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LIBERIA – DIAGNOSTIC TRADE INTEGRATION STUDY UPDATE
Leveraging Trade for Economic Diversification and Inclusive Growth

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REPUBLIC OF LIBERIA
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Currency Equivalents
Currency Unit = Liberia Dollar (LD)
US 1.00 = LD 80.00

Weights and Measures
Metric System

Abbreviation and Acronyms

ABLL	Access Bank Liberia Limited
ACDI VOCI	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
Government	Government of Liberia
GPOBA	Global Partnership on Output-Based Aid
GSP	Generalized System of Preferences
GTB	Guaranty Trust Bank
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
IMCC	Inter-Ministerial Concessions Committee
IITA	International Institute of Tropical Agriculture
IPD	Import Permit Documents
LBA	Liberia Bankers Association
LBBF	Liberia Better Business Forum
LBDI	Liberian Bank for Development

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
MoA	Ministry of Agriculture
MoCI	Ministry of Commerce and Industry

	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
RIA	Roberts International Airport
ROO	Rules of Origin
RTC	Regional Transmission Company
SCM	Subsidies and Countervailing

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 Partnership
PRS I	Poverty Reduction Strategy – One
PRS II	Poverty Reduction Strategy – Two
PSI	Pre-shipment Inspection
PTA	Preferential Trade Agreements
PUPs	Private Use Permits
RED	Road Economic Decision Model
RIA	Roberts International Airport
ROO	Rules of Origin
	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
TTFA	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

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PREFACE

This DTIS Update was carried out at the request of the Government of Liberia to assist the country to define 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 concluding the negotiations on ECOWAS CET alignment and WTO accession, the need to improve the country's trade competitiveness and the potential for achieving inclusive growth by strengthening the participation of the domestic private sector in global supply chains.* The recommendations of the DTIS Update are expected to enhance the contribution of trade to Liberia's Agenda for Transformation.

In recent years, Liberia's economy has been invigorated by a benign external environment and increased foreign direct investment (FDI) in the natural resource-based sectors, particularly in timber, iron ore, gold and palm oil. This has led to an appreciable growth in exports. While this has contributed to robust economic recovery since the global economic crisis in 2009, the country is increasingly faced with the challenge of rising unemployment, particularly among the youth. Export growth has been driven largely by foreign firms (concessionaires), which operate mainly as enclave entities with few links to the rest of the economy. As a result, the multiplier effect of export growth on the rest of the economy has been limited. Furthermore, the rubber sector which is the mainstay of Liberia's exports is steadily declining as a result of an increasing proportion of the stock of aged rubber trees: this has affected both volume of rubber exports and foreign exchange earnings from the sector. Liberia could eventually be dependent on iron ore for more than 60 percent of its exports. And there has always been an urgent call for export diversification as a means of sustaining the country's robust economic growth, reducing vulnerability to external shocks, and promoting inclusive growth.

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 for WTO Accession, and the Development of Agriculture Value Chains. This report, which incorporates that additional work, was discussed at a consultation workshop in March 2014.

1. **After the initial post-conflict period, Liberia's development agenda is now focused on achieving inclusive growth and attaining middle income status by 2030.** The restoration of peace after the protracted civil war (1989-2003), the rehabilitation of basic infrastructure, and the strengthening of institutions of good governance have renewed investor confidence in the economy. Liberia's economy has recovered steadily, with GNI per capita increasing more than four-fold, from US$80 in 2003 to US$370 in 2012. To accelerate the pace of inclusive growth, the Government of Liberia (GoL) needs to mainstream trade under the country's "Agenda for Transformation[1]" , integrate effectively into global economy and ultimately diversify its export portfolio.

2. **Government of Liberia has requested the World Bank to take a lead role in updating the 2008 Diagnostic Trade Integration Study (DTIS).[2]** The objectives of the DTIS Update are to: (a) take stock of progress in the implementation of the 2008 DTIS Action Matrix recommendations; (b) deepen the analysis of the DTIS in selected areas; namely assessing the economic implications of WTO accession, reviewing the constraints to trade competitiveness with particular reference to participation of domestic private sector in global supply chains, and (c) revise and update the Action Matrix to take account of the evolving context of the second phase of the country's development plan, the Agenda for Transformation (AfT).[3]

Four key messages from the DTIS update:

3. **Despite robust economic recovery, Liberia remains vulnerable to global commodity price shocks largely due to an undiversified economy.** Liberia's economic growth since 2008 has been driven largely 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 has consequently grown by an average of 7 percent over the period (2005-2012). The pace of poverty reduction however lags behind the strong performance of the economy. However poverty remains pervasive (56 percent) with rising employment, particularly among the youth. The challenge is how to leverage such economic gains to diversify the economy, invest in human capacity building and promote export diversification.

4. **Liberia has hitherto adopted the "concessions approach" to development, where exports are driven mainly by few large foreign firms (concessionaires).** However due to the "enclave" nature of the economic activities of concessions, the multiplier effects of exports on the rest of the economy are 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. This entails adopting a three-pronged approach to

[1] The Agenda for Transformation (AfT) refers to the Second Poverty Reduction Strategy (PRS II), which outlines the National Development Agenda for 2013-2017.

[2] Liberia's Diagnostic Trade Integrated Study (DTIS) was carried out in 2008 and the report was validated in a national workshop in 2009.

[3]

export trade: (i) attracting FDIs for export growth (ii) strengthening the institutional framework for promoting domestic private sector exports and (iii) strengthening the link between FDIs and domestic private sector.

5. **WTO accession will enhance 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 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, the Government of Liberia (GoL) 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. 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 trade terms under the unilateral trade preference agreements such as the Africa Growth Opportunities Act (AGOA) and Everything But Arms (EBA)from European Union (EU), they remain voluntary and could be changed at any time by the respective trade partners[4].

