet, and consequently most farm households are involved in rice production to a greater or lesser degree. Shifting, or “slash-and-burn” cultivation, remains the dominant cultivation method in Liberia, and accounts for roughly

90 percent of national rice production.⁸⁰ Over recent years the country has only produced around 50 percent of its overall demand, and productivity continues to decrease in the face of a growing population (Table 12).

6.7 Since the conclusion of the civil war in 2003, overall productivity has yet to exceed pre-war levels. Although yields in the lowland (1.54MT/ha) are 53 percent higher than those in the upland farms (1.01MT/ha), use of low yielding varieties nationwide, along with poor farm management practices and low investments in inputs (viable seeds, fertilizers, tools and equipment) all combine to keep productivity levels low. Indeed, rice yields in Liberia are among the lowest in the world, compared to 5–6 MT/ha in other countries in the region, such as Senegal.

TABLE 12: Trends of Rice Production, Acreages and Yields

Product	Unit	Year				
		1988	2008	2009	2010	2011
Paddy Rice Production	Tonnes	298,630	279,000	293,000	296,090	290,650
Production at 1988 baseline year	Percent	100	93.43	98.1	99.1	97.3
Acreage Cultivated	Hectare (Ha)	235,760	222,760	247,580	251,230	238,780
Average yield	MT/Ha	1.27	1.25	1.18	1.18	1.22
Farms	Numbers	161,030	231,650	245,840	241,310	242,800
Estimated Acreage Cultivated per Farm Family (FF)	Ha/FF	1.46	0.96	1	1.04	0.98

Source: Adopted from Rice Production Survey, 2011.

RICE VALUE CHAIN

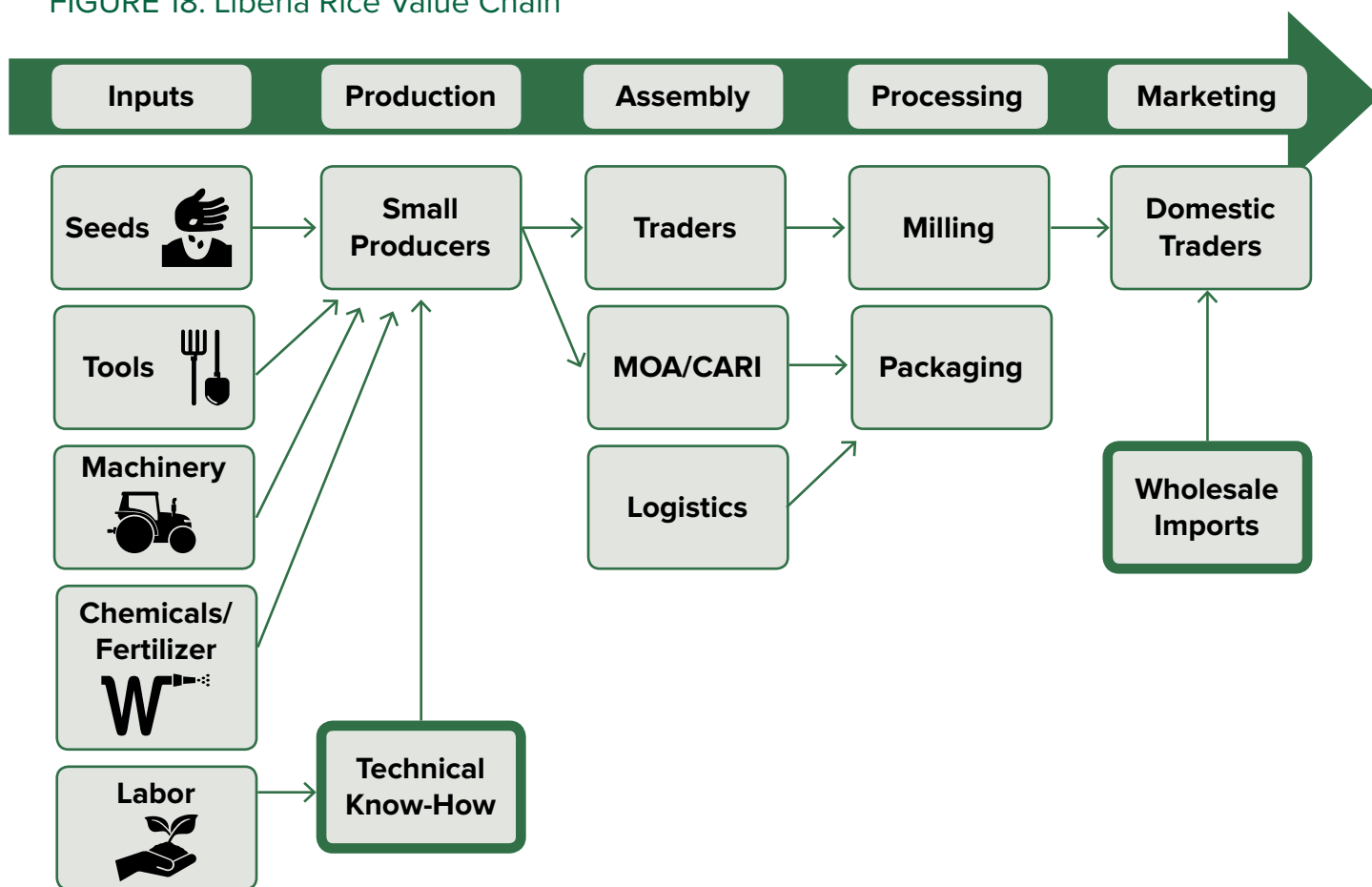
Inputs and Production

6.8 The rice value chain in Liberia has specialized players in each stage of the chain. The input stage is the foundation for enhancing the overall competitiveness of the entire chain, and increasing the efficiency of the inputs market can form the basis for higher overall production and productivity. Conversely, any limitation on the quality/adequacy of inputs will have a negative knock-on effect on the productivity as well. It is evident that Liberia's current decline in rice productivity compared to pre-war years is largely due to the weak inputs market. See Figure 18.

6.9 Access to agricultural inputs (tools, equipment, certified seeds, machinery, chemicals/fertilizers and information) is extremely limited in the domestic market. This input scarcity typically affects smallholder farmers the most. Even when these inputs are present in local markets (which is rare), the vast majority of farmers cannot afford them. Out of 792 households surveyed in 2007, only two indicated that they had used any type of

80 Liberia Agricultural Survey 2011.

FIGURE 18: Liberia Rice Value Chain



Source: Authors

agro-chemical or improved seed variety.⁸¹ Chemicals and fertilizers are particularly scarce, and some cooperatives have reported fertilizer prices at US\$65-75 (compared to \$25-35 in Ghana). Specific blending of fertilizers remains a major constraint across the sub-region, and consequently farmers must rely on standard fertilizer blends irrespective of the type of crop under cultivation. Access to improved rice seed varieties in Liberia is also limited due to structural weakness in the private input market, which is characterized by inadequate supply of improved seeds, over-reliance on old varieties, poor quality foundation seeds, and a general lack of sophisticated private sector participation.⁸² In order to improve the quality of rice production, MOA operates the Central Agricultural Research Institute (CARI) to develop improved seeds tailored for local agro-climatic conditions, as well as to monitor standards in the private market for seeds. Additional activities to improve the availability of higher-quality inputs are necessary, but it is recommended that the Government begin to develop strategies to involve the private sector in these efforts to ensure their sustainability.

6.10 The bulk of rice seed multiplication is informal and dominated by smallholder farmers. Private sector involvement in seed multiplication and marketing is limited to a handful of companies (Arjay Farm, Green Star, etc.). These firms conduct business primarily

81 IITA/STCP/UTK Survey, 2007.

82 Government Seed Policy, 2012

on the basis of procurement contracts for seeds and other inputs (fertilizers, machinery) with the public sector or donor-supported projects, rather than on the open market. The overwhelming majority of all farming machinery, fertilizers, and non-native seeds in Liberia originate through these channels.

6.11 The 2009 Liberian Rice Development Strategy (LRDS) outlines the strategic objectives and interventions planned over the next 10 years to improve rice production and productivity. The aim of the LRDS is to stimulate increased production through improved productivity of existing upland rice, while expanding the area of production for lowland irrigated rice, with the aim of doubling the crop harvest of lowland rice within one year. The total domestic rice production (including upland, lowland, and irrigated) is expected to increase from 200,000 MT in 2009 to 330,000 MT by 2018, or by roughly 65 percent in the next four years.

6.12 Yields in the lowland (1.54MT/Ha) are relatively higher by 52.5 percent than those in the upland farms (1.01MT/Ha) where soil nutrients levels are often low. The use of low yielding varieties on uplands, poor farm management practices, and low investments in inputs (viable seeds, fertilizers, tools and equipment) all explain the low rice production and productivity in Liberia. Comparatively, the rice yields in Liberia are among the lowest in the world, if compared to 5 – 6 MT per ha in Asia and other countries in the region, such as Senegal.

6.13 Liberia's rice productivity could be expanded even further if high-yield seed varieties, good management practices, and appropriate technologies are provided at an affordable cost to the farmers. To achieve these results, the main emphasis for upland rice should include the use of certified seeds, fertilizer, and the reduction of pre- and post-harvest losses through Good Agricultural Practices (GAP) by improving extension services and storage facilities. For irrigated and lowland rice, the primary focus is to increase access to certified seeds, use of fertilizer, semi-mechanization using power tillers and reduction of pre- and post-harvest losses by providing technical assistance to farmers through extension services, water management, and GAP and to grow rice twice or more a year.

Assembly, Processing and Marketing

6.14 The bulk of the rice produced in Liberia is by smallholder farmers. The small acreage and low productivity of the farmers put them in a vicious cycle of subsistent farming with little surpluses outside their consumption. Given the low production, the rice is usually aggregated from the farm-gate by traders, cooperatives or some relatively wealthier local farmers or processor for processing. The most common form of milling in the rural areas is either manual pounding or with small, portable milling machines donated by NGOs.

6.15 The Liberian rice market comprises both imported and locally produced rice. Demand for local rice, known as “country rice,” exists predominantly in rural areas and some towns outside the capital, although there is some demand for country rice in Monrovia, given its unique “porridge quality.” Imported rice can be found throughout the country, typically in larger markets.

6.16 As a result of poor post-harvest management and accumulation of stones during drying, local processed rice is not appreciated in the Monrovia market. Only about 50%

of the rice consumption in Liberia is locally produced. The demand shortfall is met by imports. The GOL is therefore actively involved in diverse ways to not only boost domestic production but to also promote and brand locally produced rice to reverse the high importation of rice. GOL is currently engaged in paddy rice processing and supplying to certified distributors in Monrovia and the demand is reportedly growing for the local rice albeit with limited supply. This effort is seen as a way to improve quality and develop the confidence of local consumers by improving the quality and grade and the de-stoning of the local milled rice.

6.17 The market for imported rice is well-organized in Liberia. Rice is one of three strategic commodities whose national stock and pricing is closely monitored by the Government (along with petroleum and cement), and the Government recognizes the need for public confidence in the supply of rice in the country, whether local or imported. Although the Government does not maintain public warehouses dedicated to rice, MOCI monitors the supply of rice in private warehouses on a weekly basis to ensure that national reserves do not fall below a 6-month supply of 2.1 million bags (or roughly 105,000 tons), based on an estimated monthly import demand of 350,000 bags (17,500 MT) for Liberia. Based on these regular assessments, the Government can indirectly influence the flow of rice imports via the granting of import licenses for rice. Given that imported rice represents roughly two thirds of estimated national consumption, prevailing prices in Monrovia tend to reflect global price levels and trends.

6.18 Yet the price of imported rice is often substantially higher outside of Monrovia. Like other commodity trade in Liberia, the movement of rice is hampered by poor road infrastructure, which ultimately impacts the final market price. In September 2010, the additional cost of a bag of rice between Monrovia and Gbarnga is approximately 0.7 LD/km (or US\$.01/km), and this premium increases the further from Monrovia that the bag travels, in some areas reaching upwards of 6 US cents per kilometer traveled. The situation is improving somewhat, as in 2012 the hitherto significant price differentials between interior markets and the capital have been moderated by ongoing improvements in road conditions. This correlation between road conditions and commodity price differentials makes a clear argument for improving infrastructure as a means to boost trade competitiveness.

6.19 In line with its strategy for private sector led growth, Government should facilitate the leasing of these governments operated mills to cooperatives and/or private firms. Processing firms or cooperative ventures must be improved in order to ensure that quality of domestic milled rice is comparable to imported rice in order for the local rice to drive import substitution.

Improvements to the Rice Value Chain

6.20 Overall, the country's enabling environment is particularly poor for establishing self-sufficiency in rice production. The inputs and production stages are where most cost-buildup occurs in the overall value chain, and the Government should focus its efforts on the following elements:

- **Enabling environment constraints:**

- ◆ **Lack of seed multiplication and distribution in rural areas:** The Government should continue supporting the development of improved seed varieties through CARI and donor-funded programs, with the aim of scaling up seed production and distribution.
- ◆ **No grading system or national branding of local rice:** An effective grading system would prevent sub-standard rice from entering the market, and increase demand (and price) for high-quality local rice. Branding efforts should be introduced to influence consumer preference for local rice.
- ◆ **Weak regulation of seeds, pesticides and fertilizers:** Regulations should be enacted to ensure that farmers can reliably access the proper inputs to increase yields above traditional methods.
- ◆ **Scarce public expertise in modern farm management practices:** The Government should support the training and retention of extension service providers, and ensure proper resources for their deployment nationwide.
- ◆ **High import taxes on inputs:** Higher prices for imported technology, fertilizers and other inputs often render efficiency improvements beyond the reach of smallholder farmers. These should be reduced to stimulate a private sector market for agricultural inputs.
- ◆ **Weak credit system available to farmers:** Only four financial institutions participate in Liberia's agricultural sector, mainly by offering short-term credit and mobile banking services. MFIs are relatively few and mainly located in urban areas. There is a strong need to facilitate smallholders' and FBOs' access to adapted formal financial services, particularly for rice. The CBL's existing credit facility devoted to agriculture must be managed effectively to benefit smallholder farmers in rural areas.

- **Farm-level constraints**

- ◆ **Low business and entrepreneurial skills among smallholder farmers:** The Government should focus on developing the capacity of agricultural business centers (ABCs) to establish seed banks, loan, and trade inputs, and train/coach farmers in business and financial management practices.
- ◆ **Lack of access to improved seeds:** As mentioned above, the Government should do more to ensure rapid adoption of improved seed varieties, including collaboration with seed companies and facilitating business linkages with ABCs. Demonstration centers for new seeds should be considered, to illustrate both yield and income increases derived from improved seeds.

B. Cocoa Subsector

6.21 The Liberian cocoa belt is concentrated in rural northern Liberia, an area which accounts for over 90 percent of cocoa production and over 80 percent of the total employment generated by the Subsector. Cocoa is grown by roughly 29,000 smallholder farmers, most with ageing (30-40 years) cocoa plots. Cocoa farms are generally small (1.7ha on average), with average yields of 200 kg/ha dry cocoa (relatively low compared to Ivory Coast and

Ghana).⁸³ Several industrial-scale plantations have existed since the 1970s, although many smaller farms were abandoned during the civil war and reclaimed by forest.

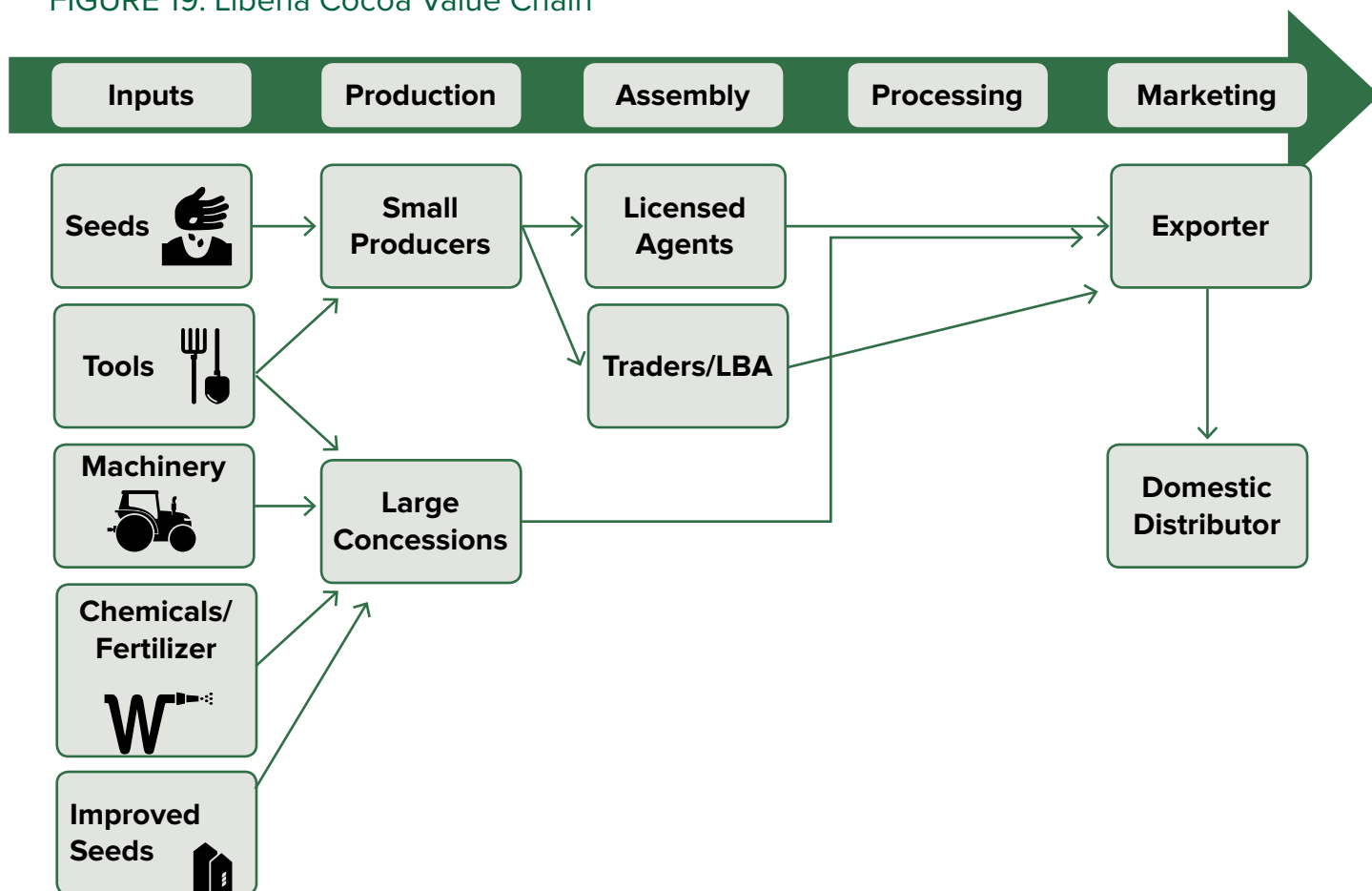
6.22 The Government has identified the following constraints in the cocoa Subsector, per the 2012 Cocoa Marketing Strategy:

- A small production base which prevents economies of scale and competition within the value chain;
- Competition for labor from rubber plantations and mining;
- Low-quality produce, given rudimentary inputs and outdated farm management practices;
- Lack of access to planting material and advisory services;
- High transaction costs and extremely low farm-gate prices, owing to high transportation costs, scattered production and a lack of producer associations.

3. COCOA VALUE CHAIN

6.23 The value chain for cocoa in Liberia is more straightforward than in many other cocoa-producing countries, reflecting more direct connections between actors. See Figure 19.

FIGURE 19: Liberia Cocoa Value Chain



Source: Authors

83 2012 Cocoa Marketing Strategy, Government of Liberia.

6.24 There are two phases for value addition beyond raw beans – i) the shelling, fermentation and drying of seeds usually at the farm level, and ii) at the assembly/export level, including the grading, cleaning and packaging prior to export.

Inputs and Production

6.25 The cocoa sector is mainly reliant on smallholder farmers that produce year-round. Due to small individual farm sizes, poor husbandry practices and the mostly ageing tree stock, average yields are 200kg/ha dry cocoa, corresponding to approximately 30 percent of yields obtained in comparable regional environments.

6.26 Basic tools for the upkeep and harvesting of smallholder plantations are adequately accessible in the local market, although fertilizer, chemicals and machinery are not. Farmers carry out on-farm processing by breaking the pods and then fermenting and drying the beans, usually with rudimentary equipment. The current market structure of input is ill-equipped to address the demand for more efficient technology, given the exceptionally low economic returns at farm-gate due to the high cost of labor and low productivity from ageing trees. This creates a viscous cycle in which farmers are unable to invest in improved tree varieties and techniques to boost productivity.

Assembly, Processing, and Marketing

6.27 Dry fermented cocoa is sold to a number of actors including village-level collectors, traders, and local agents who collect the beans at farm-gate and consolidate them, or the beans are transported by farmers themselves to larger buying centers where better prices are possible. Traders either sell the beans to wholesalers, or sell to city agents who then transport and sell to wholesalers. Wholesalers in turn sell to exporters or export the commodity themselves. Pre-financing is typically in cash and is not governed by any formal system other than trust. Liberian cocoa exporters have themselves also to deal with unreliability of local supply, complicating the challenge of aggregating supply in order to ship viable volumes.

6.28 Owing to the fact that no formal financing schemes exists for smallholder cocoa farmers, it is common for exporters or agents to do some of the financing in return for assurance that the farmer/association sells cocoa beans to them. It is reported that the exporters or their agents often provide the financing during food crop planting season when most farmers are short on cash. This has the effect of “locking” farmers into an arrangement in which they are obliged to sell their beans to only those agents who lent them funds, even if that agent offers prices that are below market rates.

6.29 Analyses on price build-up across the value chain indicates that cocoa is more profitably handled at the assembly and marketing stages – in 2013, beans at farm-gate fetched US\$450/mt giving farmers a profit margin of 5 percent, yet these beans were resold after the assembly/marketing stage for US\$930/mt, with a profit margin of 51 percent. While the latter stage involves considerably higher logistics-related costs, the actors also have the benefit of market information (i.e. their initial purchase cost at farm-gate) and are thus able to bargain for better prices at the next stage of the value chain. In any event, the fact remains that farm-gate returns are exceptionally low and provide few incentives (or

ability) to improve productivity at the farm level, and this reality will prevent the long-term growth and development of the entire cocoa sector unless external interventions are made.

Improvements to the Cocoa Value Chain

6.30 The prevailing status quo is clearly sub-optimal, although there are numerous areas where interventions can be made to improve value chain efficiency. Unlike other cash crops, cocoa is relatively less labor-intensive, and does not require heavy investments in downstream processing. Thus, well-coordinated and strategic interventions in the value chain can have a significant impact on export growth and poverty alleviation. The revival of the Liberian cocoa sector will require focused and sustained support from the Government to overcome the constraints which have already been recognized by MoA, most of which fall into two general categories:

- **An uncompetitive marketing chain from farm-gate to port**, reflecting a lack of market information, a lack of competitive pressure on prices, a lack of standards and grades, and high transaction costs associated with poor infrastructure (especially roads);
- **Low farm-level productivity**, caused by ageing stock, high-cost technologies, and inadequate husbandry practices.

To address these constraints, the Government should sequence a variety of interventions over the short, medium, and long-term:

Short-term

- **Increase the quality of cocoa** entering the value chain through improved genetic stock of trees available to farmers. Given the long lead times between planting and harvesting, there is an immediate need to begin this process as soon as possible.
- **Improve the efficiency of the cocoa value chain** through better market information on prices, leading to better prices for farmers at farm-gate to unlock necessary investments in inputs.
- **Provide more accessible expertise to farmers** to increase competence and adoption of improved varieties/practices, through expanded training and retention of extension service personnel, as well as the facilitation of deeper linkages between farmers themselves through cooperatives and other community-based groups.

Medium/Long-term

- **Increase the quality and consistency of cocoa** through implementation of a grading and quality system, increased technical assistance, improved access to capital, and improved post-harvest handling/processing.
- **Improve basic infrastructure**, with priority given to rural/feeder roads to reduce transaction costs and improve profit margins for farmers.

C. Palm Oil Subsector

6.31 Most Liberian palm oil is used for domestic or regional consumption, with small export flows to northern Africa. Liberia maintains a very small share of the total world exports of palm oil. It is estimated that the country produces roughly 42,000 tons of palm oil annually, but a national shortage persists causing Liberia to import palm oil in order to meet unmet local demand.

6.32 In the 1970s and 1980s, the Government made a strategic decision to establish oil palm as an alternate tree crop for export. Originally, plantations were alternatively and completely Government-owned, communally-owned (and Government-aided) and managed by cooperatives, or held under trusteeship by managing communities. The civil war resulted in large-scale abandonment and destruction of plantations and processing facilities. There has been limited maintenance or replanting in the last 20 years and the trees are largely at the end of their productive life. As the conflict was resolved, palm oil markets began to respond to demand in the formerly inaccessible urban centers in Liberia. Some of this demand has been satisfied by imports, while other consumers prefer to purchase raw palm nuts for home processing and still others choose to purchase a share of the production that originates from upcountry.

6.33 It is estimated that palm oil production directly employs 29,080 households, and there is broad potential for improved practices to increase productivity on existing plantations and increase smallholder participation in the sector.⁸⁴ Small-scale oil palm farming is typically undertaken with minimal adoption of agronomic techniques, thus leading to relatively low yields and efficiency.

6.34 The majority of production in the post-war years has been concentrated in the smallholder sector. Despite the prevalence of smallholder producers, the palm oil value chain remains dominated by large-scale concessionaires. Indeed, the sector has received the highest committed amount of FDI in the post-war years, totaling over US\$6 billion from just the four biggest firms: Sime Darby, Golden Veroleum, Equatorial Palm Oil, and the Maryland Palm Oil Company. These companies have combined access to over 622,000ha, and over 81,000 jobs are expected to be created as a result of these investments.⁸⁵ Exports are expected to rise rapidly in the near future as these new investments come on-stream.