6. **To optimize the benefits of increased trade integration GoL needs to put in much effort at improving 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) weak regulatory environment for trade-related investments, (ii) huge infrastructure deficits particularly in the areas of electricity and roads, (iii) weak transport logistics services (iv) weak human capacity development and (v) lack of institutional support for key agricultural value chains.

Making the DTIS Update a Catalyst for Mainstreaming Trade

7. **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 about 7-8 percent and an average inflation rate of 6.8 percent by 2012. 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 2012, as a result of debt buy-back and external debt relief after reaching the HIPC Completion Point in

[4] The current discussions under the European Partnership Agreement seeks to move away from the unilateral trade regime to a reciprocal trade regime..

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 position in 2013. Furthermore, the institutional framework for customs management has been strengthened with the recent introduction of ASYCUDA (Automated System for Customs Data) and the implementation of a public-private partnership for ports management.[5] These improvements are expected to increase trade and customs revenue.

8. **In recent times Liberia has registered one of the highest foreign capital inflows compared to other countries in the West Africa.** Improvements in the investment climate as well as the renewed global demand for Liberia's minerals contributed to the surge in FDI inflows. These inflows have reinvigorated the economy, contributing to an increase and increase in exports and in the size of the economy GDP growth, and an increase in fiscal revenues from US$80 million in 2008 to US$500 million in 2012—giving rise to the possibility of leveraging these revenues for infrastructure and human capacity development. FDIs have accounted for the growth in exports and by extension strong GDP growth. However the "enclave" nature of the FDIs reduces the multiplier effects of exports on the Liberian economy. Secondly, the quality of governance and regulatory framework makes it difficult for Liberia to optimize the collection of rents from extractive industries for economic diversification.

9. **GoL has launched the country's "Agenda for Transformation (AfT)" – a five year development program- with the goal of setting the stage towards achieving a middle income status in 2030**. The focus of AfT is to address the huge infrastructure gaps. About 65 percent of the medium term expenditure framework (MTEF) budget (2013-2017) is expected to the dedicated to the investment budget. Government however recognizes that investing in infrastructure alone will not result in the achievement of inclusive growth. The GoL therefore intends to improve upon the regulatory environment for the business sector in order to improve upon domestic private sector participation in the economy. Additionally, GoL has launched the National Export Strategy with the objective of leveraging trade to achieve inclusive growth. Sectors that have been identified as potential sources for export diversification are; oil palm, cocoa, rubber, cassava, and fisheries. Other areas that GoL intends to support are tourism and furniture industries.

Enhancing the Potential to trade through WTO Accession

10. **Liberia has one of the highest trade openness index compared to its peers, albeit dominated by a high share of imports.** Consequently, Liberia runs one of the highest trade deficits in the world. Liberia's relatively high import bill is dominated by imports of capital equipment and consumables such as primary foods, processed foods and other manufactured goods. The high levels of capital equipment imports reflect the capital development expenditures being incurred by concessionaires before commencing production. It is expected as concessions move from development to production phase of their investments, the gaps in the trade deficit will decline. It must however be noted that Liberia imports a number of food items that the country could be self-sufficient in its production; examples are

[5] The Government of Liberia engaged the services of APM Terminal in a PPP arrangement, where the latter took over the management and investment responsibilities of the Monrovia port over a period of 25 years.

rice, oil palm and eggs. Government's challenge in terms of trade strategy is not only to explore opportunities for more exports but also to promote production of goods for which Liberia could be self-sufficient.

11. **Acceding to the WTO will change the legal basis of Liberia's trade relations with its partners, but the actual treatment extended to Liberian exports may not change significantly.** Any partners that do not yet extend 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 much better than MFN treatment to developing countries, and especially to the subset of least-developed countries (LDCs), whether or not they are in the WTO. 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 China's preferential trade agreement. Joining the WTO will make little difference in terms 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 and the willingness of the WTO membership as a whole to grant the necessary waiver.

12. **Acceding to the WTO will also give 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. These cases are more in evidence in some developing regions than in others; Latin American countries are the most frequent complainants in the developing world, followed by some Asian countries. African and Middle Eastern countries have thus far been involved in few 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.

13. **As a member of the WTO, Liberia would also benefit from former's trade policy monitoring, surveillance, and transparency functions among its member countries**. Transparency is particularly important in international trade, as it reduces potential uncertainties between importers and exporters and helps to ensure that both parties benefit. The WTO carries out its monitoring functions through a number of complementary approaches. First, its rules, obligations, and committee structures have established frameworks by which member countries notify one another of policy changes that could impact the country's imports or exports, and discuss the implications of those changes. Second, the WTO's standing Trade Policy Review (TPR) body conducts periodic TPRs of individual member countries to help take stock of each country's policy regime and its compliance with the letter and the spirit of WTO commitments and principles. The TPR process helps improve the flow of information for commercial interests involved in international trade; and is also a useful tool for developing countries attempting to identify and organize national priorities related to reform. Smaller countries such as Liberia typically go through the TPR process once every six years. These reporting and transparency

requirements can be technically burdensome and require the training of additional capacity and a commitment to maintain some government-sponsored presence in Geneva to engage with the WTO Secretariat. However, the donor-funded technical assistance and training available through the WTO can help offset some of the costs of setting up and administering a WTO-compliant trade policy regime.

14. **To achieving compliance with WTO rules, Liberia would need to undertake substantial institutional reforms.** All WTO countries have had to undertake some reforms; the specific elements of the reform typically depend on the initial strengths and weaknesses for the acceding country. Therefore, 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.

15. **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.** One misunderstood element of WTO accession is the perceived loss of national sovereignty over trade policy, also known as "policy space." It is certainly the case that WTO rules and disciplines, as well as the more specific commitments that countries make in their schedules on goods and services, are intended to constrain national use of trade policy. Governments may nonetheless find it beneficial to give up some of their national discretion over day-to-day trade policy, especially when this allows them to foreclose directly unproductive rent-seeking behavior by politically active special interest groups. Many countries join the WTO in order to lock in market-oriented reforms and stand up to the demands of domestic special interest groups. The objectives here are to give greater confidence to prospective foreign investors, and to prevent capture of public policy by private interests.