4. PALM OIL VALUE CHAIN

6.35 Overall, the Liberian palm oil Subsector is considerably affected by inefficiencies in the value chain that have resulted in low sector performance relative to Liberia's neighbors.

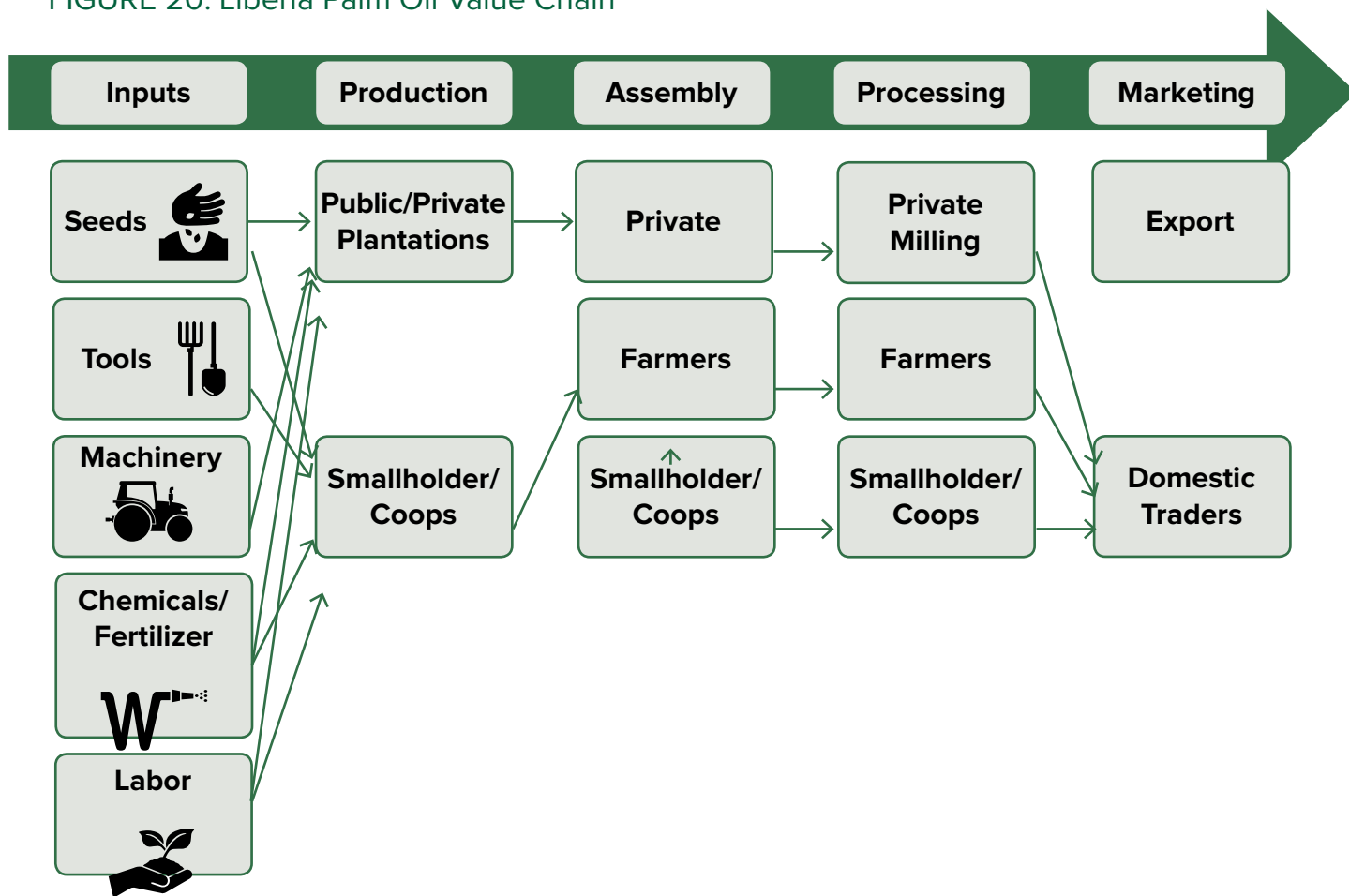
Inputs and Production

6.36 Due to a virtually non-existent extension system, the lack of any agronomic research in the sector, the absence of a domestic inputs market and the near-absence of any kind of financing for smallholders, this stage of the value chain is beset with fundamental challenges.

84 MoA/LISGIS Statistics, 2010-2011

85 Liberian Oil Palm Strategy 2014-2018, GoL

FIGURE 20: Liberia Palm Oil Value Chain



Source: Authors

6.37 Oil palm trees remain productive for roughly 30 years, and new plants require three years before producing. In ideal environments, a wide variety of inputs are used for palm production, including land, seedlings, labor, fuel, equipment, fertilizer and pesticides (Figure 20). In Liberia, the local supply chain of input suppliers is virtually non-existent. Most input supplies are imported through Liberian firms, although these firms are almost entirely foreign-owned. Due to the sporadic and relatively low demand for these inputs from the smallholder sector, the input sector as a whole remains underdeveloped.⁸⁶

6.38 Smallholder production in Liberia is typically undertaken with minimal adoption of modern agronomic techniques, in sharp contrast to medium/large-scale commercial plantations which use a range of fertilizers, pesticides, and other modern techniques. Regardless of size, palm oil harvesting is highly reliant on manual labor, with harvesting typically conducted by hand.

6.39 Most of the inputs at the input stage of the chain other than labor, at least for now are imported. Liberia has no palm seed breeding program, nor oil palm research center, high quality pre-germinated oil palm seeds are imported from neighboring countries

⁸⁶ Ibid

(Benin, Ghana, and Ivory Coast) usually through donor supported projects. Fertilizers are in acute short supply, if not imported by government or donors. Except for very few locally produced hand tools by blacksmiths, generally most tools used for the cultivation of oil palm are also imported.

Processing and Marketing

6.40 Palm fruit produces two different types of oils: palm oil, which is the focus of this analysis, and kernel oil derived from palm fruit seeds, production of which is limited.

6.41 Rural processing of palm is entirely manual, and carried out by pounding the palm fruits in a pit. The process is inefficient in terms of yield, duration and physical exertion. Some locally-produced (and donor-funded) machines use a screw press to achieve more efficient yields more quickly, but these remain financially out of reach for most smallholders.

6.42 As outlined in the National Palm Oil Strategy 2014-2018, the activity of bridging the farm to the first-level market gets compressed into one link by a conglomerate of intermediary networks, which are almost wholly dominated by women, known informally as “market women.” This term describes the first-level buyer, as well as the second and third-level actors who store, package, and transport the oil to domestic local markets, and across borders.⁸⁷ The structure of the local market is largely informal and dominated by small-scale traders who buy either directly from farmers or wholesalers who accumulate the commodity from producers/processors.

6.43 For concessionaires, palm oil is typically processed using modern techniques and shipped to a domestic facility for further refinement and on to wholesale markets both regionally and abroad.

Improvements to the Palm Oil Value Chain

6.44 Nearly all stages of the palm oil value chain are significantly more profitable for medium/large-scale plantations, including raw production and processing. This is mainly due to the former’s reliance on low-yielding and ageing stock, high production costs, low economies of scale, and poor management practices. Similar to other value chains studies in this chapter, unless interventions can be made to improve the initial yield (improved/new stock, access to financing, improved technology, capacity building, etc.) and lower the processing costs, smallholders will remain in a vicious cycle and unable to improve their productivity in the short-term.

6.45 According to this analysis, and in line with MoA’s own recently developed strategy for improving palm oil productivity, the following constraints have been identified in the palm oil value chain:

- **Severe human capital constraints:** Following the civil war, and more recently the Ebola epidemic, there are substantial shortages to provide the minimum level of institutional support to productive sectors. As oil palm is one of the fastest-growing agricultural

⁸⁷ Ibid

Subsectors in Liberia, the shortage of adequately trained workers is estimated to be anywhere between 30,000 and 40,000.⁸⁸

- **Insufficient processing practices:** Especially among smallholder farmers, the processing of oil palm fruits is fraught with inefficiencies, and owing to a lack of proper sanitary and storage protocols, the danger of spoilage and adulteration is relatively high.
- **Low levels of entrepreneurship in the Subsector:** A culture of entrepreneurship among institutional lenders/regulators/support institutions has been undermined by decades of inactivity, and the urban middle class that runs the establishment is mostly unfamiliar with or unresponsive to the activity of the smallholder space.⁸⁹
- **Access to finance is challenging for smallholder farmers:** As in other agricultural value chains studied here, the persistent lack of credit for SMEs (often due to insufficient collateral) continues to hamper sector growth. Although some microfinance activity exists in this sector, most farmers have to rely on ad hoc arrangements with marketing agents.
- **Institutional structure is weak:** The scope and quality of extension services' service delivery is poor, not just in terms of the number of such services but also the level of service that is offered when they do exist.

The Government's Palm Oil Strategy identifies a number of the following interventions to the palm oil value chain:

- **Development of a domestic inputs supply chain:** Given the low base of inputs present in Liberia, the Government should stimulate the importing of inputs in the short-term.
- **Development of an efficient extension services network:** The Government should focus on building the capacity of public extension services through a comprehensive gap assessment and subsequent interventions aimed at strengthening the scope and reach of the extension service.
- **Improve quality management infrastructure:** Given the rapid future increase in medium/large-scale concessionaire production, it is likely that smallholder production would benefit from increased grading and standardization of palm oil production.
- **Improve infrastructure accessibility:** The current substandard roads sector in particular creates delays to timely processing and delivery of production to Monrovia, thus increasing costs and reducing profit margins.
- **Improve the quality of tree stock:** Given the ageing stock of palm oil trees generally, the Government should focus on making sure smallholder farmers have access to cheap and widely available new stock.

D. Rubber Subsector

6.46 Rubber remains one of Liberia's most important and well-known commodity exports, over 100 years after the first plantation was established in 1910. It is ironic, then, that the country still produces roughly the same quantity of rubber for export, with very little downstream industries for value addition.

⁸⁸ Ibid

⁸⁹ Ibid

6.47 The Subsector employs approximately 49,290 households, and around 50-60 percent of rubber production comes from small and medium-sized private farms (<40 ha).⁹⁰ The remaining production comes from large rubber plantations, which often act as enclave industries with pre-arranged supply contracts for their inputs, management, assembly and logistics. Overall, estimates range from 250,000-600,000 ha under cultivation.

6.48 Particularly for smallholders, Liberia's rubber Subsector remains stuck in a low investment, high cost, low profitability trap. One pressing problem facing Liberian rubber productivity is the ageing tree stock. Approximately 80% of total stock is 35-40 years old, compared with the typical economic life of these trees at 25-27 years. Consequently, production levels are dwindling. New trees take around seven years to begin producing. A second major problem is that although a number of concessionaires have large territories for exploitation, they are usually constrained by small settlements that prevent expansion. As a result, only 25% of committed concession lands are available for production.

5. RUBBER VALUE CHAIN

Inputs and Production

6.49 Given their economies of scale, higher-quality inputs, higher-yielding varieties, and good management practices, productivity of large-scale rubber farms (3.7mt/ha) is 32 percent higher than that of smallholders (2.8mt/ha). For the latter, rubber production brings lower profit margins than cocoa or palm oil.

6.50 In terms of costs, rubber cultivation is highly labor-intensive with hired labor accounting for the bulk of total costs for both small and large-scale cultivation. Investments in inputs beyond labor (high-efficiency tools and equipment) are higher on large-scale plantations, although due to economies of scale, the overall cost-per-hectare for these inputs is lower. Figure 21 illustrates the rubber value chain.

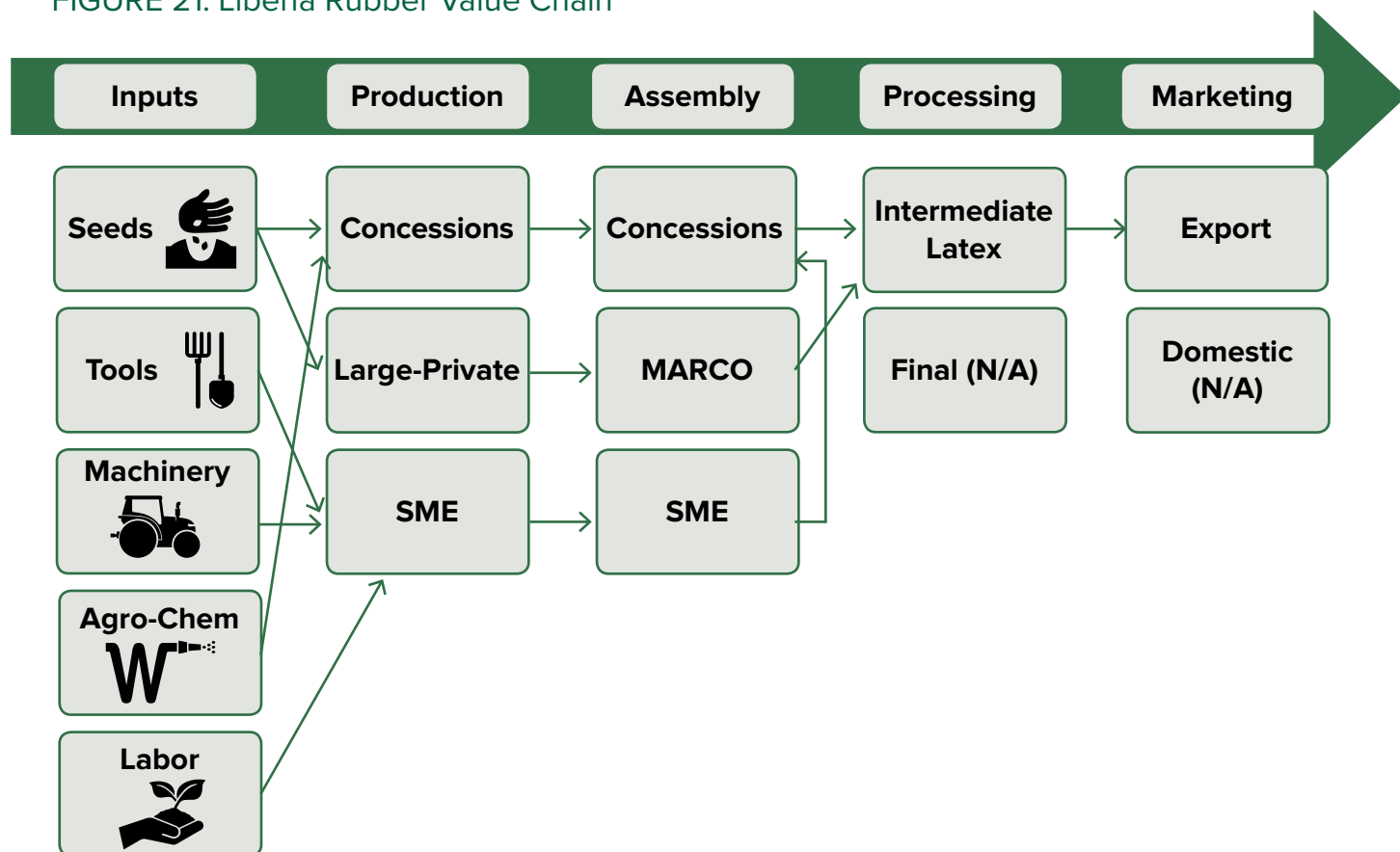
Processing and Marketing

6.51 Currently, smallholder rubber farmers have limited options when trying to sell their rubber. There are two outlets for their product, tied either to local buyers or directly to multinational exporters. Smallholders who are facing extreme cash flow constraints typically sell to local buyers who have the capacity to pay cash for the rubber at the farm-gate as an immediate source of income from rubber. The option of immediate payment from these agents may be preferable to waiting for the opportunity to sell to the multinationals who issue a weigh bill which is subsequently exchanged for cash.

6.52 The second option available to smallholder farmers is through large-scale multinationals, either through their mobile agents who collect rubber at farm-gate, or directly through one of their field offices. It is believed that the farm-gate price that agents pay to farmers is lower than that received at the buying center, as agents must cover all transaction costs associated with the procurement of the rubber, including the agent's margin and transportation costs. Once the rubber enters the multinational owned segment

90 Smallholder Tree Crop Revitalization Project, World Bank, 2012

FIGURE 21: Liberia Rubber Value Chain



Source: Authors

of the chain, each step downstream is an intra-firm transaction. Currently, all of the rubber produced in Liberia is presumed to be exported.

Improvements in the Rubber Value Chain

6.53 The 2009 Food and Agriculture Policy and Strategy (FAPS) lists the following policy imperatives for the rubber sector in particular: (i) Rehabilitation and revitalization of the rubber Subsector, taking into consideration the current global demand for rubber and opportunities for local value addition, (ii) to raise incomes and improve livelihoods for large numbers of smallholders of the crop; (iii) ensuring that rubber is used as a means of transitioning the mass of subsistence farmers into commercial agriculture via out-grower schemes; and (iv) encouraging downstream activities through use of appropriate investment incentives.

6.54 The Government has already adopted a National Rubber Industry Master Plan (2010-2040) that addresses many of the aforementioned constraints in the Subsector:

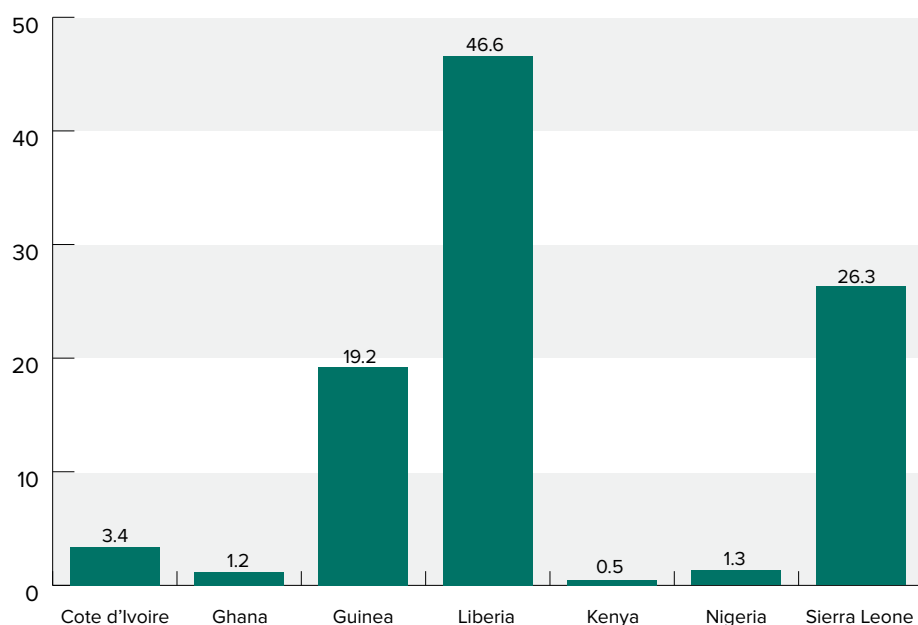
- Prioritize the replacement of ageing tree stock;
- Encourage collaboration among smallholder farmers;

- Improve transport infrastructure;
- Standardize out-grower schemes, including settling land issues;
- Improve Quality Standards.

E. Aquaculture Subsector

6.55 Liberia has an abundance of renewable water sources providing year-long water availability (see Figure 22). It boasts 200 billion cubic meters of renewable internal water resources, compared to 77 billion in Cote D'Ivoire, 60 billion in Mali, 45 billion in South Africa, 30 billion in Ghana and just 21 billion in Kenya. Liberia also boasts an optimal natural water temperature for aquaculture (27 degrees). The country has thus the potential to produce over 300,000 tons of inland fish, up from current production – which is all done at the smallholder level - of just 2,500 tons.

FIGURE 22: Renewable Internal Water Resources, Per Capita Per Year



Source: FAO AQUASTAT

Market opportunities

6.56 The domestic market is unsaturated, particularly up-country where fish consumption per person is low due to limited access and the high cost of imported fish. As a result of limited availability, the average Liberian only consumes 5 kg per year compared to an ECOWAS average of 10kg per year and consumption of 20kg per year in Ghana and 30 kg per year in Sierra Leone. Consumption per person could quadruple with local supply at competitive prices, after investment in local production and establishing of distribution channels.

6.57 ECOWAS and International Market markets. There is also large unsaturated demand for fish in dry parts of the Sahel, in areas with limited access to the coast or rapid population

growth. Inland regions of Guinea, Mali and Nigeria all register consumption levels below the ECOWAS average, giving scope for export growth to these neighboring markets which can be accessed through Liberia's connection to Guinea. Under the ECOWAS protocols to be implemented by Liberia, fish products originating from Liberia will have duty-free access to all ECOWAS countries. There are also niche market opportunities in high value fish for which AGOA (US) and Everything But Arms (EU) can provide market access.

6.58 Quality certification is particularly stringent for fish and seafood. It is therefore an urgent priority that Liberia establishes an accredited laboratory for SPS inspection before export. This recommendation was already included in the 2008 DTIS. Attracting investors in the sector will be difficult without timely action in this area.

F. Marine Fishery Subsector

6.59 Liberia's coastline and continental shelf offers 20,000 sq. km of fishing ground. Only 7,300 tons of marine fish is currently produced per year, Yet Liberia consumes 23,800 tons, leaving a large potential to increase production. The Government is investing in fish landing, storage and processing infrastructure and is streamlining investment regulations in the sector. Fish processing is energy-intensive. But with the impending completion of large energy infrastructure projects, it is hoped that it will soon become cheaper to process fish in Liberia than in Nigeria, Senegal or Cote D'Ivoire. In addition, with the completion of major road projects, such as the road from Monrovia to Nimba on the Guinean border, there is the potential to supply fish to the water-scarce areas of West Africa, such as eastern Guinea.

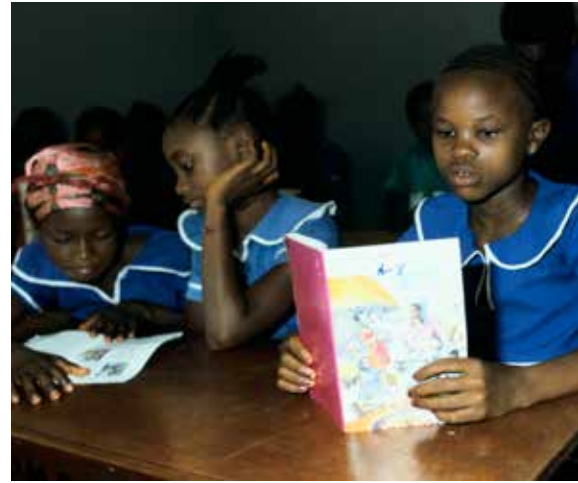
Market opportunities

6.70 Opportunities are the same as for aquaculture products on the domestic and regional markets. With the completion of major road projects, such as the road from Monrovia to Nimba on the Guinean border, there is the potential to supply fish to the water-scarce areas of West Africa, such as eastern Guinea. Rules of origin for export to ECOWAS countries need to be carefully assessed in the case of sea fish and fully observed. The recommendation on urgent action regarding quality control through an accredited laboratory (see last para. under aquaculture) remains valid for exports of sea fish.

CHAPTER 7

ASSESSMENT OF THE REGULATORY ENVIRONMENT FOR TRADE IN SERVICES

7.1 This chapter highlights the key findings of a recent World Bank report on the regulatory regime affecting trade in services in Liberia, and seeks to provide policy options for liberalizing trade in services as a vehicle for export diversification and trade competitiveness. International trade is no longer exclusively about goods crossing borders. Services such as professional and business services, financial services, transport, tourism, and telecommunications have become increasingly tradable, allowing for the emergence of new and improved export activities. The rapid expansion of trade in services represents a major opportunity for developing countries, including Liberia, to support diversification in exports, improve the overall competitiveness of the economy, and promote inclusive growth.



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7.2 The objectives of this chapter are to i) narrow information gaps by reviewing Liberia's trade performance in services between 2004 and 2011; ii) assess Liberia's policy and regulatory framework on services trade, especially as they relate to the General Agreement on Trade in Services (GATS); iii) evaluate Liberia's governance framework to identify administrative practices that have a de facto restriction on trade in services; and iv) offer specific policy recommendations for Liberia to enhance the regulatory environment for services trade and investment—including amendments to existing laws and regulations and improved administrative practices in implementing those regulations—in order to help the country diversify its exports and boost trade competitiveness.

7.3 The services sector is a key component of any trade strategy. Over the last two decades, global trade in services has expanded rapidly and now accounts for over one-fifth of global trade flows. The participation of developing countries in world services exports has increased from 11 percent in 1990 to more than 21 percent in recent years. The four modes of services supply are cross-border trade in services, consumption abroad, commercial presence, and movement of natural persons (see Box 8). As a result of this wide definition, trade in services thus incorporates the international movement of factors through foreign direct investment (FDI) and temporary labour mobility.

A. Development implications of trade in services liberalization

7.4 The importance of the services sector in the economy is closely linked to the level of development of the country. Services in fields such as finance, telecommunications,

transport, and energy form the backbone of an economy, while educational and health services are essential in maximizing human capital, they are widely acknowledged determinant of economic returns. In economies with low GDP per capita, the services sector typically represents less than half the domestic product, whereas in developed economies it can represent up to 75% of the productive economy. Services act both as intermediate inputs to manufacturing and other downstream sectors, and as a source of export diversification in their own right. Thus they play a dual role for an economy's trade that is relevant for developed and developing countries alike.