16. **Acceding to the WTO will enhance the transparency and predictability of the country's trade policy formulation; namely changes in tariff rates and non-tariff barriers.** The number of tariff waivers granted since 2006 makes the current applied average tariff rate lower than the average tariff rate under the statutory customs tariff regime. More than 430 out of 5,000 tariff lines have changed at least once during the period 2006-2012. The changes made by executive order were meant to address specific socio-economic challenges facing the country. The rationale for tariff waivers includes food security, incentives to attract foreign investors, and reduction in the cost of critical inputs for reconstruction, such as cement and machinery. The mode of creating tariff waivers through executive order, however, creates uncertainty with respect to investment decisions by the private sector. In addition, Liberia has a number of non-tariff barriers (NTBs) that constrain free trade, such as import and export licenses, a quota system, and even some direct bans on trade in certain products. If Liberia joins the WTO, it will be able to impose restrictions on imports only if those restrictions are made within the terms of the agreements that govern the use of safeguards, antidumping laws, or countervailing duties. The net impact of WTO accession on the tariff rates is likely to be neutral since the level of applied tariffs is relatively low.

17. **However GoL'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. Measures that the Government has put in place to mitigate the negative welfare effects of CET alignment include phasing in the reforms over a period of three years as the country develops its trade competitiveness. Alternatively, the Government could keep some goods under the list of sensitive commodities in the short run and offset the loss in revenue by raising the goods and services tax (GST) rate or introducing a consumption tax such as a Value Added Tax (VAT).

18. **WTO accession process on the other hand provides the country the reform the regulatory environment for services and trade-related investments.**Accession to the WTO provides an opportunity to showcase the open and non-discriminatory policies towards foreign participation that Liberia has adopted in recent years. However, in order for this open regime to materialize into further investments and the expansion of the services sector, it needs to be complemented with a transparent and effective institutional framework. Currently, the implementation of regulation in Liberia remains opaque and highly discretionary, which limits the benefits of an open regime by introducing de facto restrictions to establishment and increasing transaction costs. Evidence from other countries suggests that Liberia could leverage the resulting higher levels of FDI to improve the competitiveness of the domestic private sector. Rents from FDI in the mining sector, for example, could be invested in promoting horizontal and vertical linkages with supplier firms, and in other sectors of the economy.

Improving Liberia's Trade Competitiveness

19. **To reap the benefits of increased trade integration, including accession to WTO, Liberia will have to address the multiple constraints faced by domestic firms in investing, producing, and exporting.** Since 2009, Liberia has made significant progress on macroeconomic stabilization, improving the overall business environment, modernizing customs procedures, and increasing its trade facilitation capacity. However, structural bottlenecks to Liberia's trade competitiveness remain, the most important of which is the quality of trade and transport facilitation, encompassing physical infrastructure, logistics services, and administrative procedures.[6] Removing this constraint is of critical importance to reducing trade costs. Given the large reduction in tariffs globally over the last 30 years, the biggest deterrents to trade today are physical, administrative, and informal obstructions to the movement of goods.[7] The analysis identifies both hard and soft infrastructure constraints that Liberia needs to address to promote

[6] Trade and transport facilitation refers to measures that aim at reducing the cost and time associated with trading across borders. These depend on the quality of the transport infrastructure networks, and the cost and time associated with cross-border trading procedures, such as border-crossing logistics procedures relating to the customs and other administrative agencies involved in the clearance process. These also depend on the regulatory environment that can either impede or aid in the movement of freight, people, and vehicles in trading across borders.

[7] WEF, 2013

not only regional and global integration, but domestic integration as well. The potential for domestic trade is limited, particularly during the rainy season, by the lack of paved roads linking production centers in the interior of the country to Monrovia

20. **On the soft infrastructure side, Liberia continues to face challenges such as delays in clearance of goods and high clearance charges.** While there has been improvement in customs regulations and procedures, the lack of direct interface between the ASYCUDA software used by the customs service and the NAVIS container tracking system used by the APM Terminal (the private company managing the Monrovia port under a public-private partnership, PPP), causes delays, imposes high informal costs on importers and exporters, and creates additional risks. Establishing an efficient risk management system by adopting ASYCUDA throughout will facilitate pre-shipment inspection and security agent reforms at the borders. Another issue is the high cost of pre-shipment inspection (PSI) because fees charged are based on the value of goods as opposed to the number of container inspections conducted. This fact, coupled with the preponderance of informal fees at the ports, negatively affects the cost of trade in Liberia.

21. **Liberia's investment climate is also constrained by firms' limited access to land, finance, and electricity.** Land rights are a concern in Liberia, as they are in many other post-conflict African countries. Government is pursuing legal and policy reforms aimed at improving land rights and tenure security for the majority of the population. 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 that have affected investment decisions for many years. Recommendations include granting concessions for agricultural production and establishing a unified Land Sector Agency with a robust mandate to coordinate the provision of land sector services.

22. **Lack of access to finance is a serious constraint affecting domestic businesses in Liberia.** 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. Low profits make the banking environment less attractive to potential entrants and hampers financial development. 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. In addition, the CBL launched the Credit Stimulus Initiative for Liberian-owned SMEs in January 2010, which aimed at enhancing credit to the economy by placing long-term US dollar deposits at commercial banks. Due to the lack of 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. An evaluation of the existing subsidy program should also be undertaken to help to determine the most effective use of resources.

23. **The lack of access to and high cost of electricity also constrains exports, investments, and economic activity in Liberia.** The sector was devastated during the civil war, and still has not recovered enough to meet the needs even of the capital city, Monrovia, let alone businesses and exporters. 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 diesel-based generation, and

connection to the regional Western Africa Power Pool (WAPP). HFO-based production will enable Liberia to produce electricity at much lower cost. On the distribution side, it would strengthened M&E of the WAPP and supports its implementation. Plans are also far advanced for the rehabilitation of the Mount Coffee hydropower dam.

24. **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. To the extent that most concessions have operated as enclave entities, their multiplier effect on the domestic economy has been limited. In a longer-run 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 contribute to the development of the local economy and generate the capacity of domestic firms to grow and export. As complementary measure, the Government should establish a monitoring mechanism to evaluate the output and productivity of concessionaires, and measure the degree to which they establish linkages with the domestic economy.

25. **The enabling environment for commercial agriculture and forestry is constrained by weak infrastructure and the high cost of factor inputs.** Poor roads limit access to markets, and lack of access to public utilities such as electricity and water supply is a major challenge in both urban and rural areas. Most private firms, especially huge plantation estates are obliged to create their own access roads, and generate their own electricity, and water supplies. The lack of access to improved infrastructure and public services makes the agribusiness and forestry sectors less competitive.

Conclusions and Recommendations

26. **The prioritization of infrastructure spending under the Agenda for Transformation (AfT)[8] will not achieve the desired impact on inclusive growth if it is not complemented with a strong outward-oriented strategy** based on an effective trade development program, increased trade integration, and improved trade competitiveness.

27. **Liberia has made significant progress in recovering from the civil war of 1989-2003 and the global economic crisis of 2009. Nevertheless, poverty remains pervasive,** particularly among the youth, who comprise 70 percent of the under-35 population and 88 percent of the unemployed or under-employed. The country's recent robust economic growth can be attributed to prudent macroeconomic policies and renewed demand for the country's primary commodities, particularly iron ore. From 2008 to 2012, the average GDP growth rate was 7-8 percent per annum. Despite the decline in the poverty

8 The medium-term development program is named the "Agenda for Transformation" (AfT).

rate from 63.4 percent in 2007 to 56 percent 2010,[9] the current level of poverty still poses a threat to the fragile peace in the country.

28. **Liberia's significant natural resources could be harnessed to accelerate growth and significantly reduce poverty.** The 2008 DTIS underscored Liberia's tremendous natural resource wealth, in terms of both extractive and renewable natural resources. The country has relatively large deposits of iron ore, diamonds, and gold. It is also endowed with abundant renewable resources; plentiful rainfall; a rich stock of fish along its long coastline; the most extensive forest cover in West Africa; and soil suit for the production of key commercial crops such as palm oil, cocoa, coffee and rubber. An assessment of the implementation of the 2008 DTIS shows that while the country has achieved macroeconomic stability and improvement in the investment climate, not much has been achieved in terms of using trade as a vehicle to enhance the value of the diverse natural resources to promote economic diversification and inclusive growth.

29. **Aligning with the common external tariff (CET) under the ECOWAS protocols will mean Liberia migrating its tariff lines with those of the wider ECOWAS region and a removal of all existing Government of Liberia tariff waivers. This will result in an almost 4 percent increase in the average applied tariff rate, 9.5 to 12.1 percent**. Although this could initially have a negative impact on consumption and investment and therefore slow down GDP growth in the short run, the net impact of CET alignment would be positive, as it would boost exports to the sub region. Liberia's commitment to CET alignment would blunt any negative effects of WTO accession, while accession would bring more predictability and transparency to the country's business regulatory environment. Consequently, FDI inflows are expected to increase, thus providing the necessary impetus for accelerated growth and poverty reduction.

30. **Finally, Liberia's trade competitiveness is constrained by six main factors, namely:** (a) weak trade facilitation and logistics support, (b) the high cost of electricity, (c) limited access to land, (d) limited access to finance, (e) limited human capacity in terms of skills, and (f) low technological adaptation**.** These factors largely tend to increase the fixed cost of the domestic private sector and therefore limit the extent to which the domestic firms can compete, both domestically and externally. The Government of Liberia's infrastructure budget under the AfT, should prioritize projects that can address these constraints to trade competitiveness, strengthen the linkages between FDI and the domestic private sector, and pursue policies that will enhance the competitiveness of commercial agriculture. These goals can be achieved by leveraging the potential of the agriculture and mining sectors for achieving inclusive growth. The institutional framework for coordinating trade-related polices should also be strengthened to allow the Ministry of Commerce and Industry to play a pivotal role.

[9] Liberia Poverty, (2012).

DTIS Update Revised Action Matrix

1. Introduction

1.1 After an initial post-conflict period (2003-2011), Liberia's development agenda is focusing on achieving inclusive growth and wealth creation. The restoration of peace, the rehabilitation of basic infrastructure, as well as, the strengthening of institutions of good governance have renewed investor confidence in the economy. Liberia's economy has recovered steadily, with GNI per capita increasing more than four-fold, from US$80 in 2003 to US$370 in 2012. To accelerate the pace of inclusive growth, the Government of Liberia (GoL) seeks to mainstream trade under the country's "Agenda for Transformation,[10]" integrate effectively into global economy and ultimately diversify the country's export portfolio.

1.2 Liberia is rich in natural resources – agriculture farmlands, forests, fisheries, and minerals. However most of the country's natural resource potential remains untapped. The country's exports are predominantly primary commodities, mainly iron ore and rubber which represents over 90% of total exports. While other countries such as Chile and Rwanda have gone through similar experience, the challenge for Liberia is how to leverage the rents from these export commodities to diversify the economy and thereby promote inclusive growth. International experience that matters most to the development of resource-based economies is not the inherent character of resources, but the nature of the learning process through which the economic potential of the resources is achieved.[11]

1.3 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". Despite the benefits of unilateral preferential market access, Liberia's exporters cannot compete effectively in US and EU and China markets. The main barriers against the participation of Liberian firms in international trade are "behind-the-border" constraints– transport, logistics services, customs, trade finance, and the quality of goods. The country has shown meager results in both expansion and diversification of its exports. The fundamental challenge here is how to improve Liberia's trade competiveness, so that the country can take advantage of expansion in market access. Liberia could also target the sub regional market as a first step in launching into global markets.