BOX 8: MODES OF SERVICES SUPPLY

Where is the supplier?	How is the service delivered?	Mode
Not present within domestic territory	Within domestic territory from the territory of another country, e.g. consultancy or distance learning services received through mail and telecoms	Mode 1: Cross-border trade
	Outside domestic territory, in the territory of another country, to a service consumer that has traveled to that country, e.g. tourism services or study abroad	Mode 2: Consumption abroad
Present within domestic territory	Within domestic territory through the commercial presence of the supplier, e.g. services received from foreign corporations, joint ventures, bank branches, etc	Mode 3: Commercial presence
	Within domestic territory with the supplier present as a natural person, i.e. from a foreign national working either independently (such as a consultant, engineer, or health worker) or as an employee of a service supplier (such as a consultancy firm, hospital, or construction company)	Mode 4: Presence of natural person

Source: WTO Secretariat 2001.

7.5 First, an efficient services market is essential to enhance a country's competitiveness by supporting other export sectors, including manufacturing. The services trade can help

expand and modernize other services sectors—such as financial, transport and logistics, and telecommunications—that serve as intermediate inputs for the production of goods and other services. For many LDCs, services are a key input for other export activities such as minerals, textiles, and agriculture. Efficient “backbone” services are necessary to overcome supply-side constraints such as limited access to finance, inefficient and costly transportation, and poor telecommunications infrastructure.

7.6 Second, services exports provide an opportunity for diversification and can be used as an engine for economic growth. Many developing countries, such as India, the Philippines, Jamaica, and Uruguay, have benefitted from the expanding opportunities offered by new technologies to become strong services exporters, while for others tourism exports remain the primary services export activity. These experiences are supported by empirical evidence, and show that while services-as-inputs will remain the main determinant of economic performance in LDCs, they can also begin exporting services through adequate and comprehensive regulatory reform.⁹¹

7.7 As a result of the importance of services for economic growth, evidence suggests that the liberalization of trade in services can be used as a means for developing countries to achieve development goals. Yet the elimination of restrictions to market access, and the presence of regulations that discriminate against foreign providers, come with their own set of issues for developing countries to consider. The role of the state in delivering essential services, for example, is a significant consideration in many developing countries, insofar as their delivery either helps to legitimize political authority, or is seen as a primary achievement of political governance. Similarly, the impact of liberalization among the most disadvantaged segments of the population is often divisive, as is the vulnerability of domestic suppliers before they become internationally competitive, the ability of a government to address short-term adjustment costs, and the inclusivity and distributional concerns of a country’s trade reform agenda.⁹² The mixed outcomes of policy reforms concerning trade in services in developing countries have borne many of these concerns out.

7.8 The manner in which reforms are implemented plays a role in determining whether trade in services liberalization is ultimately deemed successful. Liberalization may not result in one particular service industry taking hold in a domestic economy, for example, nor can it prevent detrimental business practices, structures or behaviours in some industries from undermining potential benefits in developing countries. Ultimately, the ability of trade in services liberalization to deliver development gains depends greatly on the speed and sequence of reform implementation, as well as the prevailing regulatory framework. Gains from reform may either not materialize or be seriously undermined if, prior to liberalization, the regulatory framework does not ensure a competitive environment or prevent firms from colluding and restricting competition.⁹³

7.9 Deficient administrative practices and lack of clarity in the regulatory framework can seriously derail the effectiveness of liberalization in the services sector. In Liberia’s case,

91 Mattoo and Payton, 2007.

92 UNCTAD 2007

93 UNCTAD 2007

this explains why the country has exhibited weak services trade performance to date, despite a legal framework for the services sector that is relatively open. Combined with weaknesses in infrastructure and human capacity development in services sectors that demand highly skilled manpower, Liberia has not yet been able to translate its liberalized environment into more diversified exports and enhanced competitiveness.

7.10 Liberia has much to gain from a stronger and more efficient services sector. For instance, sub-Saharan exporters like Liberia pay transport costs for their goods that are at least five times higher than the average tariffs they face in industrialized country markets.⁹⁴ When compared to its regional neighbours, Liberia's transport and logistics market is amongst the least efficient in ECOWAS, and only Sierra Leone scores lower in terms of logistics performance. Enhanced services trade can help overcome these challenges by attracting more efficient services suppliers and introducing newer technologies and more efficient practices.

7.11 However, Liberia faces important institutional capacity constraints—e.g. shortages of skilled personnel and budgetary limitations—that limit the government's ability to design and implement effective policies on services trade and investment. These conditions relate to major challenges that affect the Liberian society and economy as a whole that will not be easily or quickly overcome. However, some steps can be introduced in the framework to improve regulatory capacity. In particular, the gradual and staged establishment of clear, simple, and binding guidelines and procedures in the regulation-making process that incorporate good regulatory practices like public dissemination, inter-agency coordination, stakeholder consultations and regulatory efficiency would not only increase regulatory capacity by maximizing existing expertise in the Government as well as in the private sector, but would also improve the transparency and legitimacy of regulatory and administrative decisions.

B. Liberia's services trade performance: constraints and determinants

7.12 Liberia's services sector is under-developed, which reduces the country's competitiveness and impairs the development of further trade-oriented activities. The whole economy faces costly and poor quality services in essential sectors like telecommunications, banking, professional services, and transport and logistics. At the same time, the services sector is second only to agriculture in terms of generating employment. Retail distribution stands out as the main employer, accounting for more than half the formal employees in the country. The size of a domestic services sector—measured, for example, by the share of a country's value added or employment from services activity—is often a precondition to developing a robust services export sector in later years.⁹⁵

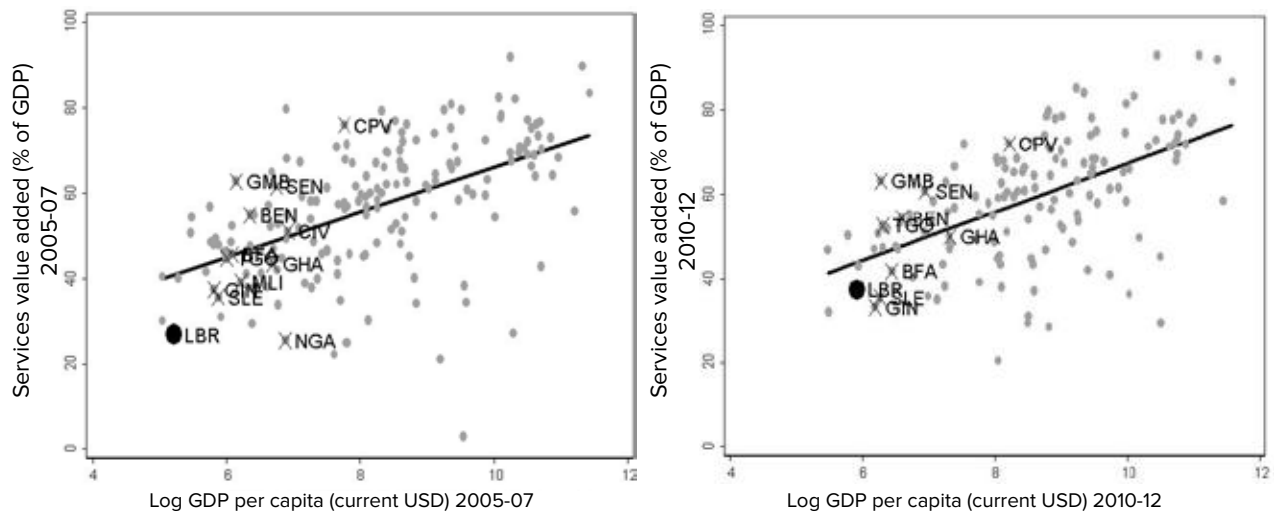
7.13 In Liberia's case, the services sector is smaller than what should be expected for its level of development despite rapid growth within the sector. The upward sloping line in Figure 23 represents the predicted values given by the linear relationship between the share

94 Mattoo and Payton 2007

95 Sáez et al. Forthcoming.

of services in total value added and income per capita.⁹⁶ Liberia's dependence on services is lower than what one would expect, given the country's level of per capita income, in both periods considered (2005-07 and 2010-12). While this is not anomalous in a resource-rich country like Liberia, it does suggest that the services sector still has strong growth potential. In contrast, the size of the services sector in other ECOWAS economies is above predicted levels. Nevertheless, Liberia's services sector is expanding, and now outperforms Guinea and Sierra Leone (behind which it once lagged). The share of services in value added growing from 25.7 percent in 2005 to 36.7 percent in 2011. This growth was at the expense of agriculture, with the share of agriculture in value added declining from 67.0 percent in 2005 to 53.1 percent in 2011.

FIGURE 23: Share in value added of services in GDP vs. GDP per capita: 2005-2007 and 2010-2012



Source: World Bank World Development Indicators.

Notes: The countries of interest are identified by their 3-digit ISO code: Benin (BEN), Burkina Faso (BFA), Cape Verde (CPV), Ivory Coast (CIV), The Gambia (GMB), Ghana (GHA), Guinea (GIN), Guinea-Bissau (GNB), Liberia (LBR), Mali (MLI), Niger (NER), Nigeria (NGA), Senegal (SEN), Sierra Leone (SLE), and Togo (TGO).

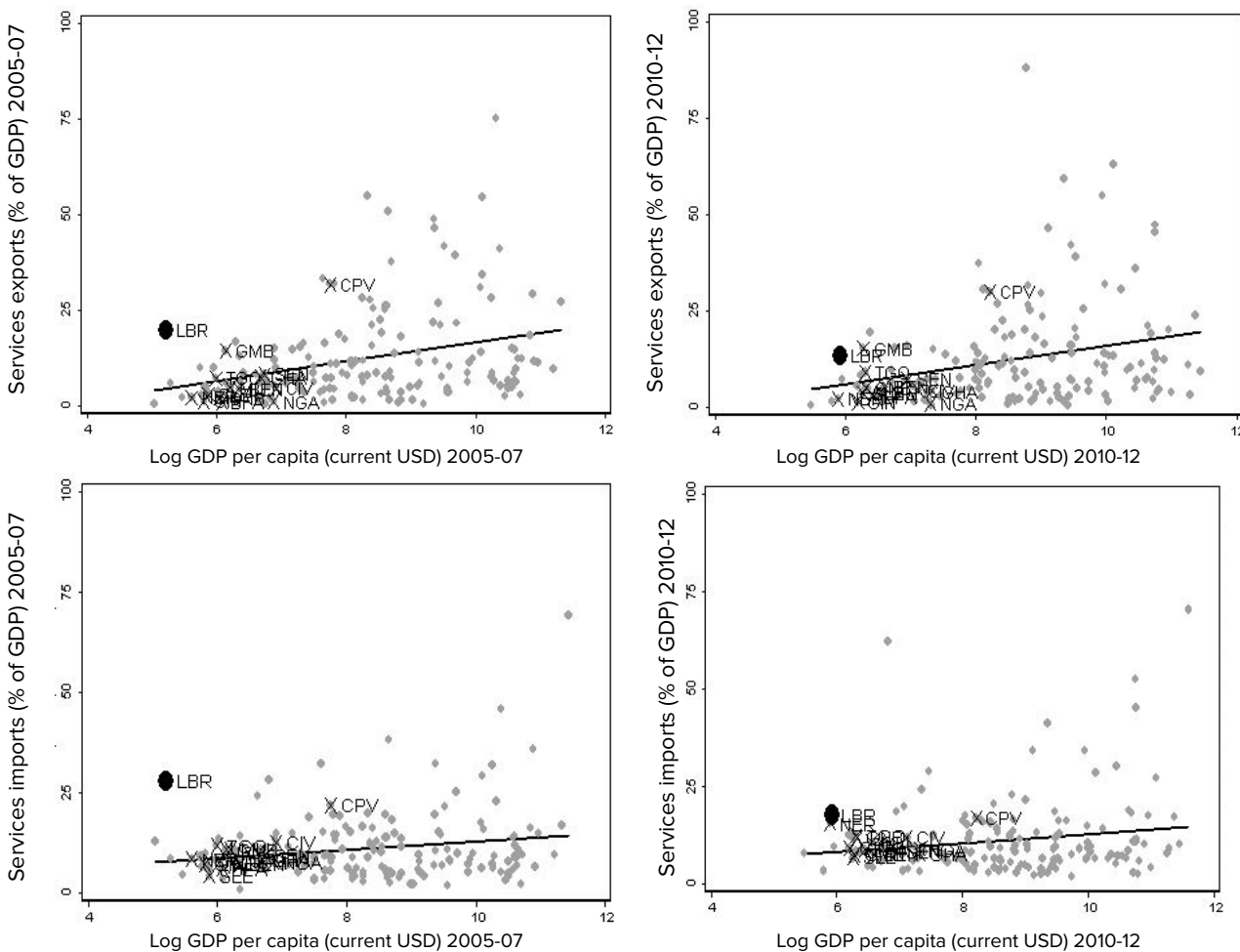
7.14 Services' share of employment in Liberia is in line with what is expected, given the size of the services sector in the economy. Liberia employed nearly 42 percent of its workforce in total services in 2010, only 9.2 percent in industry, and the majority in agriculture with 48 percent. However, these employment figures capture employees who work for a public or private employer and receive remuneration in wages, salary, commission, tips, piece rates, or pay in kind. Thus the low share of employment in agriculture is driven by informality and self-employment. In addition, the large share of employment in services is also driven by employment in the public sector. In the 2010 labor force survey, over one quarter of paid employees were employed in the Government or public or state-owned enterprise.

⁹⁶ In general, the share of services in GDP increases with economic development, although there are substantial variations at all levels of development.

Services Trade Performance

7.15 Liberia’s exports of services as a share of GDP are higher than what is expected, given the country’s GDP per capita. This, together with the relative underdevelopment of domestic services sector, suggests that a sizeable part of Liberia’s services sector is export-oriented. Services imports also remain high. This is in part expected given the greater demand for imports in post-civil war, including services imports, and this ratio has fallen between the two periods. In 2011, Liberia’s commercial services exports (i.e. total services excluding Government services) were 24 percent of GDP, while imports were 17 percent. Most other regional peers seem to be “stuck” in their initial position. In addition, many of these countries are below their predicted levels of commercial services trade given their GDP per capita levels, particularly for commercial services exports.

FIGURE 24: Share of exports and imports of commercial services in GDP vs GDP per capita, 2005-2007 and 2010-2012



Source: World Bank World Development Indicators.

Notes: Figure X plots exports and imports of commercial services as a share of GDP on the vertical axis against economic development of the country measured as GDP per capita on the horizontal axis for the period 2005-2007 and the period 2010-2012

7.16 Despite a drop during the financial crisis, Liberia has achieved substantial export growth in commercial services since 2004. Both commercial services exports and imports increased steadily between 2004 and 2008, despite having fallen as a share of GDP (i.e. GDP has been growing faster in Liberia than the services trade). For exports, the average annual growth rate between those years was 28 percent, and for imports was 40 percent. Both export and import levels dropped substantially in the wake of the financial crisis, and although exports had rebounded by 2011, imports remained below pre-crisis levels.

7.17 Liberia's services export sector is largely dependent on travel and transport services, which Liberia exports more as a share of GDP than is expected given the country's level of development. This sectoral export concentration can result in greater vulnerability to exogenous shocks, as demonstrated by the high impact of the 2008-2009 global financial crisis. Between 2004 and 2008, exports of travel services grew from US\$59 million to US\$158 million, but the share in total commercial services remained steady at 85 percent on average. In 2011, travel services were 64 percent while transport services were 36 percent. Although tourism is an emerging sector, exports of services other than travel and transport are modest, suggesting a low development of the sector domestically. These "modern" services include the telecommunications and financial services sectors, as well as IT-enabled business services like business processing outsourcing. Imports of modern services surpassed imports of travel and transport services in 2011 to represent 49 percent of services imports.

7.18 While the travel services sector is the only sector that has maintained a positive trade balance, transportation services helped Liberia's commercial services reach a surplus in 2011. Liberia posted a negative services trade balance, driven almost entirely by Government services, including funds related to technical assistance and other international aid offered to Liberia to support post-war reconstruction. While travel services has maintained a positive balance (with the exception of 2010 and reaching a peak in 2011), the increase in transport services exports and decline in imports propelled Liberia's net positive position in 2011. Transport services achieved a positive trade balance in 2011, recovering after the global trade collapse of 2008. However, commercial services other than travel and transport show increasing negative growth, from a negative US\$0.6 million to US\$128.5 million, as Liberia's services sector is not growing fast enough to accompany the countries' economic recovery. In particular, business services, which encompasses IT-enabled services related to business processing outsourcing, is heavily reliant on foreign supply.

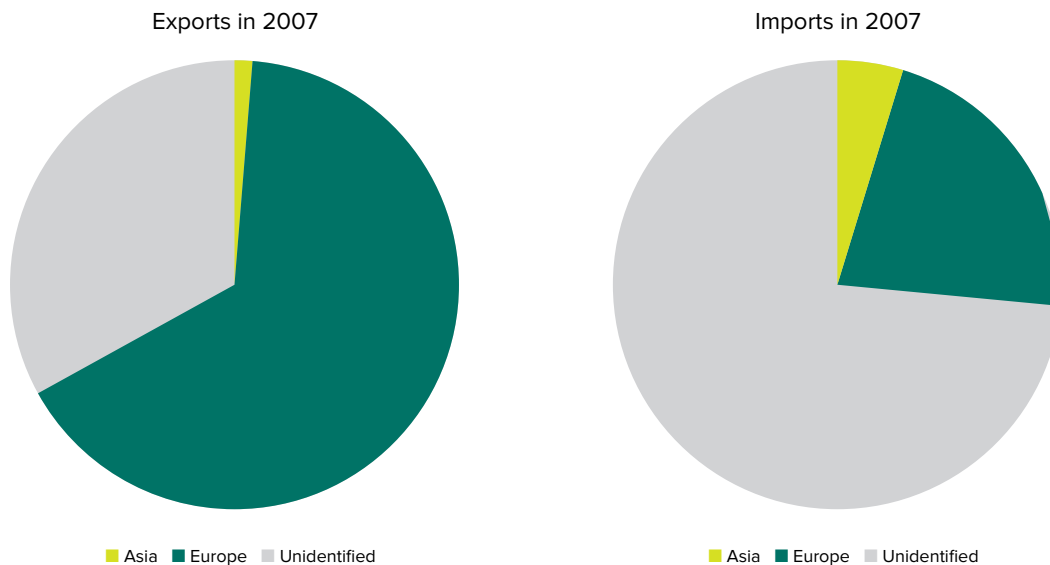
7.19 Europe is one of Liberia's main services trade partners. Grouping bilateral trade flows in total services into two regions of Europe and Asia provides a broad indication of where Liberia's exports are being sold and imports are being sourced. Figure 25 shows that the majority of exports are concentrated in Europe (data is for 2007, the year with the greatest bilateral coverage). While a much larger share of imports are from Europe than Asia, a substantial portion of Liberia's imports are unidentified, which includes trade flows with the United States. Liberia's top services export destinations include France, Romania, the Netherlands, and Denmark. Russia has become an important source for services imports, along with France, the United Kingdom, and Italy.

Indicators of Services Export Performance

Revealed Comparative Advantage

7.20 The growth in transport services exports has given Liberia a comparative advantage in the sector, on par with the country’s continued comparative advantage in travel services. The RCA compares the share of exports of a particular services sector of a country to the sector’s share in world exports.⁹⁷ An RCA index above one indicates that a country has a share of services exports in a particular services sector that is higher than the global share of exports in that same service sector, and is considered to have a revealed comparative advantage in that sector. The higher the ratio, the more competitive is the country in the given sector. Liberia achieves a revealed comparative advantage in exports of traditional services, particularly travel, as shown in Figure 18. Not surprisingly, the RCA index for other business services is very low. This result is driven by Liberia’s concentrated services export basket. While the growth in transportation export values explains the high RCA achieved in 2010 and 2011, this trend could be driven by foreign-owned transport companies registered in Liberia. In which case Liberia’s ‘competitive edge’ in transport services exports should be interpreted with caution.

FIGURE 25: Total services export and import shares by region, 2007



Source: World Bank Trade in Services Database and UNCTAD.

Notes: Unidentified flows are the difference between exports to and imports from the world, as reported in UNCTAD, and the observed bilateral flows in the database.

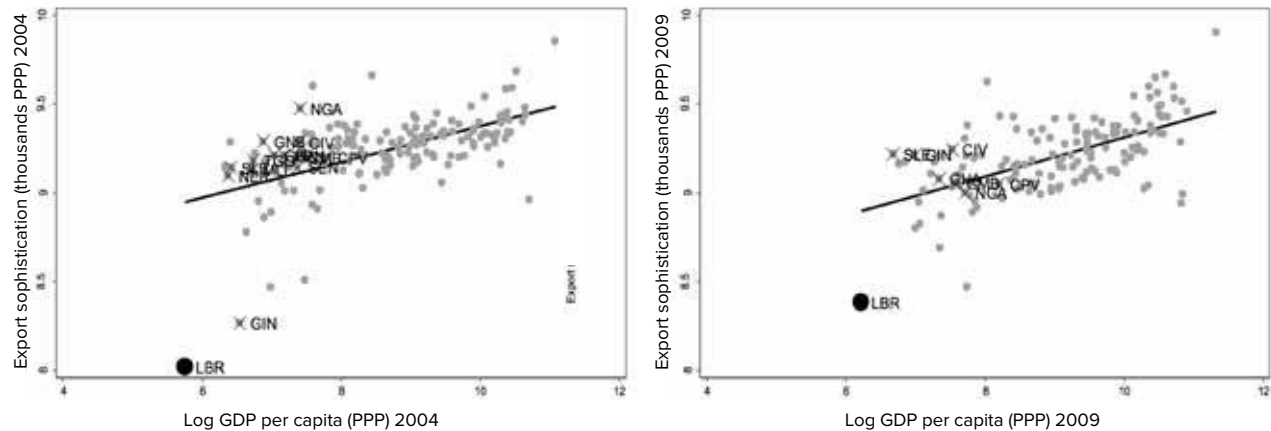
Sophistication

7.21 The low level of sophistication of Liberia’s export basket is no surprise given the reliance on travel and transport services. In this analysis, EXPY is used as an index to measure

97 Specifically, the RCA for country i in services sector j is calculated as: $RCA_{ij} = \frac{x_{ij}/X_i}{X_j/X_w}$ where x_{ij} is exports from i in sector j , X_i is total exports of i , x_w is exports from the world in sector j , and X_w is total world exports

services export sophistication. Any increase in a country's EXPY indicates a shift towards exports of more sophisticated services sectors. The sophistication of a particular services sector is termed PRODY, and is calculated as the weighted average of the GDPs of countries that export that service.⁹⁸ In general, higher value-added sectors have higher PRODYs. A country's EXPY is then calculated as the weighted average of the PRODYs for each services sector that the country exports. Thus, EXPY captures whether a country's export basket consists primarily of services typically exported by high-income economies, which are perceived as relatively sophisticated. This measure is relevant because even though emerging countries are increasingly exporting sophisticated services, sophisticated services predominantly tend to be exported by higher-income countries. The increase in Liberia's EXPY between 2004 and 2009 in Figure 26 indicates that the share of high-PRODY services in the export basket has increased. What is striking, however, is how far below Liberia remains from its expected level. While this analysis may be partly influenced by unreliable data, it is not expected that Liberia's export sophistication would in fact be much higher. Nevertheless, evidence shows that the sophistication of Liberia's export basket has increased since 2004, likely driven by the increasing importance of transport services. To progress further along this path, Liberia will need to diversify its export sector into modern services that have higher value added.

FIGURE 26: Services Export Sophistication: 2004 and 2009



Source: World Bank Trade in Services Database and World Bank World Development Indicators.

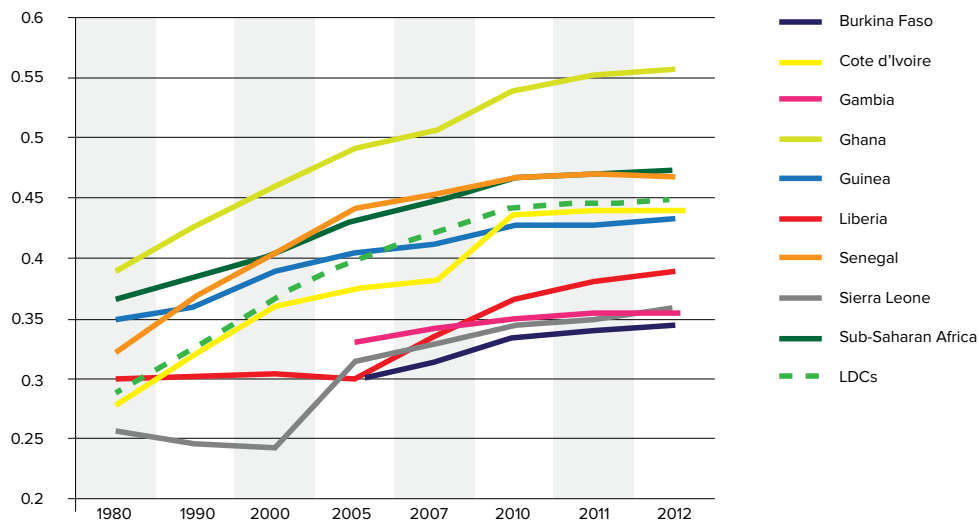
Notes: Unidentified flows are the difference between exports to and imports from the world, as reported in UNCTAD, and the observed bilateral flows in the database.

Non-Regulatory Determinants of Services

7.22 In general, the determinants of services trade in Liberia show weak performance. The UNDP's Human Development Index (HDI), which incorporates elements of education, skills and governance together with poverty, inequality and other economic indicators, currently ranks Liberia 177th out of 186 ranked economies. Within the sub-region, Liberia scores just above landlocked Burkina Faso, the Gambia, and Sierra Leone (Figure 27). While the human development index has

98 Specifically, the EXPY for country i is calculated as: $EXPY_i = \sum_j \frac{x_{ij}}{X_i} PRODY_j$ and $PRODY_j = \sum_k \frac{x_{kj} / Y_k}{\sum_l x_{kl} / Y_l} Y_k$ where x_{ij} is exports from i in sector j , X_i is total exports of i , and Y_i is GDP per capita of i .