1.4 Based on the recommendations of the 2008 DTIS, the Government agreed to pursue a pro-poor trade strategy, which placed special emphasis on the development of tree crops, as this could lead to inclusive growth; about half of the rural population depends on tree crops for their livelihood. An assessment of the implementation of the 2008 DTIS Action Plan, indicate that about 60 percent 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 been little progress in (i) improving the export

[10] The Agenda for Transformation (AfT) refers to the Second Poverty Reduction Strategy (PRS II), which outlines the National Development Agenda for 2013-2017.
[11] Wright et al 2002

competitiveness of domestic industries; (ii) developing value chain linkages to the enclave sectors; (iii) aligning with global and regional trade policies.

A. Challenges of Sustaining Inclusive Growth

1.5 The 2008 Diagnostic Trade and Integrated Study (DTIS) underscored Liberia's comparative advantage in terms of the relative abundance and diversity of natural resources.[12] As with most resource-dependent countries, the challenge is how to manage the exploitation of the country's resources sustainably over time and to avoid the Dutch disease.. Particularly with the extractive industry, GoL is expected to harness the rents from the sector and reinvest in the future of the economy; namely education, infrastructure and other productive sectors. A recent study (Boakye D, June 2012), indicates that given Liberia's relatively weak governance performance, this might prove challenging for a post-conflict environment; the preference for the present is high and institutions to collect rents and convert them into effective investments are weak.

1.6 Liberia has large deposits of iron ore, diamonds, and gold. The renewable resources comprise plentiful rainfall, a rich stock of fish along its 580 km coastline, the most extensive forest cover in West Africa, and soils suitable for the production of key commercial crops such as palm oil, cocoa, coffee, and rubber. The 2008 DTIS policy recommendations sought to outline a well-focused strategy to leverage the country's abundant natural resources by pursuing pro-poor trade policies that could lead to accelerated growth and poverty reduction.

1.7 Mining has historically been one of the country's most promising natural resource opportunities; before 1990, it contributed 65 percent of the country's export earnings and represented around 25 percent of the country's GDP. However, large-scale iron ore mining operations were halted during the civil war. Artisanal mining for gold and diamonds fell off but continued, with sales of diamonds used by various groups to fund the war. Following the civil war, 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 moving up again. Major brownfield and greenfield 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.

1.8 Liberia's oil and gas sector is believed to have significant potential, although the industry is still in the exploratory phase. Prior to 1985, only seven offshore wells were drilled in shallow waters, and all were dry. Some seismic survey work was done in 2001 and 2004, which identified potential petroleum-bearing structures. In 2004, 17 offshore blocks were offered to international companies for oil exploration; 8 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. Chevron signed an agreement to explore three deep water offshore

[12] DTIS 2008, was entitled Liberia: "Tapping Nature's Bounty for the Benefit of All".

blocks covering 3,700 square miles in late 2010. 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.

1.9 Liberia has historically used the concessions approach to development, wherein Government signs concession contracts with large multinational companies to exploit these natural resources. While the concessionaires 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. According to the IMF (2011), national authorities fully recognize that the FDI-based economic model, which relies heavily 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 conflict.[13]

B. Implementation of the 2008 DTIS Action Matrix

1.10 Over the past five years, the Government has made significant progress in implementing the 2008 DTIS Action Matrix. Achievements include macroeconomic stabilization, improved business environment, modernization of customs procedures, improved capacity for formulating trade policy and facilitating trade**.** As part of DTIS implementation, the Government established a National Implementation Unit (NIU), comprising the Ministry of Commerce and Industry (MoCI), the program 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 and global trade integration, mainstreaming trade into Liberia's development strategies, coordinating the implementation and update of the DTIS Action Matrix, and improving aid-for-trade coordination.

1.11 For this DTIS Update, the study team reviewed progress on the 2008 action matrix, using two approaches. First, information was gathered from the 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 the action was fully implemented, partially implemented, no progress, or no reported information.[14] Table 1 shows the results of our assessment using the simple scoring metric: 0=no progress, 1=partially implemented, 2=fully implemented, and NR=no reported information.

1.12 The 2008 DTIS Action Matrix highlighted several policy objectives in nine key thematic areas.[15] There were a total of 97 individual action items covering 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

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13 The source document is the IMF report: 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.-

14 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.

15 These thematic areas comprised; 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.

implementation. Table 1 on implementation of 2008 DTIS Action Matrix provides a score card for each sector, below.

Table 1 : Implementation of 2008 DTIS Action Matrix Score Card

Major category	**No progres s**	**Partially implem ented**	**Fully implem ented**		**Number of action measures**	**Average score**	**Scaled score**
Macroeconomic Policy	0	0	3		3	2.0	100.0
Financial Services	3	4	2		9	0.9	44.4
Investment Climate	0	0	13		13	2.0	100.0
Customs and Trade Facilitation	0	4	2		6	1.3	66.7
Agriculture	4	4	3		11	0.9	45.5
Cocoa	1	3	0		4	0.8	37.5
Oil Palm and Rubber	0	1	4		5	1.8	90.0
Mining		3	2		5	1.4	70.0
Wood Industry	6	4	4		14	0.9	42.9
Fisheries	6	11	1		18	0.7	36.1
Trade Policy and Institutions	0	2	7		9	1.8	88.9
Total	**20**	**36**	**41**		**97**	**1.2**	**60.8**
Status of implementation by score (percent)	20.6%	37.1%	42.3%		100.0%		

Note: Where scores are: 0=no progress, 1=partially implemented, 2=fully implemented, NR=no reported information.
Source: Authors' calculations.

1.13 The overall finding from this backward assessment 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 breath of some of the priority items. Several of the trade-related provisions (such as strengthening the institutional framework, and customs modernization and automation) were thoroughly implemented, and these actions have created a positive foundation for the follow-up implementation that will result from the recommendations of this current DTIS Update.

1.14 The additional summary information below sheds light on the activities that were undertaken to implement the DTIS action plan for each of the nine major thematic areas.

Macroeconomic Policy

1.15 Following the completion of Liberia's first DTIS in 2008, the Government of Liberia decided to take steps to achieve macroeconomic stability. It pursued three main objectives: to move forward with tax policy and administration reforms; resolve domestic debt situation; and manage 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 over 400 percent of GDP in 2009 to less than 30 percent of GDP 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.

1.16 The Government of Liberia has also reduced corporate income tax rate from 35 percent 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 hotel and telecommunications, which remain at 10 percent and 15 percent, respectively. It also implemented separation of headquarters functions and field operations in tax collection. Exemptions incentives for investment were established and are operational, while turn-over tax is still at 4 percent for the small tax division.

1.17 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

1.18 The Business Reform Committee (BRC), a cabinet level committee, was formed in direct response to Liberia’s inclusion in the World Bank Group’s 2008 Doing Business Report. Its mandate is to work with Liberia Better Business Forum (LBBF), which was officially launched in 2007 in order to establish an effective public private dialogue and to advocate investment climate improvements, to identify and drive reforms. Technical assistance to BRC and LBBF has been provided by IFC, focusing initially on facilitation to start a business. Their biggest achievement is the reduction in number of days to register the business from 99 days to 48 hours.[16] At the same time, the number of procedures have been reduced from 8 (DB2009) to 4 (DB2013). IFC also assisted the government to streamline business inspections, and nowadays businesses are inspected weekly on average by summing up all the types of inspections. This streamlining includes a legislation that requires the Ministry of Commerce to inspect a business quarterly at most.

1.19 As a result of significant business environment reforms at the national level, Liberia made a great progress in improving its investment climate. Reflecting the serious problems in business inspections, cumbersome procedures, taxation, and customs procedures and charges, Liberia was ranked 170th out of 178 countries in ease of doing business in the 2008 edition of the WB Doing Business Report; in the 2013 edition, thanks to the all reforms led by the Business Reform Committee, Liberia moved up to the 140th rank 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. In addition, there are also improvements in the areas of getting credit and paying taxes.

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[16] The average number of days in DB2013 is 6 days. The mission team heard this achievement at an interview with IFC in Monrovia.

Customs and Trade Facilitation

1.20 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. ASYCUDA enabled Customs to file clearance documents electronically. In relation to traders, the government conducted consultations with stakeholders to inform them of the launch of ASYCUDA, the new process, and formalities. It also had capacity building exercises by training traders on ASYCUDA.

1.21 The ASYCUDA implementation is having a positive effect in terms of expediting duration of Customs clearance. A Time Release Study, financed by the USAID and conducted in 2012 provides some objective evidence. Using data provided by the Bureau of Customs and Exercise (BCE), the study measured the total time required by Customs to release goods from the time goods arrived at the port / airport/ land border until its release to an importer or a third party agent. The report showed that it takes on average about 5 days for the BCE to clear goods at the Freeport of Monrovia. For the Roberts International Airport, it is 0.82 days on average. According to Customs, although the average Customs clearance time was 14 days in 2008, now it takes a maximum of 7 days.[17]

1.22 Liberia introduced ASYCUDA to automate the customs processing at the Freeport of Monrovia in November 2009 and expanded services to the port used by the Liberia Petroleum and Refining Corporation (LPRC) in 2010. The rollout of the ASYCUDA system at the Monrovia oil terminal and the Roberts International Airport (RIA) was completed in September 2011. Additionally, 10 out of the 17 defined ports of entry in Liberia have been equipped with ASYCUDA, although the irregular supply of electricity is hampering smooth operations. In relation to traders, the Government conducted consultations with stakeholders to inform them of the launch of ASYCUDA and its processes. It also trained traders on ASYCUDA and conducted quarterly meetings with users to get feedback on how the system works.

Agriculture

1.23 The Ministry of Agriculture has implemented policies to achieve value addition in the tree crops, while simultaneously creating access to capital for smallholders. However, it is clear from the analysis that progress in these areas is far from achieving the policy goal of establishing efficient value chains, which would ultimately enhance export diversification. The key constraints to the competitiveness of the tree crop sector are (i) high cost of factor inputs; namely -—land, seeds, and fertilizer, (ii) poor application of modern methods of cultivation, including virtual absence of extension services and (iii) lack of access to predictable markets, including slow pace of institutional reforms such as that of Liberia Product Marketing Corporation (LPMC). In the last five years, the GoL has made little progress in terms of translating policies into investment projects. The high scorecard of 90 percent achievement of policy implementation for rubber and oil palm sectors contrast sharply with the performance these sectors in

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

terms of export growth. While this is arguably due to the long gestation period of the tree crops, the acreage planted so far, fall short targeted production levels.

1.24 Moreover, access to credit for smallholders has been nonexistent. MoA publishes regular price monitors from around the country, and International Institute of Tropical Agriculture (IITA) and Agricultural Cooperative Development International/ Volunteers in Overseas Cooperative Assistance (ACDI VOCI) have started providing improved seedlings to farmers under two USAID-funded project. Two other projects at the 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 the out growers scheme arrangements, consistent with new concession agreements are concluded. These are encouraging initiatives; however, they are still are at the level of strategy development and have not begun to demonstrate results in export diversification.

Mining

1.25 Within the mining sector, the Government's policy objective aimed at promoting exploration activities; improving the legal and regulatory framework; improving fiscal impact and transparency; ensuring equitable sharing of benefits; and supporting small-scale mining.

1.26 Actions taken by GoL 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 implement and expanding 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.

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

Wood Industry

1.28 Liberia has begun to take advantage of its huge timber potential for domestic trade, beginning with setting up 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 product; and improve the industry and market knowledge base.

1.29 Some of the actions already carried out include (a) revision of the National Forestry Reform Law (Chapter 13, Section 13.3) on processing of timber products, and building into the law decreasing export taxes with 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.[18]

1.30 Over the last five years, these actions have met with some success through the consolidated efforts of the Forestry Development Authority (FDA), Ministry of Agriculture (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 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, and established an agreement, 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.