FIGURE 27: Human Development Indices in West Africa



Source: UNDP Human Development Index

been steadily improving since the end of the war and the start of democracy, much remains to be done even to catch up with other LDCs and the rest of Sub-Saharan Africa.

7.23 Education provides a good case in point. The services industries tend to require more skilled labor than manufacturing industries, especially in modern export-oriented services, making education one of the main pillars of a services economy. Yet Liberia's level of education remains one of the lowest in the world. The war deprived an entire Liberian generation of a quality education and skills base, as an estimated 80 percent of the country's schools were destroyed. Regular withdrawal from formal education upon completion of the Government-funded primary education years has resulted in a predominantly illiterate and/or unskilled work force that lacks basic computer skills, and adult literacy lags below the average for sub-Saharan Africa.

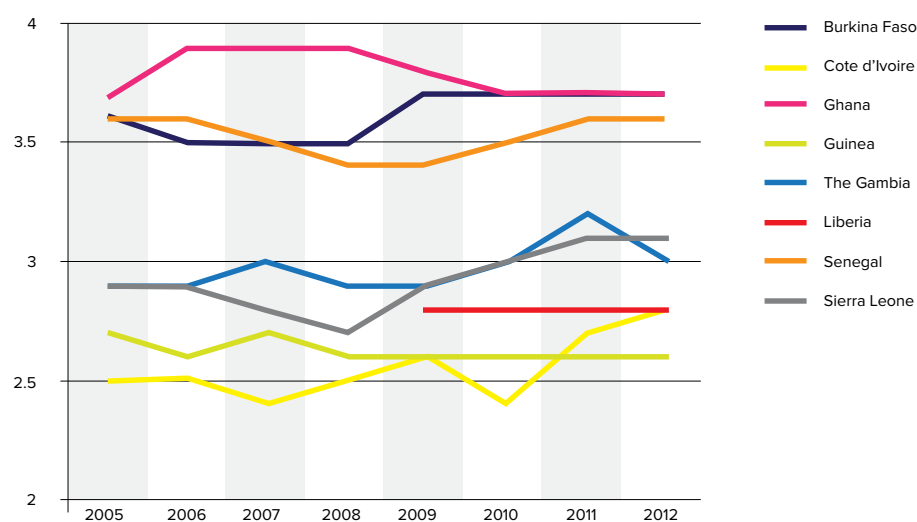
7.24 These low levels of literacy, combined with severely limited telecommunications infrastructure, ranks Liberia among the lowest in the region in the World Economic Forum's (WEF) infrastructure and digital content indicator. The Liberian telecommunications sector was severely hit by the civil war, during which copper wires were looted, leaving little infrastructure outside Monrovia. As a result, computer and internet usage rates are very low, with computer ownership at just over 1 percent of the population in 2010 according to the World Bank, and meaningful access to the internet limited to just 7 percent of the population. However, the country is striving to establish necessary connectivity infrastructure. In 2012, Liberia finally gained access to international submarine fiber optic cables for international connectivity (rather than relying on satellite communications) thanks to a public-private partnership – the Cable Consortium of Liberia (CCL) – formed with support from international partners including the World Bank. Although this is a step in the right direction, additional infrastructure needed to have impaired reaping of all the benefits from the cable connection.

7.25 Governance is also perceived as generally poor, even within a region with major deficits in public administration. The World Bank's Country Policy and Institutional Assessment (CPIA)

rates countries against a set of 16 criteria in four categories: economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions. In the public governance ranking, Liberia scores at the bottom of the region along with Côte d'Ivoire and Guinea (Figure 28). More worryingly, the perception has not improved in the recent years. The different components of the indicator suggest that while the country's revenue collection capacity performs comparatively well, indices on rule-based governance, quality of financial management and of public administration are poor even compared with its neighbors.

7.26 While this is a poor context for the development of a modern services sector on a global scale, Liberia remains in a promising position at the regional level. Most of Liberia's neighbors face comparable challenges in terms of telecommunications infrastructure and skilled labor. The WEF ranks Liberia in the 56th position in the world in terms of quality of education. Although Ghana's political stability and skilled population hold a strong advantage, Liberia's fast economic growth, language, and sizeable diaspora can offer valuable opportunities for the services sector within and outside the country.

FIGURE 28: Governance in West Africa



	Property rights and rule-based governance	Quality of budgetary and financial management	Efficiency of revenue mobilization	Transparency, accountability and corruption
Burkina Faso	3.5	4.5	3.5	3.5
Cote d'Ivoire	2.5	3	3.5	2.5
The Gambia	3	3.5	3.5	2
Ghana	3.5	3.5	4	4
Guinea	2	3	3	2
Liberia	2.5	2.5	3.5	3
Senegal	3.5	3.5	4	3.5
Sierra Leone	3	3.5	3	3

Source: World Governance Indicators, CPIA Public Sector Management and Institutions (2012)

C. Regulatory Framework and Institutional Setting

7.27 International trade in services is governed entirely by domestic regulation. Unlike trade in goods, which is traditionally governed by border measures regulating the entry of foreign merchandise, services are typically subject to a variety of internal regulations that govern the establishment and operations of both domestic and foreign firms. Many services, especially sectors with significant network characteristics (such as telecommunications and transport services), confront market failures such as imperfect and asymmetrical information, lack of competition, and natural barriers to entry.

7.28 Regulatory policies are needed to prevent and correct market failures, and to ensure that non-economic policy objectives are met, and are thus key determinants of economic performance. There is extensive empirical evidence showing that services liberalization matters crucially for labor productivity and total factor productivity growth. The ability to successfully export services depends on how well domestic regulatory institutions govern these open markets. The level of regulation of the services sector can help explain why the services sector thrives in some countries and is relatively underdeveloped elsewhere. While regulations are necessary to foster efficient services markets and to pursue non-economic policies, they can also act as restrictions to trade and investment in services. Regulations often fail to respect the basic principles of transparency and nondiscrimination by, for example, imposing restrictions on foreign ownership and market access.

7.29 The main barrier to the development of the services sector in Liberia lies in a poor governance framework, characterized by the opaque and discretionary administration of laws and regulations rather than from outright restrictions. This poor governance framework results in a number of *de facto* restrictions to services trade during establishment as well as during the regular operation of services firms. The main restrictions relate to the lack of transparency, as laws and regulations are not easily available and do not reflect accurately the actual administrative practices, and the costs of widespread unofficial and illicit payments.

Horizontal Policies and Regulations

7.30 Horizontal laws and regulations refer to those measures that affect multiple services Subsectors or the services sectors as a whole (see Table 13). Regulations on tourism, for example, obviously affect services providers in the sector, but so do other “horizontal” laws and regulations, such as regulations on buying and selling foreign currency, laws on entry and stay of foreigners, and procedures related to the establishment of firms. Liberia’s formal horizontal policies and regulations provide for a largely open and non-discriminatory environment for the services sector. The opening up to private and foreign participation in the economy has been one of the pillars of the reform process launched by the Government after the end of the war. To this end, the Government introduced or amended several major horizontal laws relevant to the services sectors with a view to promoting a more conducive environment to private capital. At the same time, part of the openness in Liberia’s regulatory regime is due to the absence of specific regulations and guidelines on some services sectors or cross-cutting issues, which often impairs, rather than enhances, the business environment by reducing transparency and predictability.

TABLE 13: Formal Horizontal Restrictions to Services Trade

MFN Restrictions	Market Access/Establishment							Operation									
	M1: Local presence / M3: JV requirements	M1: Link with local provider/M3: limitations on form of establishment	Quantitative restrictions	Geographic limitations	Economic Needs Test	Foreign equity limitations	Authorization requirements	Other (registration fees)	Quantitative restrictions	Access to government contracts	Residency requirements	Price control	Land ownership limitations	Transfer of funds	Limitations on foreign employees	Incentives	Other
Cross-border																	
Consumption abroad																	
Commercial presence							•		•			•		•	•		
Natural persons					•				•			•		•			

Note: • = restriction applies; JV = joint venture.

Cross-border trade

7.31 Liberia does not restrict cross-border trade in services, an area of regulation that is inherently challenging due to the technical difficulties of controlling electronic traffic and the location of the services supplier, which by definition is outside the country's jurisdiction. Similarly, no restrictions are currently in place in Liberia to transfer funds abroad. In fact, the Investment Act of 2010 features guarantees for foreign investors to perform inward and outward transfers, including of capital, profits, dividends, and payments for foreign loans. This provision, however, does not seem to cover regular payments abroad performed by Liberian citizens or companies, or foreign-invested enterprises acquiring other cross-border services.

Commercial Presence

7.32 The Investment Act of 2010 seeks to create a level playing field for foreign and domestic investors. In particular, the law set out a general prohibition of discrimination against foreign investors, ensuring that domestic and foreign companies have the same rights regarding licensing or permits for conducting business and are subject to the same obligations, like book-keeping requirements and taxation, as domestic firms. It also offers additional guarantees against expropriation, repatriation of capital, and access to courts and arbitration. Importantly, the investment law provides that foreign investors may own or control, wholly or in partnership with Liberians, business in any sector of the country's economy, save for a few specific consumer-oriented services activities, namely:

Supply of sand; block making; peddling; travel agencies; making and sale of ice; tire repair shops; auto repair shops with investments of less than US\$550,000; shoe repair shops; gas stations; video clubs; operation of taxis; importation or sale of second-hand

or used clothing; importation or sale of used cars (except authorized dealership which may deal in certified used vehicles of their make); distribution of locally manufactured products; and the retail sale of rice, cement, timber, and planks.

7.33 In addition, the law set asides additional sectors in which foreign investors may participate, provided that they invest a minimum of USD 500,000 or, if at least 25 percent of the company is owned by a Liberian partner, USD 300,000. Like the above, many of these activities are consumer-oriented services not likely to be prime sectors for foreign investment, although some restrictions may have greater implications in the economy.

Land ownership

7.34 Land ownership in Liberia is reserved to Liberian citizens. Foreign missionary, education, and benevolent institutions are allowed to own property provided that it is used for their altruistic purposes, but foreign citizens or companies may not own land for commercial purposes. They can, however, access land through long-term leases. In terms of services trade policy, this limitation amounts to a horizontal restriction, as it affects foreign services suppliers wishing to provide services in Liberia through the establishment of a company (commercial presence) or the presence of individual service suppliers. Restrictions on land ownership are common in international trade agreements, and a number of countries have reserved such measures from their WTO obligations.

Incentives regime

7.35 A tax incentive regime is available in Liberia for specific industries, including several services sectors. Under the Consolidated Tax Amendment Act of 2010, the services sectors that may qualify for a “special tax incentive” for up to five years include:

Tourism, for investments on tourist resorts, hotels and cultural sites; hospitals and medical clinics; infrastructure investment on air, sea, rail, and road transport; ICT; banking in specific geographical areas; and waste management.

7.36 Investment incentives are available to all parties, but require a higher threshold for foreign investors. Nationality considerations are common in subsidies and incentives policies, and indeed feature prominently as one of the most frequent horizontal restrictions scheduled in the GATS agreements. From a services trade policy perspective, Liberia’s policy qualifies as discriminatory treatment that affects all services sectors, since it provides a preference for domestic providers than for foreign ones.

Other horizontal measures

7.37 Liberia does not maintain horizontal measures on equity or capital requirements. There is generally no applicable minimum capital requirement, although an investment of US\$500,000 in defined strategic sectors is required to be eligible for incentives. There are no specific restrictions on the percentage of equity foreign investor may own. However, according the investment authorities, the Government looks favorably on partnerships between foreign investors and Liberians. In addition, foreign suppliers can participate in

Government procurement bids, but the Public Procurement & Concessions Act offers a margin of preference of roughly 15-25 percent, in favor of nationals for the evaluation of both national and international bids for public contracts.

7.38 Other horizontal regulatory restrictions, such as economic needs tests for foreign employees that limit the entry of foreign suppliers to the non-availability of Liberian skills, and limitations on land ownership, continue to apply. These limitations may be justified in terms of broader policy priorities; however, this opaque regime on foreign employment unnecessarily hampers the business environment by increasing discretionary powers of regulators and opaqueness in the regulatory framework, as companies are uncertain about the possibility of hiring foreign nationals. The use of fixed quotas of foreign employment would yield comparable results in terms of promoting domestic employment and training, while providing for a more transparent and predictable regime. Greater transparency in the duration of labor permits would further enhance the business environment.

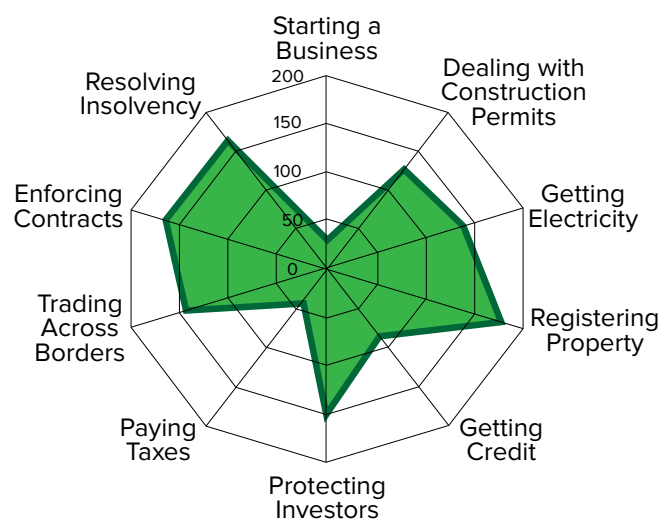
Concessions regime

7.39 The regime on concessions creates a parallel regulatory framework that applies to large foreign investments (greater than US\$10,000,000). Currently, two foreign investments in the services sector have been established under the concessions regime: a hotel located in an historic building, and the Port of Freetown terminal. This framework allows for deviation from the general guarantees of the Investment Act of 2010. Under the concessions regime, the authorities enter into one-on-one negotiations with the investor, offering incentives or other support for investment projects deemed to have greater beneficial effects on Liberia's economy, in terms of job creation, development of a new sector, etc. Through these negotiations, large foreign investment can gain incentives and other benefits that are not generally available to smaller investors.

Business registration

7.40 The Government has made important improvements to facilitate the registration of firms via the Liberian Business Registry (LBR), which operates as a one-stop shop to formalize and register enterprises and provide information services to the public. All companies established in Liberia, whether foreign or domestic, must comply with registration. Entities incorporated overseas may branch into Liberia, for which they too register an office or resident agent in Liberia, but this does not apply to companies providing services through cross-border trade. The simplification of the registration procedures has reduced 26 steps originally needed to start a business to only a handful. The World Bank's Doing Business

FIGURE 29: Liberia's Doing Business Ranking

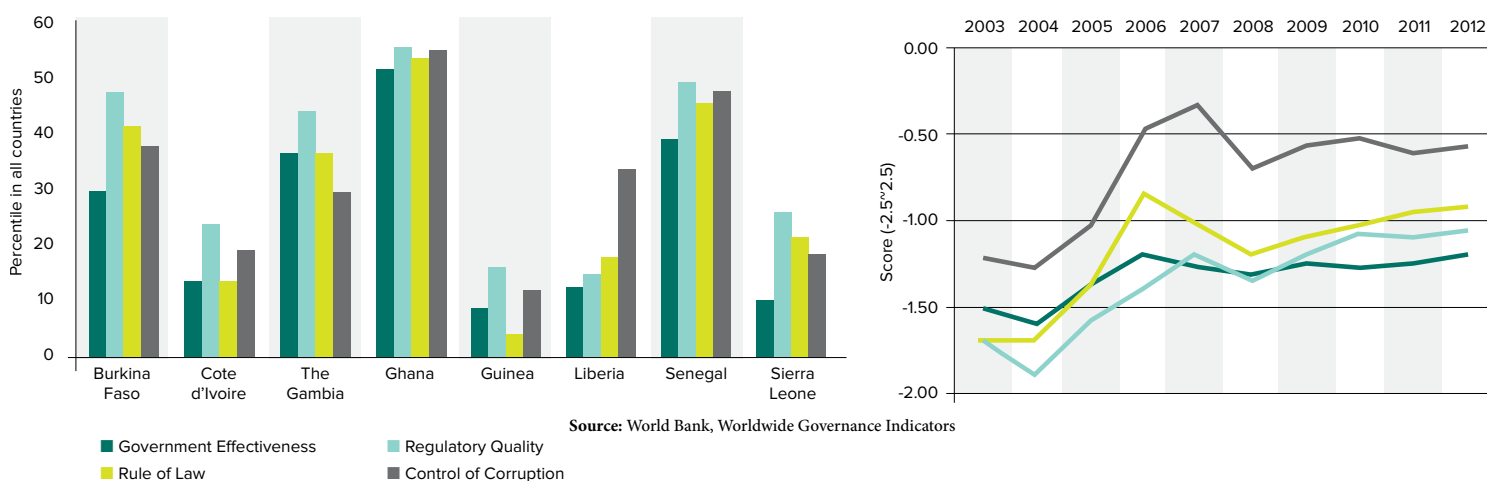


Source: World Bank, Doing Business, 2013.

indicators captures these changes, ranking Liberia as the 31st easiest place to register a business (see Figure 29). However, procedures remain unclear as a result of lack of access to regulation and other administrative practices (see “Horizontal de facto Restrictions” below).

7.43 Registration fees are based on the investor’s nationality, despite the general principle of non-discrimination. Fees for the registration of a company are based on nationality: while Liberian companies pay around US\$50 for registration procedures, foreign establishments are charged more than twenty times as much. Registration has to be renewed annually with similar costs. While this can be presumed to respond to a progressive scheme, for which smaller domestic companies are charged less than large multinationals, the regime penalizes smaller foreign investments, such as SMEs from ECOWAS countries wishing to expand regionally. A regime based on objective criteria such as the company’s registered capital would be more consistent with the non-discrimination principle recognized in the Investment Act of 2010.

FIGURE 30: Global Ranking of West African countries, and Liberia’s progress



Movement of individual services suppliers

7.44 The Investment Act of 2010 provides general guarantees suggesting a relatively open regime in the employment of foreigners by indicating, for example, that “foreigners of any nationality may be employed in Liberia” and that investors have the right to employ any persons, “including foreign nationals.” Both references, however, are subject to the labor law and laws governing immigration. Foreigners wishing to be employed in a firm in Liberia must obtain a work permit issued by the Ministry of Labor, which are issued with great discretion, including through conducting a labor market test (e.g. the Ministry does not issue a work permit to a foreigner unless it is proven that there is no suitably qualified Liberian available to carry out the work required by the employer). In practice, however, independent services suppliers face fewer restrictions for short-term services, due to difficulties in monitoring short-term contracts.

Governance and institutional setting on services trade

7.45 Liberia’s governance indicators generally point to a weak capacity to design and implement effective public policies. The perception of the GOL’s ability to implement public

policies is low, even in comparison with its neighbors. Figure 30 depicts key elements of Liberia’s governance framework in comparison to its neighbors, and the trajectory of governance indicators since the end of the civil war. Government effectiveness is perceived as particularly low, and ranks just above the lower 10 percent of all countries. Even despite the Government’s policies of liberalization and promotion of the private sector, regulatory quality has hardly seen any improvement since 2006.

7.46 Liberia’s main deficiencies on the regulation of these sectors lie more in the discretionary application of general rules than formal limitations to trade and investment. In this context of regulatory unpredictability, agents perceive that rules can be applied selectively or bypassed in different circumstances. As a result, laws and regulations, even when well-planned and designed, do not seem always binding, undermining the perception of the regulatory quality and rule of law. In practice, this entails a limited capacity to regulate the market and direct the real economy.

7.47 This poor governance framework results in a number of de facto restrictions to services trade. Table 14 identifies the main administrative practices and primary horizontal restrictions that restrict services trade and investment in Liberia.

TABLE 14: Impact of horizontal administrative practices in services trade

	Market Access/Establishment							Operation							
	No licenses being granted	Requirements not publicly disclosed	Unclear requirements	Unofficial fees	Inconsistent regulation	Discriminatory application	Burdensome procedures	Other	Requirements not publicly disclosed	Unclear requirements	Unofficial fees	Inconsistent regulation	Discriminatory application	Deficient monitoring / enforcement	Other
Cross-border		●							●						
Consumption abroad															
Commercial presence		●	●	●		●			●	●	●		●	●	
Natural persons		●	●						●	●				●	

Source: Authors

Institutional Framework

7.48 As in most countries, policies related to trade and investment in services are covered by multiple institutions, such as the Ministry of Transport, the Ministry and Finance, the

Ministry of Labor, the Ministry of Trade and the National Investment Commission (NIC). The Ministry of Commerce and Industry (MoCI) has a broad mandate on trade matters, including international negotiations, but the agency suffers from shortages in capacity and financial resources that prevent it from fulfilling its broad functions. Meanwhile, the NIC is the main institution governing foreign investments in Liberia.

7.49 *Rule-Making Process*: A clear and open rule-making process can contribute to the improvement of the regulatory framework, including mandatory procedures or guidelines that govern the regulatory process itself. These approaches seek an adequate regulatory framework that, at a minimum, incorporates the following elements:

7.50 *Transparency*: Regulatory action should be known within and outside government agencies; regulation should be simple, coherent, user-friendly, and publicly available at all times.

7.51 *Stakeholder consultations*: Links with the private sector should be an institutional component of the regulatory process.

7.52 *Agency coordination*: Regulation should take place at the right level of government, and benefit from relevant inputs, taking into account all relevant opinions.

7.53 *Efficiency*: Regulators should consider the full range of regulatory options and evaluate the impact of regulation. A general lack of Government-wide standards on rules in Liberia offers great discretion to the different agencies in establishing a transparent and collaborative regulatory procedure, or to deviate from such standards. A standard procedure on rule-making procedures, in the form of a binding guidance, would reduce discretion and promote good governance in the different ministries and regulatory agencies, greatly contributing to the improvement of the general regulatory framework in Liberia.

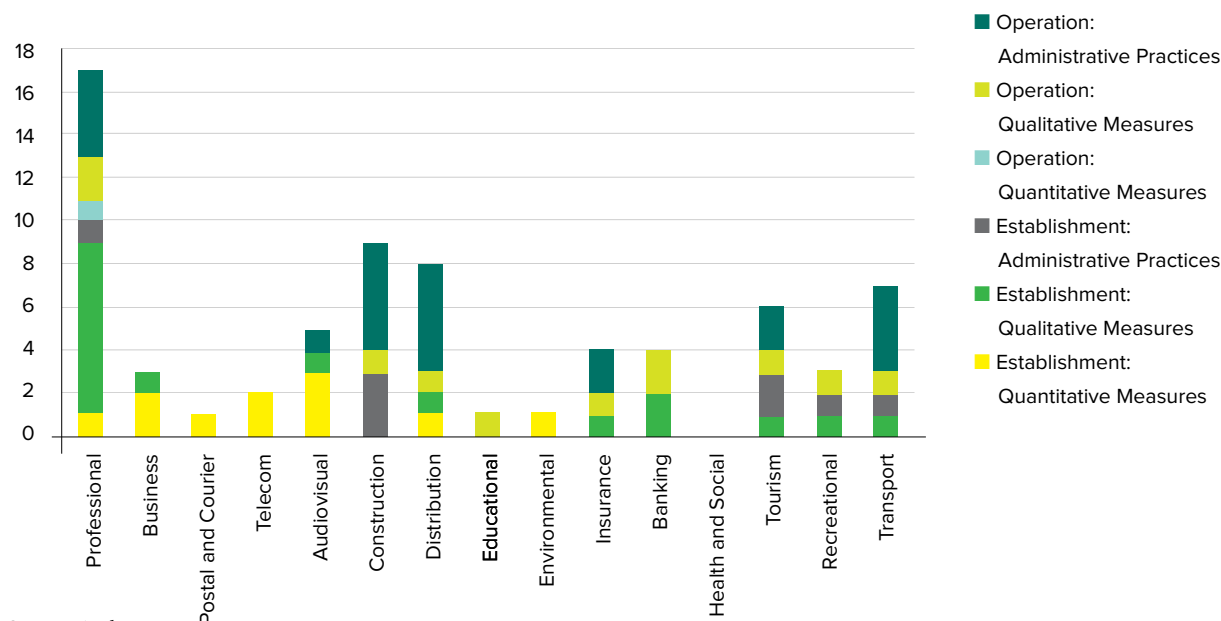
7.54 *Transparency*: Lack of transparency is widely perceived as one of the main weakness of Liberia's legal and regulatory framework. Laws and regulations are generally inaccessible, which brings uncertainty about the requirements business have to meet during establishment and later operation. Liberia currently lacks an effective official gazette that covers all laws and regulations, however individual ministries and regulatory agencies do make an effort to publish information on laws and regulations relevant to their portfolio on their websites. In addition, some private initiatives are also contributing to enhancing access to legislation.

7.55 *Stakeholder Consultations*: Liberia is making significant progress in stakeholder consultations, particularly with the establishment of the Liberia Better Business Forum (LBBF) (see Chapter 9). However, consultations remain limited to specific members and detached from the regular regulatory process. They are not open to non-member businesses, several services regulatory bodies such as the Ministries of Transport and Tourism, or other organization such as NGOs.

7.56 *Inter-Agency coordination*: For Liberia, inter-agency coordination is particularly relevant in the wake of broad trade negotiations. For successful trade negotiations, information should flow back and forth between the trade ministry and the regulatory agency. The regulatory agencies should first provide the trade ministry with a clear picture of the regulatory status quo on their

specific sector, including current laws and regulations, policy goals, and the regulatory plan. MoCI should then articulate a services policy, including guidelines on potential international obligations, as part of a broader national trade policy. In addition, the trade ministry and other relevant ministries should have access to proposed new regulations at conception and at the draft stage to assess the impact on trade and its compliance with international trade agreements.

FIGURE 31: Sector-specific restrictions on investment in services sectors



Source: Authors

7.57 *Regulatory efficiency*: Regulation is efficient if it is well targeted to address the relevant problem and conducive to achieving the desired policy goal, promotes innovation and competition, and avoids erecting undesirable barriers to trade and investment. At a minimum, alternatives should be considered when introducing any new regulation in order to evaluate the different quantitative and qualitative benefits and costs each may entail. No system of assessing regulatory impacts or comparing alternative regulations currently exists in Liberia.

Sector-specific Policies and Governance

7.58 Policies and governance across services sectors differ in terms of openness and regulatory capacity (see Figure 31). Some sectors, like banking, are greatly liberalized and comparatively well regulated. Others, like professional services feature strong restrictions, or, like distribution services, are still lacking a basic regulatory framework altogether. Most sectors remain largely open to foreign as well as domestic investors. While this allows for a competitive environment that can promote growth and private sector development, the lack of adequate regulation may diminish the benefits of an open services regime and can create obstacles to the expansion and investment of the services sector.

7.59 Apart from audiovisual services, few sectors face quantitative restrictions, i.e. limits to the number of services providers that may be established in the country or a certain

area. The most common measures found in the services sector are “qualitative” restrictions, which set certain conditions that must be met before the services can be supplied, i.e. residency requirements, restrictions on foreign employment, limitation on land ownership, and knowledge transfer requirements, some of which can be inherently discriminatory and thus constitute a de facto quantitative restriction.

7.60 Most sector-specific limitations set out conditions affecting the operation (or conduct) of the businesses, except in professional services, where limitations on market access and establishment are numerous. Qualitative measures affecting establishment are found mostly on professional services in the form of qualification, nationality, and residency requirements. Restrictions stemming from administrative practices in specific services sectors add to the general poor governance environment affecting business in the country. Such de facto limitations are most noticeable in professional services, distribution, construction, insurance, and transport services.

7.61 Overall, the sectors most affected by these limitations are professional services, construction services, transport, and tourism. However, only professional services are subject to heavy regulatory restrictions, while most other sectors face limitations stemming from administrative practices rather than actual laws and regulations. The following section focuses on sector-specific limitations in Liberia’s transport and logistics services, distributional services, and tourism.

7.62 Several laws form the legal basis for regulating the establishment of presence and business operations in the transport and logistics sectors. In addition, a number of regional, international, and bilateral transport and trade agreements have introduced further legal obligations that apply to the country’s legal and regulatory framework. Multiple institutions share the responsibilities of regulating Liberia’s transport and logistics sectors; the current legal and regulatory environment is disparate and depends on the type of service and the statutory authority of the agency responsible for overseeing that Subsector.⁹⁹ For example:

- The governance of *maritime services* has markedly improved since 2003, with clarified roles for the private sector and its relations with the National Port Authority;
- *Road transport services* have suffered setbacks and continued to struggle with outdated regulations and a lack of institutional backing for enforcement;
- *Rail freight services* remain a small proportion of the overall national freight and are still governed by concessionary contracts;
- *Commercial passenger services*, which are primarily supplied by road and aviation service providers, have mixed legal, regulatory, and operating conditions;
- International air passenger and cargo services are open and well regulated; and
- *Auxiliary logistics services* are mostly less regulated with lax performance quality requirements.

⁹⁹ The primary government institutions responsible for regulating transport and logistics are the Ministry of Transport (MOT), Ministry of Public Works (MPW), Ministry of Commerce and Industry (MoCI), Ministry of Finance (MOF), Ministry of Labor (MOL), Ministry of Justice (MOJ), Liberia Maritime Authority (LMA), National Ports Authority (NPA), Liberia Civil Aviation Authority (LCAA), Liberia Airport Authority (LAA), the Environmental Protection Agency (EPA), and the Liberia Postal Service. The major laws that provide important legal background for the regulatory and policy framework for these sectors include: the Investment Act 2010, the Consolidated Tax Amendment Act 2010, the Maritime Authority Act 2010, the Liberia Airport Authority Act 2009, the Liberia Civil Aviation Authority Act 2006, the Public Procurement and Concessions Act 2005, the Maritime Law of Liberia as Amended 2002, the Revenue Code 2000, the Labor Law 2000, and the Vehicle and Traffic Law 1972.

7.63 In line with Liberia's general laws, the current legal and regulatory framework for transport and logistics features an open and generally non-discriminatory regime towards foreign investment. During the past decade, the Government has made important efforts to pursue a liberalized reform agenda aimed at creating a level playing field for Liberian and foreign businesses. However, a few formal restrictions to transport and logistics remain in place, mostly in the form of a nationality requirement for services suppliers. Measures aimed at reducing the nationality requirement (e.g. allowing a quota for foreigners) would improve operating conditions, support Liberia's compliance with the ECOWAS Trade Liberalization Scheme (ETLS) and WTO accession, and facilitate regional trade integration.

7.64 In practice, the main challenges in the transport and logistics sectors are related to a weak governance framework. Low regulatory capacity results in non-transparent regulatory procedures, increased operating costs, and *de facto* market access restrictions. Improving the governance of administering the regulations of carriers, vehicles, drivers, service types, and service quality is vital for the efficient functioning of commercial enterprises and for attracting FDI.

7.65 Although few restrictions exist in law and regulation, many administrative practices and conditions continue to limit when business operations can start in Liberia. Inconsistencies in licensing requirements (commercial driver licensing), opaque methods for determining financial worthiness (minimum capitalization for foreign firms), the absence of rules and policy directives (new motor carrier registration), burdensome administrative procedures (duplicative customs inspections), and the application of preferential labor market rules (labor permits for foreigners) all disadvantage foreign-owned firms and impact the ease of operations as domestic firms can more easily obtain entry licenses.

7.66 The Government has had important achievements in promoting regulatory reform and promoting investment in transport and logistics. The National Transport and Policy Strategy (NTPS) directive completed in 2009 empowers the Ministry of Transport to oversee the many governing agencies of the transport sector. Yet much remains to be done to improve the conditions for policy formulation, and the implementation and enforcement of rules and regulatory reforms. Implementing the NTPS directives and fostering a governance presence that encourages regulatory compliance while providing clear requirements for market entry and operations remains a significant challenge.

Roads Sector

7.67 Market access to the roads Subsector remains fairly open for domestic firms and operations could start after appropriate approvals. However, in practice regulators have the power to limit sector capacity based on non-technical criteria, including opaque licensing rules for foreign-owned firms. Foreign firms face differential restrictions both on entry and operations, including cabotage and in-transit shipment of intraregional trade. Weak governance results in low sector-wide inspections and inadequate enforcement of current rules. This is compounded by insufficient institutional capacity to effectively enforce carrier, vehicle, and driver standards.

Maritime

7.68 Liberia's mostly unrestricted access to the maritime services Subsector and fairly structured regulatory and governance framework compare favorably to its regulation on other transport activities. However, although it allows public-private-partnerships, inconsistent rules on operations at the major seaports and administrative practices continue to limit participation of foreign-owned firms, particularly in the domestic coastwise maritime service. While well regulated, maritime service providers are still restricted by differential nationality and residency rules, limitations on employment of foreigners, and unclear licensing requirements that unequally affect foreign firms.

Aviation

7.69 The aviation sector is very open to private sector and foreign-firm participation and recent improvements in the country's overall macroeconomic position make both the international passenger and air cargo segments attractive for foreign investments. Recent laws and regulations have improved the governance of the aviation sector by stabilizing the role of the regulating agencies and providing clarity essential for both market access and commercial passenger operations. However, there is a need to strengthen the financial independence of the Liberia Civil Aviation Authority and the Liberia Airport Authority. Re-assessing the ownership and operational arrangements and considering a PPP structure to expand the viability of the secondary airports in particular.

Rail

7.70 Liberia lacks a rail transport law similar to the maritime law and vehicle and traffic law. Thus there is no regulatory basis for oversight of the rail sector and it is instead loosely regulated through concession contracts—as all the existing railroads have historically been tied to concessions. As discussed elsewhere in this report, there is substantial need for a rail law given the sector's potential contributions to economic growth and to harnessing the country's diverse natural resources. Market entry is restricted due to the concessionary structure of the sector, and furthermore lacks regulations and the absence of enforceable provisions lead to monopolistic behavior that affects trade-related costs for shippers in general. A major concern of the rail sector is how to balance future concession management to allow either competing or non-competing private investors to leverage state-owned or concession rail tracks while ensuring returns for investors and safeguarding the public's vested interest.

Logistics

7.71 In the logistics sector, inconsistencies in administrative practices and norms of different regulating agencies create excessive trade-related operating costs for both domestic and foreign firms. In addition, some sectors lack basic regulatory guidelines to ensure quality of service and safety.

7.72 *Customs brokerage* in Liberia is limited to Liberian citizens. It is affected by a discriminatory application process and deficient training, monitoring, and enforcement. With the growing complexity of trade transactions due to the intricacies of local content and origin requirements,

harmonized products classifications, bilateral trade agreements, and national security concerns, the role of customs brokers/agents in facilitating trade is becoming more important.

7.73 *Freight Forwarding* in Liberia is not a distinct market segment and suffers from a general lack of regulatory transparency. It is restricted by inconsistent rules, unpredictable directives, and discriminatory enforcement. It is also limited by barriers in customs administration, specifically a lack of transparency on risk assessment protocols, inefficiencies in customs inspections (duplicative inspections and long wait times), and burdensome trade document compliance requirements. Licensing and certification requirements for entry and operations are ambiguous and not publicly disclosed.

7.74 *Warehousing and Storage* in Liberia is not regulated as a specific activity, and remains open for foreign participation in terms of the general framework for investment. It is burdened by unclear guidelines, a culture of unofficial fees, and deficient monitoring and enforcement. The general warehousing market segment has few regulatory guidelines. The warehousing and storage segment lacks clear rules on technical standards for operation safety (including health and fire control), equipment usage, hazardous materials (e.g., petroleum and gasoline), and service quality. The sector seems to be dominated by foreigners who own the large private commercial warehouses in Monrovia.

7.75 *Courier and Parcel* services in Liberia are regulated by more than one agency due to the range of services courier providers supply. The primary restrictions the providers face include limits on foreign employment, nationality and residency rules, missing or outdated (postal) regulations, deficient monitoring and enforcement procedures.

Operating Conditions

7.76 Improving the overall governance and openness of the transport and logistics sectors requires strong Government-led support to address the identified impediments, including ineffective regulations, inconsistencies among the NTPS implementing agencies, inadequate implementing capacity, and insufficient regulatory accountability. More specifically, the GOL should:

- Review and relax the “Liberian only” rule and limit on foreign employment – with mandated quotas of foreign workers that depends on amount of FDI.
- Make the improvement of transport and logistics services a national priority by forming an Advisory Council on Transport and Logistics of non-government and industry experts to develop new rules for trucking and rail sectors, accountability, and improving governance.
- Develop a strong and effective Regulator-Industry Partnership Forum to coordinate the diverse stakeholders of the logistics Subsector. This Forum will forge open communication and dialogue to remove identified regulatory uncertainties.
- Form an interagency coordinating body of the NTPS implementing agencies to coordinate transport and logistics strategy, development, and expansion.
- Follow the recommendations of the Transport Master Plan in ensuring a multimodal approach to policy implementation that ensures a network of services capable of meeting the current and future needs of mining as well as agriculture, forestry, and manufacturing.

Distribution Services: Wholesale and Retail

7.77 Distribution services are Liberia's largest employer in the services sector. A 2010 labor force survey recorded more than 250,000 Liberians working in retail services, which amounts to more than half of the population employed in services and around a quarter of all formally employed Liberians. The sector is dominated by self-employed and family businesses; 60 percent of retailers work alone. Retail services are mostly informal and are carried out more as a subsistence activity than a profession: at \$36 per week, wages in retail are among the lowest in Liberia according to the labor force survey conducted by the International Labor Organization.

7.78 Both wholesale and retail services are open to domestic and foreign suppliers, but restrictions apply to certain products. No general restrictions are in place on establishing a business, which remains open to both foreign and domestic investors on an equal footing. Also, there appear to be no restrictions on cross-border retail. However, the Investment Act of 2010 reserves the distribution of some specific products exclusively for Liberian-owned companies, including: retail sale of rice and cement; retail sale of timber and planks; retail of gasoline (gas stations); importation or sale of second-hand or used clothing; distribution in Liberia of locally manufactured products; and importation and sale of used cars (except authorized dealerships for cars of their own make).

7.79 In addition, a few products can be distributed only by foreign companies if the investment meets a certain threshold (\$500,000) or has at least 25 percent Liberian ownership (for foreign investment above \$300,000). This regime applies to the distribution of stone and granite, drinking water in sachets, animal and poultry feed, bakery products, and pharmaceuticals.

7.80 No decree or other secondary regulation implements the Investment Act, so the scope of these restrictions remains unclear and practice differs from legal guidelines (e.g., it is not clear whether a minimum investment is required to engage in wholesale, retail, or either of them, for the listed goods). Even in those sectors that are more clearly defined, inconsistent practices have introduced additional uncertainty. For example, the Act refers to the "retail sale of rice and cement" as activities reserved for Liberian nationals, but rice can be found in supermarkets, some of which are owned by foreign nationals. Similarly, cement can be bought at a chain of retail stores specializing in construction material, which is a foreign investment from India. Thus, some policy makers consider the limitation in nationality to apply to wholesale distribution of rice, instead of retail as set out in the law. In general, it appears that most of the restrictions listed in the Investment Act are either not applied in practice or are limited to small retail stores or individual sellers.

7.81 In general, the distribution sector remains heavily under-regulated, lacks laws on competition and consumer protection, and suffers from poor monitoring. Liberia lacks a competition policy, which has brought about concerns of unfair competition in the past, especially in the distribution of key commodities such as cement. Indeed, despite measures to open the cement market—historically a monopoly—some restrictions such as the need for import permits for cement and construction materials are still in place. For that reason, cement together with rice and gasoline has been historically subject to price controls. Furthermore,

the quality of goods distributed is undermined by poor monitoring of the existing regulations, as well as by the lack of regulation in the sector generally, namely on consumer protection and standards. Liberia’s Commercial Code introduces general rules of liability and implied warranties for all commercial contracts, but those rules lack specificity with the regard to the distribution sector—especially retail—by for example by setting out consumers’ rights, retailers’ obligations, and redress procedures. The poor regulatory framework adds to the weak capacity to develop and monitor the application of health and safety standards.

TABLE 15: Restrictions Affecting Tourism

	Establishment									Operation									
	Regulatory Measures									AP	RM		Administrative Practices			No restrictions			
	Numerical restrictions	Licensing (qualifications)	Licensing (experience)	Nationality (for services supplier)	Residency (for services supplier)	Track record requirements	Requirement to subscribe to association	Domestic partner requirement	Form of establishment	Other	Requirements not publicly disclosed	Numerical restrictions	Advertising limitations	Missing or outdated or missing regulations	Requirements not publicly disclosed		Ambiguous/unclear requirements	Unofficial fees	Other
Hotels (3–5 stars)														●	●				●
Hotels (1–3 stars, guesthouses)				□										●	●				
Travel agencies				★			●							●					
Tour operators				□										●					

Note: ● = restriction applied, ★ = not applied in practice, □ = suggested for future regulation; AP = administrative practices; RM = regulatory measures.

Tourism

7.82 Tourism is Liberia’s services sector with the greatest growth potential in the medium to long-term. This is also the case due to the current low base of the sector. The civil war brought an end to the tourism industry in Liberia, which until recently has struggled to resume. Liberia’s first cruise ship of the postwar period, the *National Geographic Explorer*, docked in Monrovia in 2012 with 150 passengers on board, which may have been the largest group of tourists to visit the country since the 1970s. In recent years, tourism services have been expanding with investment in new and renovated hotels and the opening of travel agencies. The growth of the sector is mostly linked to expatriates based in Liberia or to Liberians living abroad and returning to the country on a temporary basis.

7.83 It is clear that the current Ebola outbreak has decimated the already low base of tourism activity in Liberia, and this situation is highly likely to persist in the short-term. Even after the immediate physical threat posed by the disease is contained and subsequently eradicated, lingering international perceptions associated with the disease and its toll on the country will remain strong for some time, dissuading many travelers from coming to the country. This situation makes it all the more necessary for Liberia to start early in planning and implementing an aggressive tourism promotion strategy.

7.83 The regulatory and institutional framework for the tourism sector is virtually nonexistent. Considering its great potential, GoL recently commissioned the development of a tourism strategy for Liberia. Table 15 presents restrictions affecting tourism. The Bureau of Tourism in the Ministry of Information, Cultural Affairs and Tourism oversees the sector, and employs approximately 20 people in total. The Bureau has prepared a draft strategy that have apparently informed GoL decision to move ahead with tourism development and the establishment of a national policy or regulatory guidelines on tourism. Currently, the sector is mostly governed by the general framework, including the law on investment and the incentives framework. A few references specific to the tourism sector can be found in general laws, e.g.:

- Investment Act of 2010: Travel agencies are listed as an industry reserved exclusively for Liberians. However, regulators consider this restriction to not be applied in practice, and some travel agencies are indeed owned by foreigners through partnership with Liberians.
- Revenue Code of 2010: “tourism carried out through tourist resorts, hotels and cultural sites” is listed as eligible for the special incentives scheme.

7.84 No major regulatory restrictions affect the tourism industry today apart from the aforementioned nationality limitation, which may operate more like a *de facto* partnership requirement. However, some policymakers believe the adoption of a tourism policy and regulatory framework would allow for further limitations. Speculations on possible restrictions that may be applied relate mostly to nationality limitations for operators, car rental agencies, or smaller accommodation services, such as guesthouses, bed-and-breakfasts, and one- or two-star hotels. There is also a registration requirement for all businesses involved in the tourism sector, although regulators acknowledge that many operators are not aware of this requirement. The registration process is meant to check for compliance with industry standards, but in practice it operates mostly as a source of revenue for the Ministry.

7.85 The sector suffers severely from lack of adequate regulatory standards. The main task of the Bureau of Tourism is to control the observance of standards, which is done through annual inspection and registration renewal (and fee collection). However, no national standards are set for hotels or restaurants; the ministry relies on ECOWAS guidelines, but in practice lacks the capacity to enforce them.¹⁰⁰ Inspectors are guided by an informal checklist, which includes presence of a telephone and television in rooms, wall-to-

¹⁰⁰ Some regulators claimed that regulation-setting standards do in fact exist. However, they were not able to produce them.

wall carpeting, uniformed staff, and similar amenities to establish the category of the hotel. Monitoring for hygiene and safety standards is done with the inspector's best knowledge, although they are not trained in such areas. Cooperation with other specialized agencies on health standards does not take place, and each agency tends to perform its own monitoring.

F. Conclusions and Recommendations

7.86 Services have been an essential component of Liberia's economic growth in the last decade and should remain a priority. Growth in the services sector, in particular backbone services such as financial services, telecoms, and transport and logistics, has the potential to support the expansion of the economy as a whole and allow for growth in other export-oriented activities, including agribusiness and mining. Liberia's growing reliance on important "modern" services further confirms the need for the development of a strong services sector.

7.87 Liberia's legal framework supports a fairly liberal services trade environment. In order to translate that framework into more successful services trade performance, the country will have to pursue key improvements in the regulatory and institutional framework for services. Liberia's accession to the WTO offers this opportunity, and accession could attract new foreign operators that could support the modernization and expansion of the services sector in general by increasing quality, variety, and lowering costs. Engaging in multilateral negotiations demands not only the establishment of efficient institutional procedures, but also the improvement of the effectiveness of Liberia's trade policies. Liberia should strive to ensure that its open policies and the efforts put into WTO accession are not undermined by deficient administrative practices and lack of clarity in its regulatory framework.

Reducing Horizontal Regulatory Restrictions

7.88 The horizontal regulatory regime for trade and investment in services in Liberia is generally open and non-discriminatory, generally in line with the WTO's main obligations on services trade. The main challenge moving forward is the need to develop or update specific regulatory frameworks in several services Subsectors. Some horizontal restrictions remain in place, such as labour market tests (e.g., economic needs tests for foreign employees) and limitations on land ownership. These limitations may be justified on broader policy priorities, and indeed many countries, including OECD members, have listed similar reservations in their trade agreements, including in their WTO commitments. Yet labour market tests are considered among the most restrictive measures to foreign trade and investment, and Liberia should explore alternative options that have gained traction in other developing countries, such as instituting a prescribed maximum percentage of foreign employees allowed to work in domestic firms. Complemented with the establishment of joint education and training programs between investors and domestic institutions, this path would ease the restrictiveness of labour market tests while simultaneously achieving the policy goal to promote domestic employment.

7.89 Similarly, greater transparency in the duration of labor permits would further enhance the business environment while allowing the Government to maintain the promotion of Liberian labor. Labor permits for foreigners are not only subject to economic

needs test but also lack clear guidelines as to their duration. There are no regulations defining these procedures, and the assessment is done on a case-by-case basis, often involving some degree of negotiation with the investor. This unpredictable framework affects the business environment and creates further opportunities for corruption. The adoption of clear regulatory guidelines that outline the different types of foreign employees and their maximum period of employment, as well as the extension of permits for the maximum duration of contracts would enhance the conditions for establishment.

Improving Governance and Administrative Practices

7.90 From a broader perspective, Liberia's main limitations to trade and investment in services relate to challenges in governance and poor administrative practices. Although the Government has made great progress in reducing regulatory barriers to services trade and investment, the institutional framework has yet to make similar progress. Liberia's institutional deficiencies increase transactions costs, limiting opportunities for the establishment and expansion of services providers. This especially burdens small and medium enterprises, which lack the human and financial resources to address barriers directly with government officials.

7.91 The main governance limitations relate to the lack of access to clear regulatory guidelines, which reduces transparency and hampers the business environment. Access to regulation in Liberia remains a challenge even for government officials directly involved in their implementation, which results in regulatory measures being informally communicated to the public and even between government agencies. This further increases discretion in the application of regulatory measures and gives room for unwarranted restrictions to trade and investment. Two policies can help improve this framework: (1) the gradual establishment of simple, clear, and binding government-wide regulatory procedures and (2) the improvement of access to existing business regulations, especially licensing procedures.

7.92 Binding, government-wide procedures for the development and adoption of regulation will support a sound regulation-making framework. A binding guideline, with simple standard procedures for the development and adoption of secondary regulation, will increase transparency, regulatory capacity, and confidence among stakeholders. Such guidelines should reflect best practices in drafting regulation, incorporating steps relating to disclosure of regulatory goals, stakeholder consultations, interagency coordination, and evaluation of regulatory efficiency.

7.93 Given that trade in services liberalization spans multiple economic sectors and touches upon the mandates of a wide range of government agencies, there is a great need to coordinate regulation-making procedures between multiple ministries and agencies. The experience of some LDCs that recently acceded to WTO may provide useful lessons. The cases of Cambodia and Lao PDR, for example, suggest that a strong coordination unit that can unify the different regulatory approaches and organize the policies of these institutions is an efficient institutional solution to lead the process of WTO accession. Such a unit can be embedded within the trade ministry or be established at the inter-ministerial level, but either way it should enjoy explicit support from the political leadership. The Government should reinforce the small trade ministry team charged with WTO accession with greater human resources and political support. A

strengthened trade negotiations team should at the very least be supported by an expressed mandate to other ministries and agencies to contribute policy and regulatory information not only for existing regulations, but also for those being considered. Also, a dissemination strategy on the implications of WTO accession needs to be put in place.

7.94 Further public access to existing legal instruments is necessary to increase the transparency and predictability of business regulation. The Government has also made progress in facilitating the establishment of businesses by introducing a one-stop shop for company registration. However, most economic activities require additional licenses or permits to operate, which are available only at the specific ministry or agency that issues them. Information regarding the conditions of such requirements is only found at the agencies, which require multiple in-person inquiries. The establishment of an online repository with all laws and regulations relevant to the services sector, including licensing and operations requirements, would provide a major step in advancing transparency, complementing the progress already made with the simplification of company registration procedures.

7.95 Finally, secondary legislation should be enacted to clarify the terms of the main laws. Liberia's legal framework is overly general and should be complemented with secondary regulation. Most administrative practices relate directly to the implementation of framework laws, such as the investment act, the revenue code, or the labor law, which are broad in nature. An adequate implementation of this legal framework would require the enactment of secondary regulation that defines and gives specific meaning to their terms.

Sectoral Regulation

7.96 Sector-specific regulation is generally underdeveloped or non-existent, and institutional capacity is weak. However, some services sectors, such as banking and accounting services, have seen greater regulatory progress in recent years. Professional services is the only services sector subject to heavy regulatory barriers, mainly in the form of nationality limitations or domestic partnership requirements, in particular in legal and accountancy services (see Appendix). In general, a review of specific services sectors confirms that administrative practices, rather than regulatory measures, are the main obstacles to the expansion of services in Liberia.

7.97 The two main measures that Liberia should consider to improve governance of the services sector across the board are:

- The adoption of binding procedures for the regulation-making process; and
- The improvement of public access to existing business regulations, especially licensing procedures.