Trade Policy and Institutional Reforms

1.31 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 that producers and traders face in their efforts to access foreign markets and manage other challenges of the trading system. Consultations between ministries were necessary even in the most traditional conception of trade policy, which was largely confined to tariffs and other border measures, as the policymakers in trade-related ministries had to be certain that the commitments they sought with trading partners were 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 greatly expanded 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 (in some agreements and fora) 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 the stakeholders include almost every ministry and agency of government, as well as a wide range of civil society groups.

1.32 There are signs that the degree of consultation among Liberian policymakers in general falls short of this ideal. Some representatives of the private sector express 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" that do not communicate as effectively and frequently with one another as they

[18] Outstanding actions comprise (a) a study of West African profitability of log exports, sawn timber and its remanufactures, and furniture components; (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) establish a network of market information providers and timber laboratories on lesser-used tropical timbers, to take stock of promotional work and results achieved.

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 by capacity problems in the House of Representatives and the Senate, which lacks sufficient staff with technical expertise.

C. Conclusions

1.33 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) the scanty references made in the AfT to trade as a vehicle for achieving the country's overall development goals; (b) the lack of support by all major 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 that can boost export diversification, such as the National Export Strategy and the 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.

1.34 The rest of the report is organized as follows: Chapter 2 presents an overview of the Challenges of Export Diversification. Chapter 3 accesses the economic implications for WTO Accession. Chapter 4 discusses the need for improved trade competitiveness; focusing on the investment climate and business regulatory environment. Chapter 5 focuses on Trade Facilitation and Logistics. Chapter 6 explores the potential for leveraging FDIs for competitiveness and export diversification, Chapter 7, assesses the competitiveness of key agriculture value chains. Chapter 7 discusses Trade Policy Coordination and Implementation, and finally Chapter 8 concludes the study and provides recommendations.

2 CHALLENGES OF EXPORT DIVERSIFICATION

A. Trade Performance

2.1 A review of Liberia's trade performance since 2008 identifies four main challenges with respect to its trade performance.[19] First, the high concentration of export earnings around natural rubber makes the country highly vulnerable to volatility in international prices. Second, outside of the concessions, the level of participation 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. Fourth, the country is still dependent on a number of food items that it is capable of being self-sufficient in their production (see Figures 1 and 2 below on Import and Export Growth).

2.2 Given the small size of Liberia's economy, the country remains quite open to international trade, but imports greatly exceed exports. Although there are emerging signs of sectoral diversification, the export portfolio is still characterized by a strong dominance of the rubber sector. Regional trade in the context of ECOWAS and the Mano River Union (MRU)[20] remains low. 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 below discusses the challenges to gathering trade data on Liberia.

Figure 2: Export Growth

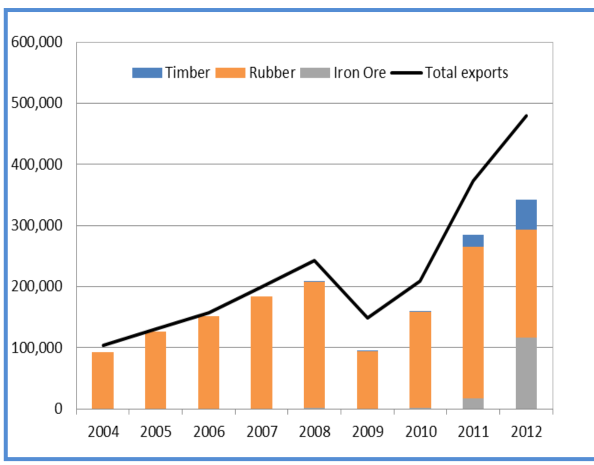
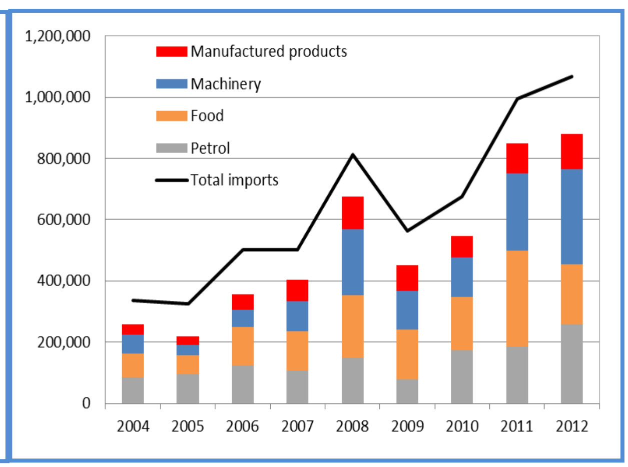


Figure 1:Import Growth



Source: CBL Trade Data

[19] The analysis is based on the best available trade data (see Box 1) in conjunction with qualitative information gathered through field interviews.

[20] The Mano River Union (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.

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.[21] 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, Nkendah (2010) finds that informal and unrecorded trade between Cameroun and Nigeria represents p6 percent of the official figures and mainly includes agricultural and horticultural commodities. Evaluating the amount of this issue is out of scope of this not, but must be taken into account when interpreting the data.

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2.3 FDI in the natural resource sector is driving 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

[21] 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.

driven by FDI, unemployment remains high.[22] 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.

2.4 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

2.5 Liberia's level of trade openness, as 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.[23] 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 Figure 3 and 4 below.