7.98 The World Bank's report on the regulatory regime affecting trade in services in Liberia provides the following policy recommendations in specific services sectors, that may be considered in the context of the WTO accession process:

- a) Liberia should consider a partial opening of the legal services sector by establishing a domestic partnership requirement for foreign professionals and legal firms instead of a

complete ban on all foreign lawyers. In addition, the institutional and regulatory framework for the legal profession should be strengthened. Legal services are one of Liberia's few major services sectors completely closed to foreign participation, and remain greatly underdeveloped. Regulation on the legal profession is inaccessible and governance remains poor. The regulatory instruments relative to the sector are not readily available, and there are important gaps in the regulatory framework. Partially opening the sector would attract greater capacity in the legal profession,

b) In light of trade talks, Liberia should evaluate options for the negotiation of this measure, including transitional periods for its phasing-out or its replacement for less burdensome training requirements. Accountancy provides a valuable example of regulatory and institutional progress, although some restrictions are likely to receive attention during trade negotiations. The institutional and regulatory framework for the sector has seen important progress, although standards still need to be developed and applied across the board. Some important restrictions remain, such as the mandatory quota on revenue share between foreign and domestic firms, which is likely to raise challenges by trade partners.

c) Distribution services, especially retail, are Liberia's largest employer in the services sector, but it remains informal, heavily under-regulated, and of poor quality. This affects mostly small and medium enterprises, which need to rely on imported inputs and equipment, but lack the capacity to import large stocks on their own. Liberia should develop a regulatory framework for distribution services, including the laws and obligations of wholesalers and retailers, as well as consumer protection measures, including simplified procedures for consumer claims. The regulation should also clarify some of the restrictions affecting the distribution of certain products, including foodstuffs and construction materials.

d) The regulation of financial services does not feature major restrictions to trade and investment, but the challenge centers on the regulation of the insurance sector. Insurance services are still governed by an outdated law that does not reflect current practice, and the institutional framework for insurance is virtually non-existent. The old insurance law features some nationality restrictions that do not seem to be applied in practice. Banking services, on the contrary, are closely regulated by the Central Bank, and do not set out meaningful restrictions to services trade.

e) Tourism stands out as a valuable sector for services exports, and with the renewed attention it is receiving for priority consideration and development of regulation, the sector has the potential for huge job creation and revenue generation. The sector's main challenge lies in the absence of a tourism policy that would identify and set out the main priorities and actions for Liberia's tourism industry.

CHAPTER 8

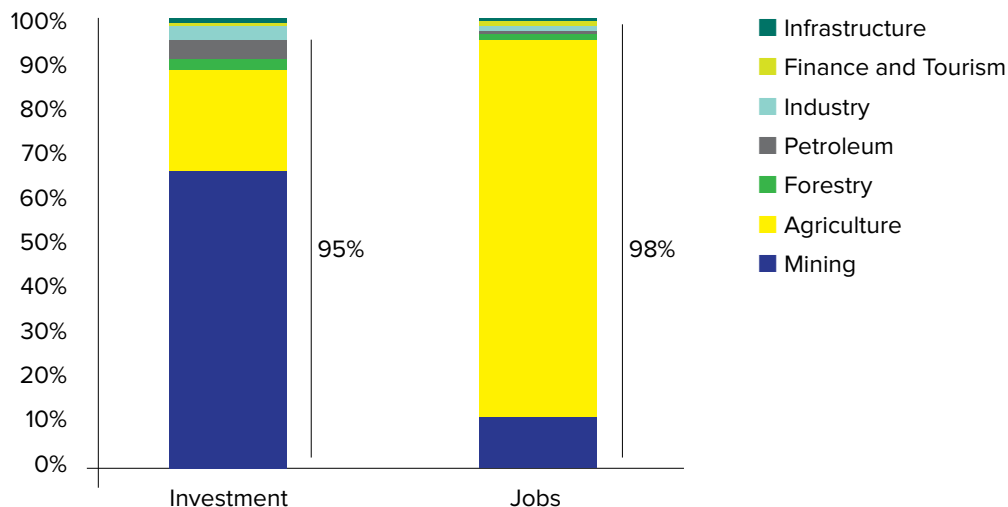
LEVERAGING FDI FOR ECONOMIC DIVERSIFICATION

8.1 For most of Liberia’s history, FDI has targeted natural resource exploitation, and these sectors still account for the largest share of incoming FDI. Over the past decade, the mining sector has received roughly two-thirds of committed foreign investments, with some 95 percent in iron ore alone. Agriculture is the second-largest sector for new investments, where virtually all major new investments have been in palm oil production, despite rubber’s historical dominance. Agriculture remains the most important sector in terms of FDI-led job creation, accounting for 84 percent of potential jobs arising from recent investments. Overall, commodity sectors (agriculture, mining, and petroleum) account for 95 percent of committed investment and 98 percent of job creation. See Figure 32.

A. The Role of FDI in Liberia

8.2 FDI can have a significant impact in terms of generating tax revenue for the Government, but it does not always benefit local communities. Concessionaires and other large-scale FDI projects have often behaved like “islands,” where benefits accrue primarily to the central government through taxation (as well as to a local elite), but not the general population. Indeed, this phenomenon has been observed globally, wherein countries rich in natural resources have tended to experience less growth and worse human development indicators than their counterparts. The process of building business linkages, particularly between suppliers of goods and services to concessionaires is one major strategy to ensure that large-scale FDI can create local economic growth and contribute towards economic diversification in Liberia.

FIGURE 32: Share of Potential Jobs from FDI Contracts by Sector (2008-2013)



Source: National Investment Commission (NIC)

8.3 FDI in Liberia comes from a broad range of international sources, in line with the global commodity-based nature of the Liberian economy. Although FDI in Liberia traditionally originated almost exclusively from the US and Europe, more recent investments have had strong representation from developing countries, including China, India, and Russia in the extractives sector, and Malaysia and Indonesia in palm oil.

8.4 While FDI offers significant opportunities for Liberia and is absolutely critical for its development over the short and medium-term, it also presents some risks for the country. These include risks which are inherent to FDI globally, as well as risks arising from the commodity nature of most FDI in Liberia:

- **Foreign firms are likely to be “footloose”** — in other words, FDI activity is likely to decrease (or exit entirely) if domestic conditions render the investments unprofitable or if other countries offer better conditions. In practice, sudden shifts of FDI out of markets are not common, particularly in resource sectors where significant sunk costs add some degree of permanence to the investments. Nevertheless, the protracted period of conflict in Liberia illustrated this risk as many foreign firms either suspended economic activity, or exited the country altogether
- **Foreign-owned firms often risk “crowding out” local industry.** Crowding out occurs through domestic capital being diverted away from local production to investments linked to the commodity sectors. This may take the form of foreign firms capturing scarce financing from local banks, or by attracting the most skilled labor available in the market. Anecdotal evidence from discussions with the private sector in Liberia suggest that the most skilled graduates choose to work for multinationals in the resource sectors due to higher pay and better opportunities. This has the effect of reducing the quality of the labor pool (and potentially raising wages) available to the domestic private sector.
- **Large-scale FDI has the potential to instigate social conflict** – particularly in resource sectors and when linked to land. It is estimated that current negotiated concessions encompass some 40 percent of Liberia’s land area, affecting up to 30 percent of the rural population.¹⁰¹ Therefore improving the economic spillovers from concessions to the local economy is critical to give investors the “social license” to operate and to mitigate social tensions.

8.5 In the context of these risks, Liberia’s trade and investment policy should focus on two objectives to leverage foreign direct investment to support trade competitiveness: (i) Attracting FDI beyond the traditional resource sectors, and (ii) Leveraging existing and future FDI more effectively to support the development of the domestic private sector, and ultimately the development of a more diversified and competitive Liberian export sector. The first of these will require greater attention to the investment policy regime and its implementation. The second will require a carefully planned and well-executed effort to maximize spillovers from existing natural resource-based investments, including (but not limited to) developing more effective supply chain links. See Box 9.

101 World Bank 2011

Box 9: The Channels of Spillovers from FDI

Foreign investors can bring significant benefits to their host economies, over and above the employment they create and the taxes they pay. As foreign firms are almost inevitably more productive and more technologically advanced than most firms in the domestic market, spillovers can play a critical role in improving the competitiveness of domestic firms. These spillovers occur through three main channels:

1) Supply chains: Spillovers through supply chains emerge when local firms become input or service suppliers to multinationals. Specifically, spillovers can be generated through the demand of multinationals for better and/or more diverse inputs (*demand effect*) and through support that multinationals may provide to these suppliers to upgrade their technology capabilities, production techniques or business practices (*assistance effect*).

2) Labor turnover: Investment of multinationals in their workforce provides workers with knowledge and skills, which may be carried over to local firms when workers move to domestic firms or start their own businesses.

3) Changing market forces: The entry of multinationals into a domestic market may increase competition in the host country market, forcing improvements in productivity in firms that face direct competition from the multinationals (*competition effect*). This will, in turn, benefit consumers and/or firms that receive inputs from these firms. More broadly, technological innovations and improved production and work practices will diffuse to the domestic market through imitation, reverse engineering, and other means (*demonstration effect*).

The degree to which any of these transmission channels delivers spillovers, however, is mediated significantly both by characteristics of foreign investors (their home country, sector, global production strategies, entry patterns, etc.) and the host country's absorptive capacity (investment environment, markets and institutions, skills and education, trade and investment policy, etc).

Source: Farole, T. Staritz C. & Winkler D. (Farole, T., Staritz, C., & Winkler, D, 2012)

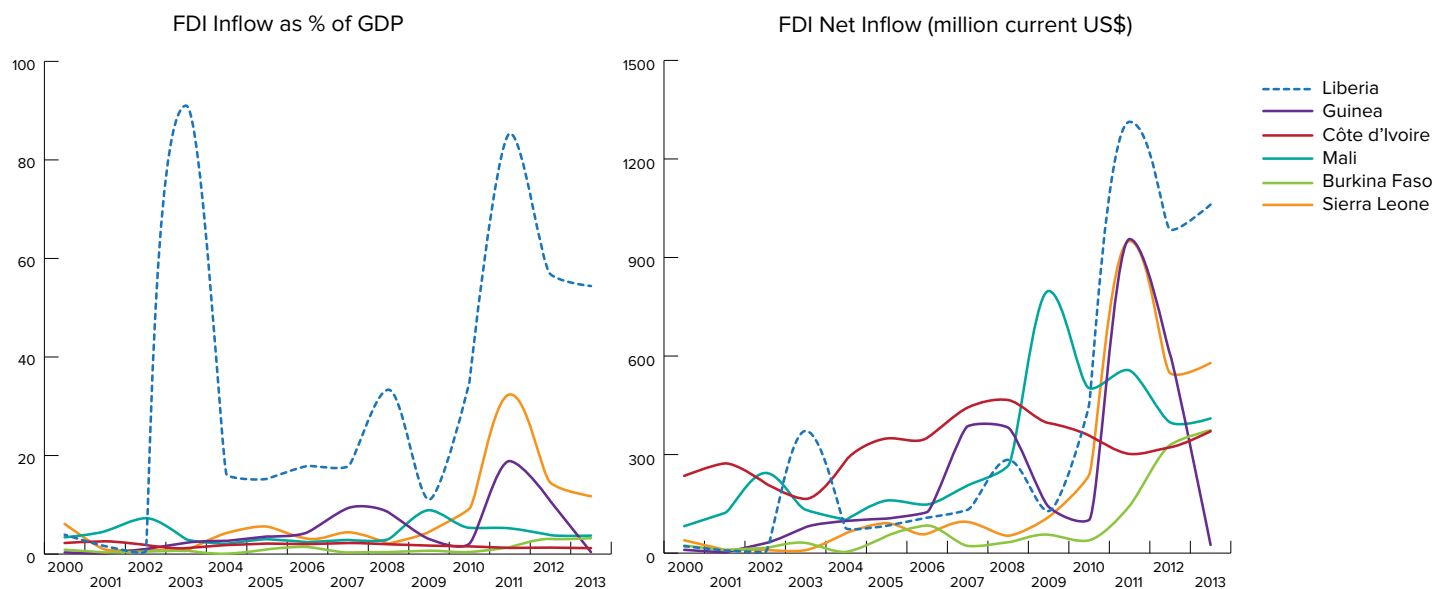
8.6 Liberia is in the midst of a major boom in FDI that is poised to shape the country's pattern of trade in the years to come. Between 2009 and 2013, Liberia attracted nearly US\$3.2 billion in net FDI inflows – almost as much as it attracted over the previous two decades combined.¹⁰² See Figure 33. This surge places Liberia far above its regional peers in terms of both nominal flows and the relative importance of FDI to the economy (Figure 28). FDI stocks per capita far exceeded those of regional peers throughout the past thirty years, although they have not grown appreciably since 1990. Reflecting the behavior of commodity-focused investments globally, FDI inflows have gone through several cycles in Liberia, reaching upwards of 80 percent of GDP during certain periods (late 1980s, late 1990s, following the civil war in 2003, and again since the late 2000s).

8.7 Data limitations prevent an analysis of the full range of FDI in Liberia, but it is clear that large-scale foreign investments undertaken in the period 2006 through 2012 will continue to dominate overall FDI for the foreseeable future.¹⁰³ Total reported FDI

¹⁰² UNCTADStat

¹⁰³ Data only exists on investments classified as “major investments”, i.e. at least US\$10m for which concession agreements are signed covering a ten year period.

FIGURE 33: FDI Inflows - Liberia v Regional Peers (2000-2013)



Source: World Development Indicators (WDI)

commitments from 33 contracts signed during this period total over US\$12 billion — implemented over the next 20-30 years, these investments alone would account for more than one-third of Liberia's current GDP annually.¹⁰⁴ At least on paper, these investments also promise to deliver up to 100,000 jobs, highly significant in a country with only 15 percent of the population employed in the formal sector.

8.8 Given the sector-specific nature of FDI in Liberia, active foreign investments also dominate Liberia's exports. Although it is not possible to disaggregate exports by foreign versus domestically-owned firms, given that over 80 percent of exports are in rubber and minerals, and these sectors are almost fully controlled by foreign firms, the dominant role of FDI in Liberia's export basket is clear.

B. Potential Linkages between FDI and the Local Economy

8.9 In order to better leverage the opportunities created by Liberia's natural resource abundance to support the development of the private sector and deliver wider prosperity, a critical priority is to facilitate wider and deeper linkages between concessionaires and the domestic economy. Spillovers resulting from enhanced upstream and downstream linkages, as well as from greater participation of Liberian human capital, will not only have direct impacts on firms and households, but more importantly in the long term will contribute to the development of more productive and innovative economic base.

8.10 It will be critical for Liberia to build a more competitive domestic private sector that can contribute more to exports in the medium to long-term. Concessionaires and foreign investors are positioned to play a critical role in this process for several reasons: (i) They

¹⁰⁴ Plus an additional 20 contracts for petroleum stations

are major buyers of key inputs, including agricultural, manufactured products, and a wide range of services, so their purchasing power alone can play an important role in stimulating the domestic private sector; (ii) They operate at the forefront of global markets and provide important ‘conditioning’ to domestic suppliers, ensuring that they can meet the demands of global markets; and (iii) They offer potential direct links to global markets. According to a recent study carried out by GIZ, if as little as 10 percent of spending by foreign concessions entered the Liberian domestic economy, the contribution would be roughly US\$37 million—equivalent to 3.8 percent of current GDP; at 30 percent localization, the contribution would reach US\$111 million or 11.5 percent of GDP.¹⁰⁵

8.11 More recently, a major survey of Liberian local firms, covering around 10 percent of the more than 7,500 registered firms in Liberia, found that one quarter of all firms reported having an international client in the last six months and 39 percent has one at some point in the past.¹⁰⁶ Most of these links are concentrated in basic services and traded (as opposed to manufactured) goods. Security services, office equipment, and other industrial supplies represented the leading sectors for links with foreign investors.

8.12 Both service and supply linkages in the mining sector have been limited in recent years, which is particularly troubling when compared to pre-war years in which most of the services (maintenance, plumbing, carpentry, as well as trucking) and some basic inputs were provided by Liberian firms. Anecdotal evidence now suggests that many of these services are now provided by Ghanaian companies registered in Liberia. One area of opportunity that appears to be missed is in the provision of food to the mines, including vegetables, meat, and fish. At the moment, the mines come to Monrovia to procure rather than purchasing from the local community near the concessions, and most of what they buy is imported.

8.13 Even when concessionaires attempt to deepen their procurement-related linkages with the broader economy, lack of capacity among local suppliers is often too low to be adequate. For example, one active mining concessionaire committed through their mine development agreement (MDA) to source locally and was successful in getting some of basic inputs (e.g. wooden coal trays) from the local community. Nevertheless, the limited availability and quality of these inputs prevented them from significant local purchases. Some activities which are sourced locally commonly include the hiring of vehicles, telecom/internet service, transport, catering, lab tests, and most other non-tradable services. As a general rule, nearly all requirements for technical expertise or supplies are sourced from international markets.

8.14 Finally, linkages in the agricultural sector between large-scale producers and smallholders are far below optimal levels. According to industry representatives, palm concessions would normally target 50 percent of their output originating from their plantations, and relying on local smallholders for the rest. However, outgrowing on this scale has not been possible in Liberia, in part because no effective model for smallholder development has been implemented.

¹⁰⁵ Burger, 2011.

¹⁰⁶ Building Markets, 2012.

Policy environment

8.15 It is perhaps unsurprising that improving the linkages between foreign investors and the domestic economy is a major priority for the Government. The strengthening of these linkages has been repeatedly identified as a core component of the National Micro, Small and Medium Enterprise (MSME) Policy, the National Industrial Policy, and features regularly in the programs of many donors. In most cases, emphasis has been placed on supporting increased supply chain linkages (i.e. foreign investors purchasing goods and services from Liberian firms or selling outputs for further value added processing within Liberia), and to a lesser degree supporting human capital development (i.e. hiring and training Liberians).

8.16 Liberia currently has a preferential procurement policy for the procurement of goods and services by the Government, but has yet to make any general requirement for concessionaires (outside of voluntarily negotiated concession agreements). A 2006 policy on preferential procurement established obligations for the use of local content in public procurement, with the objective of “easing the conditions for Liberian and Domestic Businesses to provide goods, works or services in Government procurement.”¹⁰⁷ Under this policy, local firms are given concessions on meeting certain bidding requirements as well as a significant “margin of preference” of up to 50 percent for manufactured goods and up to 20 percent for the provision of goods and services.

8.17 The calculated degree of preference for local firms not only depends on the nature of the contract, but also on the nature of the “local” firm. Specifically a distinction is made between a “Liberian” business (“a business or an established Legal Person registered under the Liberian Law whose ownership is 51 percent or more Liberian, managed technically and financially by Liberians and operating in Liberia”) and “Domestic” business (“a business owned by foreign nationals and registered under Liberian Law, with less than 51 percent Liberian ownership *or without Liberian ownership but operating in Liberia*”). The preferences offered to “Liberian” firms is significantly greater, reflecting concerns that the private sector in Liberia is dominated by foreign citizens, and that Liberians are disadvantaged in competing even within the domestic market.

8.18 In addition to marginal preferences, in some sectors Government has specific targets for purchasing from local suppliers — for example, 25 percent in furniture and metalworking. In practice, however, these targets are not being met. It is understood that many procurement officers in Government departments are unwilling to take the risk of purchasing from local firms, and the enforcement of these policies remains weak.

8.19 Outside of Government, all concessions have a number of obligations for supporting the development of the domestic private sector through supply linkages and other mechanisms, although these are not tightly defined. All concession agreements include a clause requiring the use of Liberian services and materials, although the wording of these clauses typically allows investors to avoid virtually any legal obligation to contract with local firms. For example, the concession agreement with Golden Veroleum states: “Investor

¹⁰⁷ Procurement Law, 2006.

shall... give preference to goods produced in Liberia by Liberian nationals... provided that such goods and services are *at least equal to or better than comparable goods and services obtainable from Persons located outside of Liberia... taking into account price, quality, safety standards, service, quantity, delivery schedules, availability, and other terms*" (italics added). More recent concession contracts negotiated with foreign mining firms have narrowed this definition considerably. For example, the contract with the Western Cluster concession states: "Company shall, and shall cause its major subcontractors... to (a) organize their procurement practices to give meaningful opportunities to bid for contracts to those entitled to preference... (b) give preference to the maximum extent possible to materials and goods produced in Liberia by natural persons who are citizens of Liberia... *unless such materials or goods are not provided in Liberia or such services are not provided by Liberian persons*" (italics added). In any case, monitoring and enforcement of these clauses remains relatively ineffective.

8.20 For agricultural concessions, recent agreements also require the investor to provide for an out grower, or contract farming, program. The agreements vary, but generally involve some of the concession's land being established specifically for use by Liberian smallholders, with the concessionaire obligated to provide technical support to the smallholders on a cost recovery basis. For both mining and agricultural concessions, agreements also attempt to support beneficiation, or value addition. However, this is normally limited to requiring the investor to carry out a feasibility study (usually some years after starting operations) to assess the potential for value-added processing, and to share this study with the Government. As such, these obligations are unlikely to have a significant impact on decisions to invest in downstream processing.

8.21 Beyond supply links, concession agreements attempt to support the hiring of Liberians, usually by requiring a minimum percentage of management jobs to be held by Liberians after a certain period, and requiring minimum investments in training for Liberian staff. Again, however, these provisions tend to be vaguely worded and poorly enforced. Finally, in the regional context, efforts to harmonize mining laws in ECOWAS include provisions for giving preference to suppliers from within member states (see Box 10).

8.22 As of March 2013, it is understood that the NIC has been working on the development of a new local content policy. The policy is intended to establish a common approach to supporting supply chain links across all sectors. The policy would include both obligations on the use of local content and in the training of Liberian human capital.

Box 10: Regional Harmonization of Mining Policy in ECOWAS

The provisions of Article 31 of the ECOWAS Treaty prescribe the harmonization and coordination of national policies in the natural resources sectors of member states. In 2009, the ECOWAS Council of Ministers adopted a regulation relating to the development and organization of the Community's mining sector, along with the ECOWAS "Directive on the Harmonisation of Guiding Principles and Policies in the Mining Sector". As part of the implementation of the Directive, an ECOWAS "Mineral Development Policy" was being developed at the date of this report.

The ECOWAS Directive on the “Harmonisation of Guiding Principles and Policies in the Mining Sector” states:

“Article 11: Localisation policy of Mining Operations

In pursuance of a localisation policy, a holder of a mining right in a Member State shall submit and comply with the competent authority a detailed program for recruitment, technology transfer, and training of local personnel.

A Holder of a mining right shall in all phases of its operations give preference in employment to citizens of Member States especially affected communities to the maximum extent possible and consistent with safety, efficiency and economy.

A Holder of a mining right shall in conduct of mining operations and in purchase, construction and installation of facilities have a procurement policy which gives preference to:

- a. Materials and products of a Member State;
- b. Service agencies located in a Member State and owned by a citizen (corporate or otherwise) of such Member State and/or public corporation, to the maximum extent possible and consistent with safety, efficiency and economy.

The draft ECOWAS “Mineral Development Policy” (EMDP) consists of nine themes (articles), one of which deals with “local content policy of mineral operations.” Each article has specific commitments by Member States. An implementation matrix of the EMDP was also developed.

Furthermore, the ongoing ECOWAS process aiming for unified mining legislation in the region contemplates further legislative frameworks, including a Common Mining Code.

Source: World Bank, 2012.

C. Barriers to expanding linkages

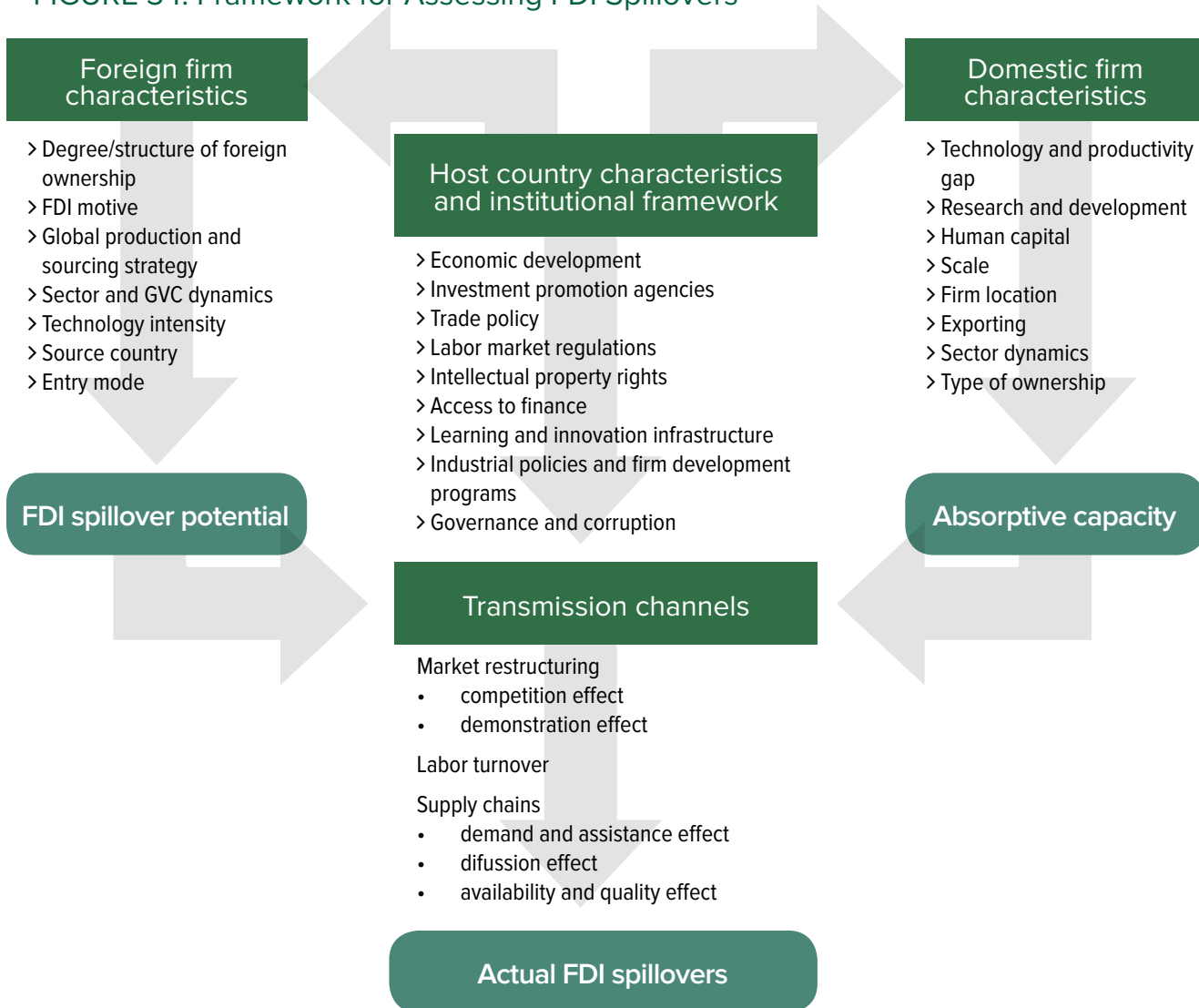
8.23 The scope for increased FDI linkages with the Liberian economy is conditioned by three main factors: (i) the spillover potential of the foreign investors; (ii) the absorptive capacity of local agents (firms and workers); and (iii) the interaction of these two factors, determined by the institutional framework and operating environment of the host country (Figure 34).

FDI characteristics

8.24 In order to build business linkages with foreign investors, it is important to understand the scope of goods and services that are required in the sectors where these investments are made. One GIZ study provides an overview of potential areas where Liberian firms can participate in the mining and agricultural sectors, shown below:

8.25 Any program to support local suppliers should begin by focusing on “low-hanging fruit,” i.e. the least technical and most essential for day-to-day operations for large

FIGURE 34: Framework for Assessing FDI Spillovers



Source: Farole T, Staritz C, & Winkler D (2012)

concessions. These are typically low-skilled jobs, but can potentially employ large numbers of Liberians. Over time, it is expected that Liberian firms would move up the value chain towards more technical, high-skilled services.¹⁰⁸

8.26 Recent World Bank research in the mining sector suggests that foreign investments with certain characteristics are more likely to result in greater supply chain spillovers. The most important among these characteristics is size: “top tier” global mining companies typically have a long-term view, significant financial resources, and are therefore more likely to invest in local economic development in their host countries. They also tend to be subject to greater scrutiny by civil society, and therefore tend to focus on broader questions of sustainability of investment, including a “social licence” to operate.

8.27 One increasingly common trend among foreign investors is the use of centralized

108 Burger, 2011.

procurement systems to support security of supply, streamlined procurement operations, and bulk purchasing arrangements. This limits some of the scope of local purchasing. Nevertheless, given the nature of what goods and services are likely to be purchased even in the medium-term in Liberia, global procurement strategies are unlikely to be a significant barrier to expanding linkages.

Domestic firm characteristics

8.28 A recent survey carried out by the NGO Building Markets provides the most comprehensive picture yet of the nature of the domestic firms in Monrovia, and identifies several specific characteristics of these firms that are likely to act as constraints to facilitating deeper supply linkages with foreign investors:

- **Small firm size:** In the sample of 758 firms in the Monrovia area, nearly 60 percent employed fewer than 5 people and nearly 60 percent of firms that disclosed revenues had annual revenues of less than US\$20,000.
- **Trading-oriented and unspecialized:** Nearly 40 percent of firms in the sample operated across more than one sector and the vast majority of firms operated either in basic services or trading activities, with relatively limited manufacturing or technical activities.
- **Lack of general business skills:** Firms tended have experience with their specific activities but lacked general skills, including knowledge and understanding of procurement processes. This is particularly a problem for firms based outside of Monrovia.
- **Lack of access to information:** More than half of firms interested in bidding on tenders indicated that they are unable to find information on them.
- **Limited use of technology:** More than half of firms reported that they seldom or never used the internet, and only 4 percent of firms have a website.
- **Lack of access to finance:** While microfinance services exist, firms indicate that they struggle to get credit, face short terms on loans (9-12 months), high collateral requirements, and high interest rates.

8.29 Foreign investors broadly confirm these constraints on domestic suppliers. From their perspective, the biggest constraints to sourcing locally are the lack of availability of products and services they require and, most importantly, the inability of domestic suppliers to deliver the quality they require.

8.30 Finally, several concessionaires in the mining sector have indicated they face challenges in meeting their obligations to hire local managers and technical staff due a shortage of qualified Liberian personnel. This is particularly crucial for operational activities, where vocational skills are required.

Summary of Barriers to expanding linkages

8.31 In order for a linkages strategy to work, a number of barriers need to be overcome, including the following:

- **Concessionaire resistance:** Concessionaires may be resistant to work with local suppliers for a number of reasons, including familiarity/trust with existing suppliers, distrust of Liberian firms, uncertainty over quality, or a lack of compelling incentives to use local firms.
- **Access to information:** Concessionaires often do not know how to find Liberian-registered firms, or are unaware of firms that are capable of supplying quality inputs/services. Conversely, Liberian-registered firms are often unaware of the needs of concessionaires, the tendering process, or quality standards.
- **Access to training:** Liberian firms are in dire need of capacity-building on business management, technical skills, and global standards in service provision.
- **Access to finance:** Liberian firms face a steep uphill battle in trying to build assets/skills without expanded access to capital.
- **Supportive business environment:** The Liberian private sector is currently held back by a weak regulatory environment, particularly concerning property rights, contract enforcement, and corruption.

D. Policies and programs to support spillovers

8.32 Given the depth of problems facing domestic firms, the scope for supply chain and human capital spillovers from foreign investors is relatively limited in the short-term. However, the development of policies to improve this situation in the medium and long-term should be undertaken, while at the same time exploiting whatever current prospects for linkages currently exist. Experiences from other countries in the region, most notably Ghana, show that it is possible within a decade to develop successful local suppliers in a wide range of goods and services, including relatively technical inputs.

8.33 Whatever the current capabilities and near-term opportunities, there are significant expectations for the implementation of policies and actions that will improve the opportunities for Liberians to benefit from FDI. This is particularly the case in the mining sector, which is projected to continue to receive significant foreign investment over the medium-term.

8.34 In developing a coordinated response to the aforementioned barriers, the Government should take into account the following proposals;

- **Focus on attracting the right type of FDI** The potential for spill overs can vary significantly depending on the characteristics of foreign investors, which underscores the importance of having an effective strategy for investment promotion at the outset. In formulating the strategy and focus for Liberia’s investment promotion program, attracting foreign investments with straightforward linkages with the domestic economy should be given priority. Specifically, efforts can be made to attract “top tier” concessionaires, with a focus on those multinationals that have demonstrated effective supplier linkage and human capital development programs in their investments in other countries. Considerations of local spill overs should be incorporated not only into the proactive promotion efforts of the Government, but also incorporated into the

investment application process (both for concessions and for SEZs) and granting of land concessions.

- **Recognize differences across sectors** Despite the dominance of concessions in both sectors, it is important that the mining and agricultural sectors be treated differently in terms of establishing linkages. While the scope of linkages in the agricultural sector is significantly greater than in mining, the establishment of linkages is likely *simpler* in the mining sector. Thus blunt measures like standard local content thresholds applied across sectors is likely to create a situation where meeting obligations becomes unrealistic.
- **Strike the right balance in establishing and implementing “local content” policies** On one hand, new policies demonstrating that the Government is serious about addressing local participation can be important for eliciting a coordinated response from industry. On the other hand, rigid legislation setting local content requirements can be counterproductive and difficult to enforce (as evidenced by the existing local content regulations for Government procurement); they may also run counter to WTO prohibitions (see Box 11). To enhance local content/procurement policies, a number of options may be implemented, including set-asides and targets for local sourcing, procurement processes which give preference to local suppliers, and application of taxes and duties on imports. Governments around the world have taken very different approaches in terms of setting specific targets for local procurement and the use of local labour. But this only works when the supply side is fully up to the task.

It is recommended that Government work closely with concessionaires and establish a local content policy; whereby investors are encouraged (or even obligated) to develop their own proposals; on how they will deliver spillovers to the local economy, allowing for enough flexibility that different sectors and firms contribute substantially to improving linkages in ways that are efficient and sustainable. Ghana’s local procurement policy in the mining sector is an example of good practice, where the Government has managed to balance between pushing obligations on firms and providing some flexibility as to how those obligations are met. Local procurement plans are emerging as key tools for increasing local suppliers’ access to opportunities, with Ghana currently debating legislation that will require each mining company to produce an annual local procurement plan. Newmont’s Ahafo Linkages Program, which ran from 2007 to 2010, successfully increased the level of local procurement of low-value goods and services including construction, vehicle rental services, tolls, and low-level maintenance. By the end of the project, 53 local enterprises had been trained and benefitted from local procurement spending of approximately US\$ 14million in terms of local labor. Liberia’s policies to promote the use of Liberian workers should continue to focus on ensuring that concessionaires invest in training and development of local staff, rather than in establishing specific numerical targets for Liberian staff.

Box 11: Local content policies and the WTO

As part of the WTO legal regime, the Agreement on Trade-Related Investment Measures (TRIMs) restricts the measures that WTO members may take to attract foreign direct investment. The TRIMs

Agreement prohibits certain “performance requirements” that are deemed to be violations of either GATT Article III (national treatment) or GATT Article XI (General Elimination of Quantitative Restrictions). More precisely, the agreement bans performance requirements that require “the purchase or use by an enterprise of products of domestic origin or from any domestic source”, or require “that an enterprise’s purchases or use of imported products be limited to an amount related to the volume or value of local products that it exports.” The Agreement also bans requirements that restrict “the importation by an enterprise of products used in or related to its local production, generally or to an amount related to the volume or value of local production that it exports,” or “the importation by an enterprise of products used in or related to its local production by restricting its access to foreign exchange to an amount related to the foreign exchange inflows attributable to the enterprise,” or “the exportation or sale for export by an enterprise of products, whether specified in terms of particular products, in terms of volume or value of products, or in terms of a proportion of volume or value of its local production.”

Some developing countries favor the elimination of TRIMs, which they consider to be a tool for enhancing economic development benefits from foreign investors. This frustration has led to efforts to renegotiate the Agreement, as seen in Annex F on Special and Differential Treatment of the Doha Work Program Ministerial Document (2005). If adopted by the WTO membership, these revisions would make some concessions to developing countries by i) providing for a transition for eliminating TRIMs of five years for developing countries and seven years for LDCs, as opposed to two years for a developed country member; ii) allowing for the introduction of new measures that deviate from TRIMs obligations, limited to a period of five years, provided that these are eliminated by 2020. This deal would also allow developing country members to make temporary deviations for reasons of providing economic assistance as covered in Article XVIII of GATT 1994. This Article recognizes that members whose economies “can only support low standards of living and are in the early stages of development” may be justified in taking protective measures against imports where these ultimately contribute to the objectives of GATT.

Despite these pressures, many countries have in practice resisted eliminating TRIMs, and there is an increasing drive toward implementing measures to support local procurement even in developed countries. Australia, for example, has linked access to public grants and tariff exemptions to local content, and South Africa has set local content procurement targets through its national mining laws. More widely, a number of African countries have implemented “empowerment” policies, including reserving activities in certain sectors for nationals, and preferred employment of targeted citizens.

Source: Derived from World Bank (2012)

Define “Local” carefully:

8.35 The Government’s public procurement policies already reflect the complexities surrounding what is “local” in the context of procurement, distinguishing between Liberian citizens and Liberia-based businesses run by non-citizens. The World Bank’s definition of “domestic preference qualification” is based on the percentage of local (citizen) ownership of the firm, while the African Development Bank defines “local firms” based on place of registration, majority of board members being nationals, and level of shares

held by nationals (see Box 12: Local content, below). At present, there is no internationally consistent definition of “local firms.” Indeed, the manner in which “local” is defined has a significant impact on the potential benefits derived from local sourcing. Foreign companies involved in actual manufacturing activity or service delivery in-country are likely to have more potential for generating spill-overs.

8.36 An approach to local content policy that takes into account local value addition is important for Liberia, as it targets attracting more diversified value-adding investment into the country in the future. It can also help prevent a situation where well-meaning local content efforts simply create rent-earning opportunities for a small set of middlemen, while failing to facilitate value addition in the private sector.

Box 12: Local Content

Ghana’s local procurement policies for the mining sector in Ghana, development, in consultation with the private sector, of regulation to support local procurement by the mining sector has been a key factor driving development of a local supply base in Ghana. Draft regulation developed through this process gives effect to the provisions relating to local content of goods and services in the Ghana Minerals and Mining Act (2006). The act includes the following provisions that aim to support local procurement:

- **Section 11 - Application for mining rights:** Requires submission of a proposal with respect to employment and training in the mining industry in Ghana
- **Section 105 - Preference for local products to the maximum extent possible consistent with safety, efficiency, and economy:** Requires that mineral rights holders give preference to materials and products made in Ghana, service agencies located in the country and owned by citizens, and companies or partnerships registered under the Ghanaian Company Code or Partnership Act

Ghanaian regulations require all mining companies to submit a 5-year local procurement plan for approval by the Minerals Commission, which should include targets and strategies for increasing local procurement (including capacity development for suppliers). The regulations allow for annual review of the plan by the Minerals Commission. To support achieving these targets, the regulations require that when two or more bids are within 2 percent of one another in price, the bid with highest local content shall be selected. The regulations also provide for a “local procurement list” of specified inputs that should be purchased locally.

In response to these regulations, mining companies have undertaken collective efforts through the Chamber of Mines to identify and support realistic opportunities for local production of inputs or local service provision. In particular, they have begun supporting the development of light manufacturing, as well as manufacturing of mining-specific technical products. The initial stage of this process identified products representing an opportunity for production/delivery in Ghana, based on scale of requirement and perceived ease of production in Ghana. With support from the IFC, a process was then undertaken to assess local supplier capacity and capacity gaps for production of these identified products.

E. Recommendations

8.37 Following the above analysis, it is evident that multiple interventions should be undertaken by the Government, addressing both the regulatory framework around local content, as well as direct support to MSME development activities. The challenges posed by poor infrastructure and its impact on economic competitiveness are dealt with elsewhere in this report.

Regulatory/Business Environment

i. Improve monitoring and enforcement of current system

Even before potential new policies are developed, it is clear that without improving the monitoring and enforcement of existing policies and agreements, their impact will be limited. Although revenue flows from major mining concessions are generally monitored effectively through the Liberia EITI, compliance monitoring for non-financial obligations in the concession contracts is undeveloped. The Government must increase the capacity of existing monitoring bodies like the National Bureau of Concessions, and while also devoting greater resources to ensure that relevant ministries and agencies can actually carry out their own monitoring mandates. The persistent lack of funding remains a major handicap in monitoring efforts presently. For example, the Ministry of Mines has a handful of automobiles and almost no dedicated monitoring staff — along with a budget of less than US\$5 million for the entire Ministry covering mines, energy, and land — making it practically impossible to monitor all projects spread out across rural areas in the country.

ii. Develop a plan for strengthening of local content requirements in agricultural, mining, oil, and other concessions.

The Government should undertake a wide-ranging study of how other similarly-endowed countries (particularly other ECOWAS members) have approached the development of local content/procurement clauses in their own concession agreements. Using lessons learned from this process, Liberia should then develop its own strategy, with the potential for expanding the existing public procurement guidelines to the private sector.¹⁰⁹ A phased approach should be used in implementing any significant changes.

iii. Continue to Improve the Business-Enabling Environment

Per recommendations elsewhere in this report, the Government must do everything possible to provide the most basic infrastructure for the economy to grow and diversify. This includes both hard infrastructure (roads, power, water, etc.) as well as soft infrastructure (rule of law, enforceability of contracts, transparent governance, etc.).

Support for Liberian Firms

iv. Addressing failures in coordination between concessionaires and local businesses.

¹⁰⁹ GIZ study notes that because the Government is a shareholder in many large-scale enterprises, public procurement policies may be applicable to these entities.

One of the biggest gaps where Government is in the best position to facilitate an effective intervention is the information failures that exist in the market. Given that concessionaires often do not know where to find high-quality local suppliers, and suppliers do not know where to access potential opportunities with firms, the Government can and should play a stronger role in bridging these gaps. In addition, Liberian firms indicated that they had little knowledge of the requirements of international investors in terms of issues like quality and health & safety (HSE). International experience shows that a simple first step in helping overcome information gaps is the development of platforms to share information about procurement opportunities and about the local firms that operate in different supply categories.

v. Capacity Building for Liberian Firms

The second area in which Government must play a stronger role is in providing support for supply-side capacity building, including training and skills development, technical support for quality and HSE certification, and support for improving business and financial management capabilities of local firms. A number of training and capacity building schemes currently exist in Liberia, but more advanced technical assistance is needed to strengthen the ability of local companies to supply to concessionaires. NIC is currently looking to roll-out an Enterprise Development Grant Matching Scheme that will provide match funding to Liberian businesses to partake of training and capacity building.

vi. Access to Finance for Liberian Firms

Although this issue is explored in greater detail in Chapter 4, the Government of Liberia must facilitate greater access to financing for local firms which would allow them to grow and develop in terms of quality and capacity to supply concessions. The CBL is already undertaking a number of initiatives aimed at growing the credit market for MSMEs in Liberia.

CHAPTER 9

TRADE POLICY COORDINATION AND IMPLEMENTATION

9.1 Liberia's trade policy objectives over the past five years have focused on trade liberalization, increased market access through trade integration, export diversification, improving trade competitiveness and trade facilitation. The implementation of trade policy have been characterised by (i) Executive instruments; tariff waivers, changes in IPDs and EPDs, tariff exemptions and tariff protection of key industries, (ii) legislation; revised revenue code and (iii) setting up multi-sector committees; trade facilitation forum, Liberia Business Forum, and WTO accession committees. This section assesses (a) the trade policy formulation process in Liberia, (b) the performance of the various trade-related government ministries and agencies, and (c) the trade coordination processes.

A. Trade Policy Formulation Process

9.2 Despite several stalled attempts, Liberia is yet to formally codify its trade policy in a single unified document. A draft trade policy is currently under development and yet to be finalized. Partly as a consequence of the lack of codified processes, Liberia's *de facto* trade policy has been *ad hoc* and conducted by multiple ministries without central coordination. It is generally understood that MoCI has the mandate to lead trade policy formulation, ; although in practice the Ministry of Finance and Development Planning (MFDP) and Ministry of State have also been key stakeholders in decisions on trade policy.

9.3 Liberia's most active trade policy has been conducted by the Ministry of State through 12-month executive order tariff waivers. As discussed previously in this report, these waivers have been granted on over 430 out of 5,000 tariff lines over the period 2006-2012 and on Liberia's most essential imports. While it is generally accepted that these waivers have been granted on sound economic grounds, they create the opportunity for rent-seeking and investor uncertainty. Furthermore, they do not fall under a formalized trade policy strategy, but are instead imposed on an *ad hoc* basis without accompanying analysis.

9.4 Liberia has also enacted trade policy through the recent amendment to the Revenue Code of 2011, which served to amend Liberia's statutory tariffs on selected commodity imports. This was led by the Ministry of Finance and Development Planning (MFDP) on revenue grounds, with consultations to other ministries. However, this again did not fall under any overarching trade policy strategy. The investment code provides guidance on tariff exemptions based some approved eligibility criteria; this includes incentives for new investment, imports of personal belongings and real estate of government properties. Tariff exempt are granted upon application to MFDP.

9.5 Trade negotiations have been led by MoCI with support from several other ministries. Yet it is frequently unclear where the mandates of each ministry overlap. For

instance, while MoCI is leading negotiations on WTO accession, the role of negotiating the ECOWAS CET process is led by the MFDP.

9.6 The consequence of dispersed control over Liberia’s trade policy may result in incoherence between different government policies. Experience from other countries suggests that effective trade policy should be governed by a clear strategy with one agency playing a lead role in bringing together the views of all major stakeholders.

B. Capacity and Mandate of Trade Support Institutions

9.7 MoCI is mandated to “promote, develop, regulate, control, and expand the commercial, industrial enterprises and activities of the Republic...through establishment and enforcement of standards for commodities and for trade.”¹¹⁰ This broad mandate establishes the Ministry as the primary trade-support institution in Liberia.

9.8 The 2008 DTIS recognized that the MoCI suffered from serious capacity problems and a focus on price controls on imported goods which was unproductive. The report went on to state that the current focus is not conducive to developing a ministry culture suited to policy analysis and advice, and on promoting business activity, rather than controlling and constraining it.¹¹¹ Since the 2008 DTIS, the MoCI has undertaken substantial reforms in each of its main functional areas. These changes have been accelerated under the “re-branding commerce” agenda of the current Minister, which was supported by the USAID/MCC-funded Liberia Trade Policy and Customs Project. Each of the major reform areas are discussed in more detail below.

Enforcement and Regulation

9.9 There have been efforts to reduce the focus on wide-ranging enforcement and regulation functions of MoCI, and instead limit these functions to targeted and high risk sectors. These reforms have focused on liberalizing price controls, reducing the damaging effects of the inspectorate and reducing the number of goods requiring licences to import and export.

9.10 Since 2008, MoCI has stopped the process of issuing and enforcing price ceilings on goods, and has focused instead on monitoring high-risk commodities. This has enabled the Ministry to focus its attention on tracking trends and observing if prices of local commodities differ from international prices. This monitoring exercise was intended to be coupled with a new competition law, which has been drafted but has yet to be ratified. Until this ratification takes place and a properly funded competition body is established, there is significant risk of price collusion and cartels in Liberia’s small and uncompetitive import market. MoCI is frequently under pressure from the Government and the media to control the price of goods on the market, and it is often required to publicly explain the underlying causes of natural price fluctuations and to come up with a comprehensive strategy for effective price monitoring and encouraging competition.

110 An Act to Amend the Executive Law With Respect to the Ministry of Commerce and Industry and Transportation, January 19, 1972, S 651

111 DTIS 2008, p.112-113

9.11 MoCI has reduced the number of goods requiring import permits from 32 in 2010 to 17 essential and sensitive products in 2013. The number of goods requiring export permits has also been reduced from all goods in 2010 to just four in 2013.¹¹² Yet the process for issuing import permits remains opaque, inconsistent with WTO regulations and not codified in Liberian law. The draft foreign trade law would regularize the issuance of permits and licences, but also has yet to be reviewed and passed through the legislature.¹¹³ This new law must be consistent with WTO licensing agreements.

9.12 The Intellectual Property Office and Copyright Office are currently separate entities under MoCI, although the Ministry is planning to merge the two offices and has begun work on drafting a new national intellectual property regime which meets the requirements of foreign interests, under TRIPS, while also protecting Liberia's own intellectual property.

9.13 Finally, the Liberian Business Registry (LBR) is a joint venture between the Ministries of Commerce, Finance and Development Planning, and Foreign Affairs, designed to provide a one-stop shop for business registration. Reforms enacted by the LBR to reduce the number of procedures to start a business and to lower registry costs have made Liberia the third-easiest country in which to start a business in sub-Saharan Africa. The LBR still needs support to upgrade its IT infrastructure to facilitate better data collection, data backup and year-round internet connectivity. The LBR model should also be expanded to other areas of the country to gradually move more businesses into the formal sector.

Standards

9.14 The MoCI has established the National Standards Laboratory (NSL) to oversee Liberia's national quality infrastructure. The main function of the NSL is to provide testing and calibration services to monitor and control the importation of sub-standard products that pose a threat to human and plant life, while simultaneously ensuring that food and agricultural exports meet international standards. NSL services are executed by three sub-labs ranging from detecting spoilage and disease caused by microorganisms in food, water and non-food materials, to testing for the quality and safety of food, water and non-food material. The Metrology Lab provides testing and calibration of devices used for weights, volume, dimension, temperature in compliance with international standards. However, limited budgetary support to the NSL is hampering the effectiveness of MoCI to make an impact on standards testing and enforcement. The lab has no functioning business plan and needs additional capacity support before it can become self-sufficient.

9.15 The MoCI has failed to establish a Liberia Standards Bureau as suggested in the 2008 DTIS, owing to persistent low capacity and limited equipment.

Trade Policy Formulation and Analysis

9.16 MoCI has established a Single Project Implementation Unit which is designed to serve as a central office within the Ministry to deliver special projects. This unit houses two

112 MoCI Administrative Notice MCI-No. 002-09-2010; MCI-No. 005-06-2012; MCI-No. 006-06-2012; MCI-No. 006-07-2012; MCI-No. 008-06-2013

113 The draft foreign trade law and competition law have been drafted with support from the International Senior Lawyers Association.

major projects (the EIF NIU and the WTO Unit) and is slated to incorporate at least one more in 2013 (AfDB PATSIL).

9.17 The Enhanced Integrated Framework National Implementation Unit (EIF NIU) was established in 2009 to increase capacity within MoCI and strengthen its trade policy coordinating role. The NIU was to focus on assisting in building the capacity of MoCI and the National Steering Committee (NSC) to improve trade policy formulation and implementation. However, the unit has had difficulties with staff retention and basic implementation capacity. At the same time, the NSC has failed to attract senior ministerial members and has therefore struggled to maintain influence on high-level policy direction.

9.18 The WTO Unit was established in MoCI in order to coordinate Liberia's accession to the WTO. The unit is currently comprised of local staff as well as two trade experts seconded from the Swedish National Board of Trade. The unit is functioning but requires funding for additional senior staff to upgrade capacity in order to complete its extensive mandate.

9.19 Alongside efforts to increase its capacity, MoCI is in the process of preparing new policy documents to guide Liberia's overall trade agenda. The National Export Strategy includes sector strategies from the rubber, cocoa, palm oil, fish and crustaceans, rice and cassava sectors. Similarly, the draft Trade Policy will codify Liberia's attempts to priorities its wide-ranging trade priorities. Both of these documents build on the conclusions of the DTIS and will require substantial funding for full implementation to take place.

9.20 Finally, the Ministry published a Micro, Small and Medium Sized Enterprise (MSME) policy in 2011, followed by the establishment of a MSME Unit within MoCI. As the chief custodian of private sector development under the *Agenda for Transformation*, it is important that the Ministry take a leading role over other Government entities. The Ministry has begun making plans to create a Bureau of Small Business Services (which would replace the MSME unit) to establish an expanded mandate to help local businesses access Government and private procurement opportunities. This is planned to include new legislation to mandate Government to set aside 25 percent of public procurement for locally owned businesses. This is an ambitious target and will require substantial support to raise the capacity of local suppliers.

Human Resources and Administration

9.21 The USAID/MCC-funded Liberia Trade Policy and Customs Human Resources Support Project concluded in 2013. This project assisted MoCI in creating a staff manual, including a code of conduct and a training plan. All directors now have updated terms of reference, and there is a newly completed staff directory. Nevertheless, low capacity of staff remains a major issue, with less than 65 percent of staff qualified with a high school diploma, and very few with any tertiary technical training. A recent UNDP capacity assessment stated that recruitment of technocrats is highly needed, and that the Ministry cannot meet its mandate due to a lack of budget from the Government.

Other Trade Support institutions

9.22 The Ministry of Finance (MoF) and the Ministry of Planning and Economic Development have been merged into a new Ministry of Finance and Development Planning (MFDP). Meanwhile, the Revenue Department of the former MoF has been separated and is now the Liberia Revenue Authority (LRA). The National Bureau of Concessions has already been separated from the Ministry of Finance and established as an independent agency to coordinate concession management.

9.23 The newly established Ministry of Finance and Development Planning should enhance capacity for planning and implementation of the country's development policies. Yet as these new structures develop, it will be crucial to ensure that the current trade policy responsibilities are properly organised among these institutions. Most importantly, it must be decided which will lead ECOWAS negotiations and the intended implementation of the ECOWAS ETLs and CET. MoCI is likely the best-placed to lead in this capacity.

9.24 It is important that the Customs Bureau, to be housed within the new LRA, be supported in undertaking the reforms necessary to support trade competitiveness. A draft Customs Code will bring customs procedures more in line with WTO best practices, and once this Code is approved by the legislature it will be crucial for the Bureau to receive appropriate support to implement and publicise its work.

9.25 The National Investment Commission (NIC) plays the lead role into attracting investment in Liberia. The Commission has begun targeting specific high-impact investments in tree crops, fruit and vegetable processing, transportation and fisheries sectors, with support from the IFC. The NIC has also drafted a new Special Economic Zones (SEZ) law to alleviate some of the business constraints of firms operating within the zone. Given its relatively successful record and an ability to retain qualified staff, the NIC is under threat of “mission creep” as it begins to take on a broader mandate beyond investment promotion. It is important that any expansion of its mandate not damage its primary function or overlap with the functions of other trade-related institutions.

9.26 The Liberia Chamber of Commerce (LCC) and the Liberian Business Association (LBA) are Liberia's largest private-sector organisations. They maintain an active voice in influencing Government policy, and are funded through their membership. It is important that these organisations continue to be consulted in Liberia's trade negotiations. It is especially important that the private sector plays an active role in informing Liberia's WTO negotiations, for which they will require capacity development.

C. Trade policy coordination

9.27 The 2008 DTIS observed that Liberia's trade policy suffers from a fragmented policy-making process because a wide array of ministries develops policies that affect international trade. Since 2012, Liberia has established three separate forums for creating regular dialogue between all major trade-support institutions: the Liberia Better Business Forum (LBBF), the Trade Facilitation Forum (TFF) and the WTO Technical Working Group (WTO TWG).

However, concerns have been raised that the influence of these forums does not extend to the highest levels of Government.

9.28 The LBBF was officially launched in 2007 in order to establish an effective public-private dialogue, to advocate for investment climate improvements, and drive reforms. The Forum includes multiple working groups and is led by representatives of the private sector. Technical assistance to the LBBF has been provided by the IFC. Unfortunately the LBBF has met less frequently over time and, at the time of writing, is no longer active.

9.29 The Trade Facilitation Forum was established in 2012 to succeed the Trading Across Borders Working Group (TABWG), with the four objectives of facilitation, regulation, policy development and awareness/training. The Forum was designed to include a formal non-tariff barrier reporting and monitoring mechanism, and the establishment of a TFF secretariat to enable improved coordination and implementation of its agenda. This body meets once a month and is chaired by the Deputy Minister of Commerce.

9.30 The WTO Technical Working Group (WTO TWG) meets weekly, bringing together technical-level bureaucrats from all major ministries with a stake in the WTO negotiations and is the driving force behind the WTO accession work plan. The meeting is chaired by the Assistant Minister of Commerce and Trade and frequently discusses broader trade policy topics beyond the WTO. However, like the TFF, the group has expressed concern that work conducted on a technical level is not adequately passed up to the ministerial level. Indeed, the WTO accession has not yet been formally discussed at a Cabinet-level meeting despite repeated requests from the WTO TWG for this to take place.

9.31 Finally, the Economic Management Team (EMT) is a consultative body chaired by the President and comprising all of the major economic ministries. The forum is the main body outside of Cabinet which brings together the highest level of Government to discuss matters which are of direct interest to Liberia's economic health. However, Government officials often complain that messages related to trade are not discussed at this level, resulting in a lack of top-down pressure to enact reforms.

D. Recommendations

9.32 Substantial progress has been made in reforming the institutions responsible for facilitating trade since the last DTIS was published. However, the number of tasks facing these institutions remains daunting. Moreover, coordination among trade policy actors remains limited, with Government entities occupying overlapping mandates. This has led to the following recommendations:

- i. **MoCI should devise and implement a strategy on price monitoring to adequately reflect the institution's aims to encourage investment and support consumers.** This should include a comprehensive communication strategy to sensitize consumers on MoCI's aims and abilities to control prices.

- ii. **Liberia should ratify and implement the draft Competition Law.** This will require reforms to MoCI, including establishing a new competition body. This will require adequate funding from Government and substantial donor support.
- iii. **Liberia should ratify and implement the draft Foreign Trade Law.** This should be accompanied by further reforms to the IPD/EPD process to meet WTO obligations, and to automate processes under the ASYCUDA system.
- iv. **Liberia should continue plans to merge the IP and Copyright offices to create a single structure and a single IP Strategy.** This should be accompanied by the ratification of the draft Intellectual Property Law and support to implement and enforce these changes.
- v. **The Liberian Business Registry should be provided with adequate funding** to increase its services beyond the Montserrado area and to upgrade current IT infrastructure to modern standards.
- vi. **Liberia should build upon the steps taken so far towards the establishment of a Standards Bureau** in order to establish a full-fledged facility with the capacity to engage in metrology, testing, and certification of both imports and exports. Further technical assistance should be sought from appropriate providers such as UNIDO, and the laws and procedures governing the operation of the facility should be designed with a view towards ensuring full compatibility with the SPS and TBT agreements of the WTO. It is also important that the Bureau have all necessary human resources, equipment, and supplies. This should be accompanied by support to the National Standard's Lab to write and implement a business plan and work towards ISO accreditation.
- vii. **The EIF NIU should be relocated within the MoCI.** The Phase II proposal should focus on implementing the DTIS, export strategy and trade policy action matrices and playing an advisory role to the Minister.
- viii. **The WTO unit should be expanded with new funding for full-time senior staff.** This would ideally include two senior economists and two senior lawyers to partner with technical advisors from the Swedish National Board of Trade.
- ix. **The MoCI should continue institutional support to SMEs through the Bureau of Small Business Services.** This will require Government backing and institutional reforms.
- x. **Liberia should enact the pending Customs Code in order to bring Liberia's procedures in line with the Customs Valuation Agreement of the WTO.** Steps should also be taken to move progressively towards a customs system based solely on the processing of imports in the country, phasing out the use of pre-shipment inspection services that can be costly and inefficient. This will likely require increased technical assistance from the World Customs Organization and other members of the donor community.
- xi. **The Government should focus on formalizing and implementing the National Trade Policy and National Export Strategy.** Importantly, each ministry must adhere to their own mandates as established in these policies, so as to maintain a coherent trade

policy process across institutions.

xii. **Finally, it is crucial that communication among key trade policy actors is improved.** Although this is already taking place to a limited extent via the Trade Facilitation Forum meetings and WTO technical working group meetings, it is important that recommendations from these meetings are followed up at the ministerial levels.

CONCLUSIONS AND RECOMMENDATIONS

10.1 So far GoL has put a lot of emphasis on boosting investments in infrastructure development as a vehicle towards achieving the goals of the country's Agenda for Transformation (AfT). It is however evident that infrastructure development alone will not lead to the desired pace of inclusive growth, unless it is complemented with a competitive trade development strategy. The 2013 DTIS update highlighted the critical role of natural resources and trade development as drivers of economic diversification and inclusive growth. The report assessed three constraints militating against the realization of these goals: (1) effective integration of Liberia into the global economy; (2) trade competitiveness, and (3) linkages between the domestic private sector and global value chains (GVC). We summarize the conclusions of each of these thematic areas and provide policy options for the Government of Liberia.

Effective Integration into the Global Economy

10.2 Liberia is resources intensive, and the competitiveness of its commodities depends more on the abundance of these natural resources in agriculture and forestry, minerals, and huge bodies of water. However, the country has placed protectionism on some commodities, which favours some importers. In July 2012, Liberia's expressed a desire to ascend to WTO membership. This desire reflects a commitment to increase free trade by removing barriers to imports and encouraging exports diversification. WTO agreements are aimed to reduce these barriers.

10.3 While Liberia has been keen in deepening regional integration in the Mano River Union, and is currently working towards the adoption of the ECOWAS Common External Tariff (CET), intraregional trade represents only 7.6% of total export value, less than what the country exports to China. The regional trade consolidation through ECOWAS, as well as, involvement in the multilateral trade system should bring more dynamism to the Liberian economy. The challenge lies in developing policies that transform this dynamism into welfare gains for the average household in Liberia. However, a key challenge to addressing these constraints, relates to the formulation of policy action required in international and regional cooperation (for example, WTO, MRU, and ECOWAS), which would complement domestic policy reform.

10.4 Trade liberalization and regional integration can be used to advance regulatory reform, enhance competition, and deal with issues that are crucial to Liberia's ascension to the WTO. However, the pace with which Liberia integrate is largely dependent upon its political motivation and conviction that such liberalization is beneficial to the domestic constituencies. Liberia needs to engage in deep regulatory cooperation at the regional level, use multilateral trade liberalization and regional integration to reform, and strengthen its

trade sectors. But, the environmental and social costs of liberalization should be considered when assessing the impact of expanded participation in world trade and accession to the WTO.

10.5 Currently, Liberia has market access to unilateral preferential trade agreements under the United States’ Africa Growth Opportunities Act (AGOA) and European Union’s “Everything But Arms (EBA) Program”. The main barriers against the participation of Liberian firms in international trade are “behind-the-border” constraints— transport logistics, customs, trade finance, but also poor factor conditions, lack of competition, information, and coordination failures, roads, constant supply of electricity; etc. Therefore, despite the benefits of unilateral preferential market access, Liberia’s exporters cannot compete effectively in US and EU markets.

10.6 As Liberia proceeds on the path of WTO accession, in the medium and long term, it should also undertake action to diversifying the economy and the empowering the private sector by creating the environment that supports the establishment of linkages with concessionaires and eventually, with global value chains. A final concern about Liberia’s accession to the WTO is that it might make Liberia too dependent on imports. This condition of interdependence, while predicated on countries specializing in what they produce most competitively, can leave trading partners vulnerable in the WTO. In a country with a fragile peace and a continent rife with civil wars, subject to sudden changes in their economies and shifts in government authority, anticipated exchanges may go awry, if Government wavers on its commitment. Therefore, a coordinated effort among the trade ministries is required to support, invest in, and boost local production of essential products that could lead to a gradual replacement of imports.

Export Diversification

10.7 Liberia’s economy is vulnerable to external shocks given its undiversified structure and overdependence on imported goods. The country imports most of its foods, even though it has the natural conditions for being self-sufficient in food production. Similarly, the country’s exports remain undiversified and limited to a few multinational companies in the agro-forestry and mining sectors. Liberia is endowed with huge agro-forestry potential. Besides there are prospects for a mining boom in the medium term, based on the increased number of concessioners in iron ore and gold mining sub sectors, as well as, the prospects of oil discovery in the near future. Despite being rich in natural resources, the Government of Liberia (GoL) is still confronted with the challenge of translating this comparative advantage into jobs and higher incomes for the average household. The recent estimates from the 2010 Core Welfare Indicators (CWIQ) Survey shows that the incidence of poverty is still high, even though it had declined to 56.4%. This is aggravated by the fact that Liberia’s population is relatively young and unskilled, and faces challenges of youth unemployment.

10.8 However, Liberia continues to face obstacles in accessing global markets due to limited infrastructure capacity and unfavorable business and investment climates. The key challenges the country faces is on how to diversify trade and connect remote parts of the

country disconnected from world market. What type of trade facilitation is most effective, how best to design and facilitate regional and multilateral trade agreements, and how to increase formal-sector employment of the poor and women in the production of internationally traded goods and services. The country still relies on traditional commodities, such as iron ore, rubber, and timber. There is no value addition. The rehabilitated infrastructure largely serves to promote traditional export trade in iron ore and rubber, and cross-border trade and inter regional trade are hampered by lack of access to all weather road networks. Liberia's current trade corridor only enriches the concessionaires and disadvantages the domestic sector, due to the lack of third party access to concession infrastructure and domestic sector input to services required by concessionaires. Leveraging trade infrastructure that would contribute to integrated development, PPP, and promote inclusive growth was never implemented.

10.9 Major challenges to improving agriculture in Liberia include weak land management and poor access to market due to lack of road networks, limited scope of crop diversification and rudimentary production techniques, poor food value chains including storage, processing and marketing channels; lack of agriculture credit; and low institutional capacity. All these factors limit the incentives to produce marketable agricultural surpluses or to diversify commodities.

10.10 Despite the efforts made by the Ministry of Agriculture to create a model concession agreement in the tree crop sector, its use has not been upheld in practice. Considerable discretion remains in the negotiation process, which leads to inconsistent agreements within the same sector and poor concession deals for the Government. There continues to be the need for broad model concession contracts to guide negotiation teams and a framework for negotiation mandates provided by Government.

10.11 Nevertheless, Liberia is making structural transformation in its trading system by planning to move from producing poor-country goods to rich-country goods. Proceeding in this direction would entail the existence of an elastic demand for Liberia's exports in world markets so that it is able to leverage global export markets without fearing negative terms of trade effects. Even at that, there is very low domestic demand in Liberia so exports of raw materials remain one of the few channels that have significantly contributed to higher income per capita growth rates of the country. Because Liberia is commodity dependent, the country has exhibited a narrow export basket and as a result suffered from export instability arising from inelastic and unstable global demand.

Establishment of Linkages

10.12 Large firms drive the exports of Liberia with 20 percent of the largest exporters (19 firms) accounting for 97.2% of total exports. This high concentration is driven by big concessioners in the rubber sector and the mining sectors that dominate the total exports from Liberia. Forestry and mining sectors have minimal impact in terms of value added activities, employment and income for the domestic economy. However key value chains like rubber, palm oil and cocoa where domestic economy; however, provide some linkages to the large companies in the form of out grower schemes. The challenge is to strengthen

trade linkages between the domestic private sector and the large concession sectors. Exports could expand significantly if SMEs or small holder farmers could be assisted to get access to international markets either directly or indirectly through trade linkages with the large exporting firms.

10.13 Additionally, instead of concessionaires in the tree crops industry, giving out seeds to out-growers to plant and sell back to the concessionaires at prices dictated by the concessions, which are usually below market value, the Government through the MoA, might want to consider taking over seed banks from concessionaires and assuming responsibility of selling seeds to out-growers. This would lead to the entry of poor farmers into the world economy and many out-growers earning higher income for their products at par value on the world market. It also means that the country's rich natural wealth could be improved in order to ensure that the country and its people benefit equitably from the revenue it provides to the macro-economy as well as the local economy.

10.14 While agriculture, forestry and fisheries have traditionally been mainstays in the economy (with agriculture accounting for the vast majority of employment and exports), the mining sector has emerged as a major player in recent years, and significant opportunities in oil & gas are on the horizon. Across these natural resources sectors, the majority of economic activity is managed through concessions, led mainly by foreign investors – recent work carried out by the World Bank identified thirty live concession contracts signed between 2005 and 2010. While these natural resources concessions deliver critical revenue flows to the Government, to date they remain largely 'enclave' activities with very weak linkages to the national economy.

10.15 Liberia has not done enough to take concrete actions supportive of trade and inclusive growth, therefore export diversification could be seen as a way to alleviate these particular constraints. Subsistence farming-market access, cost of factor inputs, adaptation of modern technology and practices, extension services etc. remains the defined character of the domestic private sector. Tree Crop development, agriculture value addition, and artisanal mining have not been improved.

10.16 Moreover, Liberia's competitiveness of its exports needs to be enhanced, since globalization and accelerating cross-border trade is exposing the country's exports to global competition. For example, Monrovia's demand for gari has created a boom in Sierra Leone's gari industry at the disadvantage of the domestic sector along the Manor River border. To be successful in export diversification, Liberia's domestic sector needs to be supported and exports need to be globally competitive to take advantage of leveraging world markets.

10.17 Unfortunately, aid for trade has not contributed to poverty reduction. More focus is placed on support to facilitating traditional commodities and less funding support from donor partners is inadequate to stimulate growth in the domestic sector. The domestic sector still lacks access to infrastructure – roads are impassable all year round to connect domestic farmers to markets and the volume of trade from domestic sector is under represented when compare to the country's traditional export commodities.

10.18 Going forward, Liberia might want to consider revising concession contracts to insert the elements of mutual benefits and directly engaging with the concessionaires, collectively. Government interaction with concessionaires to date appears to have been largely bilateral and focused around legal issues of contract negotiation and compliance monitoring. As a result, there has been no natural opportunity for broader multilateral discussions to take place between concessionaires as a (multi-sectoral) group and government agencies responsible for key areas of policy that are affected by their activities.

10.19 Such dialogue is urgently needed in order to make progress on all and any of the key policy areas identified. These include: coherent expansion of the national power system, integrated development of rail corridors, improved road accessibility to rural areas, coordinated development of iron ore export facilities, and accelerated upgrading of secondary ports. In each of these areas, there is the potential for win-win solutions if actions could be coordinated across the concessionaires and the public sector.

10.20 At present, there does not appear to be any institutional vehicle for this to take place, preventing Liberia from finding mutually beneficial solutions that harness the financial muscle and technical capacity of the concessionaires. Perhaps the time has come to view natural resource concessionaires increasingly as partners in Liberia's broader development process.

Infrastructure Investment

10.21 Liberia needs a strategic vision and integrated approach to natural resource planning, management and governance. The country's mining, petroleum, forestry, agriculture and fishing resources could potentially contribute significant income to Government's ability to scale-up social and economic infrastructure and achieve Millennium Development Goals. Given the tremendous opportunities offered by the wealth of Liberia's natural resources, there is a need to ensure that decisions made concerning the use of those resources ensure optimal and sustainable outcomes. There needs to be a concerted effort to develop an integrated natural resource management and governance strategy and policy framework

10.22 A holistic approach would consider how new concessions for mining, agriculture, petroleum and possibly forestry would integrate into the country's development with shared large scale ancillary infrastructure (roads, rail, port, telecommunications, power, water, etc.), and it would seek to ensure that local benefits in terms of jobs and access to basic services are in place. In other words, taking such an approach would reduce costly duplicative infrastructure and support objectives of preventing enclaves to be formed around the major concessions.

10.23 In some cases – particularly in the case of the Buchanan to Yekepa corridor – there is the possibility that two or more parallel railway tracks may be developed to service different mines. Relative to an integrated double rail system, parallel single lines present significantly higher investment costs and lower operational performance, due to the difficulties posed by train crossings. Over a 20 year period, an integrated double track system along this corridor is estimated to save US\$313 million (23 percent of total costs).

10.24 Looking ahead there is a need for greater strategic dialogue with concessionaires as a group. Government interaction with concessionaires to date appears to have been largely bilateral and focused around legal issues of contract negotiation and compliance monitoring. As a result, there has been no natural opportunity for broader multilateral discussions to take place between concessionaires as a (multi-sectoral) group and government agencies responsible for key areas of policy that are affected by their activities.

10.25 Such dialogue is needed in order to make progress on all and any of the key policy areas identified above such as coherent expansion of the national power system, integrated development of rail corridors, improved road accessibility to rural areas, coordinated development of iron ore export facilities, and accelerated upgrading of secondary ports. In each of these areas, there is the potential for win-win solutions if actions could be coordinated across the concessionaires and the public sector.

10.26 Collectively, the concessions have a significant footprint in the country. Existing concessions already occupy more than 20,000 square kilometers, or about 21 percent of the national land area. When potential future concessions are added, the area covered by concessions could grow to 38 percent of the Liberian territory. The county of Gbapolu could potentially be entirely under concession, and a number of other counties (Grand Cape Mount, Grand Gadeh, Margibi, River Cess) could potentially have half or more of their land area under concession. In terms of population covered by concession areas, the results are similar. Liberia already has 21 percent of its rural population (or 13 percent of its national population) resident in concession areas, and that share could increase to 30 percent of its rural population (or 18 percent of its national population) if all identified potential concession areas were awarded. All the counties identified above would similarly have very high shares of their population resident in concession areas.

10.27 As a point of comparison, it will also stimulate a number of potential cooperative approaches aimed at leveraging synergies between concession-related infrastructure and the national infrastructure platform – needed by the country to support its broader development and economic diversification away from natural resource sectors. This will include exploring scenarios where: concessionaires purchase infrastructure services from the country; the country purchases infrastructure services from the concessionaires; and third parties provide common infrastructure platforms that serve the needs of multiple concessionaires.

10.28 Since the end of conflict in 2003, Liberia has returned to investing in the extractive industry for revenue generation to meet the country's demand for infrastructure development. It is business as usual. Natural resource concessions contracts have been awarded to concessionaires for the development of iron ore, timber, palm oil, oil and rubber sectors. Over 35 contracts have been signed since the CPA of 2003, in Accra, Ghana was signed. These concessions combined total nearly \$16 billion in investment, but the impact or change in the life of the ordinary citizens or the welfare of families in villages and communities across Liberia, remains unnoticed. What is also common about the concessions is that combined, their demand for surplus energy, port and rail infrastructure,

water and sanitation far exceeds the nation's delivery and consumption capacity. This means “by 2030, the concessions could represent more than 80 percent of national power demand, more than 90 percent of national demand for port capacity, and close to 100 percent of national demand for rail freight.”

10.29 According to estimates by the Bank, the infrastructure investments by concessions could reach US\$5 billion, compared to Government's annual spending of US\$90 million per year on public infrastructure. Additionally, about one third of Liberia's feeder road network will lie on land managed by mining, forestry and agriculture concessionaires. These figures underscore the significance of the concessions in the country's long term infrastructure development, and the strategic importance of leveraging concession investment in infrastructure for national benefit.

10.30 However, no concession contract has taken advantage of leveraging concession investment in infrastructure for the mutual benefits of the concessionaire and the broader national development plans. For example, if Liberia develops its power infrastructure independently, the cost to the country will be unsustainable. However, if it shares cost with the concessions, this will drastically reduce the cost of power generation on Liberia, and expand distribution to the outlying villages of the mines and other concessions. Similarly, if the single rails used by the mines to ship ores to the seaport are upgraded to a second rail link, this could satisfy the transport demand of the forestry and agriculture sectors. An integrated approach to investing in seaport expansion would provide corresponding benefits for the concessions, also. This would reduce the cost of expanding the ports facilities and creating the capacity to be able to absorb large volumes of ship off loading and loading at any given time. The roads rehabilitation can also benefit from an integrate plan between the Government of Liberia and the concessions. This will bring benefits to both sides and accelerate the slow pace that has characterized development of the roads network in Liberia.

10.31 With Liberia's limited financial resources and urgent needs for reconstruction (and not only in the energy sector), the question is how energy sector reconstruction can best be financed and investment priorities set. Modern electricity infrastructure is a key ingredient for economic growth, including job creation. Since economic activity is concentrated in urban areas, large-scale infrastructure investments should be prioritized there. Where possible, enhancing the availability of lower-cost, off-grid applications in rural areas should be pursued in parallel with a social justice agenda. It is often maintained that in an environment with few public resources, private financing of electricity services should be introduced. While this notion is generally valid, the rebuilding of Liberia's electricity sector will require substantial public and concessionary financing over the next 5 to 10 years. Private sector power suppliers require stringent payment conditions that will be difficult for LEC to meet as long as it remains a power utility under reconstruction. To rebuild the electricity grid, especially in Monrovia, initial investments should be based on public sector or concessionary financing until a solid and solvent customer base can be established. In parallel, a regulatory environment should be established that will facilitate future private sector interventions. The post-2015 involvement of private partners—such as the mining industry, for example, to provide part of the thermal load—should be investigated. Once big

private sector off-takers become interconnected with the WAPP CLSG transmission line, leveraging their resources for the construction of large hydropower candidate plants may be considered.

10.32 But what are Liberia's power options? Currently, Liberia's power supply options with reliance on diesel thermal energy is US\$0.57 per kilowatt-hour. However, if the country develops its power infrastructure independently, the average cost of power could range from US\$0.11 to 0.15 per kilowatt-hour by 2020. On the other hand, if the mines develop large-scale thermal power, the cost per kilowatt-hour will range from US\$0.08-0.09. The magnitude of the cost differentials between the power supply options available to Liberia and to the mines suggests that there are potentially significant mutual benefits from cooperation in power production, as long as transmission costs are not too high. Taken a step further, such a principle of mutual benefits might be a valuable clause for Liberia to consider inserting in the concession contracts it is awarding to concessionaires. The goal is to strengthen the principle of BOT as opposed to BOO in all concession contracts and to make this principle non-negotiable.

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