Figure 3 : Openness to Trade(2008)

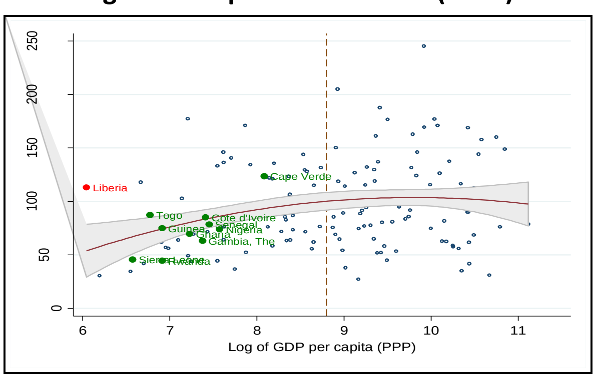
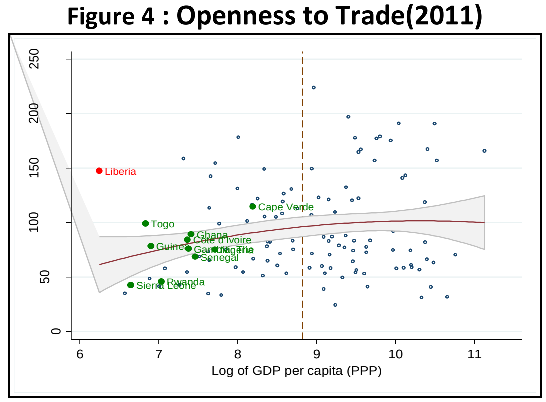


Figure 4 : Openness to Trade(2011)



Source: CBL , IMF Data

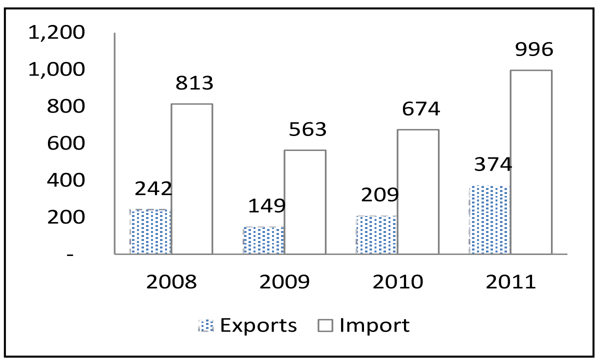
[22] The measurement of unemployment in Liberia is fraught with difficulty. While the Labor Force Survey of 2010 records an unemployment rate of 3.7 percent. The more relevant measure may be the level of vulnerable employment which was at nearly 80 percent in 2010.

[23] 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.

2.6 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, health care, 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.

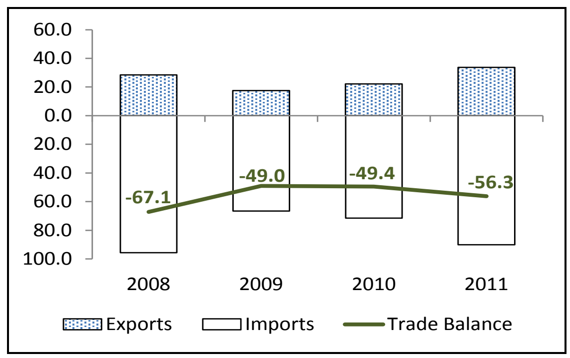
2.7 Liberian export performance after 2008 was affected by the global economic downturn in 2009, the effects of which were long-lived. While worldwide trade recovered to its pre-crisis levels by the end of 2010, Liberia took another year to reach that point. A possible explanation is the "bullwhip" effect of the crisis on the global value chains that use rubber as a primary input.[24] 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 (Millions of USD)



Source: IMF.

Figure 6 : Merchandise Trade (% of GDP)



Source: IMF.

2.8 Although signs of an emerging sectorial diversification are perceived, Liberia's export portfolio is still characterized, as noted above, by a strong dominance of the rubber sector, which represents over 65 percent of total exports. Cocoa beans, wood, and palm oil are slowly emerging as good candidates for diversification. Their combined export share jumped from 12 percent to almost 25 percent in the last three years. 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 the United Nations export ban in 2007. Table 2 below shows the Sectorial Composition of Liberia's Exports for the periods 2008-2011.

[24] This phenomenon occurred when companies significantly added inventories due to the strong decline in demand for final products. It is called a 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 largest the variation in demand for the intermediate product is.

Table 2 : Sectorial Composition of Liberian Exports (2008-2011)

Product	Year 2008 Value	Year 2008 % of total	Year 2008 RCA	Year 2011 Value	Year 2011 % of total	Year 2011 RCA	CAGR
Natural Rubber	206.8	85.5	659.7	247.8	66.3	680.4	6.2
Wood	0.2	0.1	0.1	19.9	5.3	7.2	363.4
Iron ores	1.5	0.6	0.9	17.4	4.7	30.2	127.9
Gold	13.3	5.5	5,564.7	17.2	4.6	31671.9	9.0
Diamonds	10.0	4.1	362.2	15.4	4.1	38.2	15.4
Cocoa beans	3.4	1.4	28.2	14.6	3.9	95.5	62.5
Ferrous scrap of iron or steel	0.1	0.0	0.1	3.8	1.0	11.5	236.2
Palm Oil	0.1	0.0	0.2	0.5	0.1	1.7	71.0
Others	6.6	2.7		36.9	9.9		77.4
Total	242.0			373.5			15.6

Source: Authors' computation using IMF and Central Bank of Liberia data.

2.9 Imports are spread across different sectors, but food and live animal imports are particularly high representing around 30 percent of total imports in 2011. The most important staple in this category is rice, which accounted for 12 percent of the total import basket. 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 the machinery and transportation equipment, petroleum, and machinery. These sectors are in line with the ongoing post-war infrastructure reconstruction effort. During the period 2008-2011, imports in these sectors increased on average by 7 percent each year, as shown in Table 3 below.

Table 3: Sectoral Composition of Liberian Imports (2008-2011)

Sector	Year 2008 Value	Year 2008 % of total	Year 2011 Value	Year 2011 % of total	CAGR
Food and live animals	206.8	25.4	313.2	31.5	14.8
Machinery & tpt. equip.	215.2	26.4	251.9	25.3	5.4
Petroleum products	147.2	18.1	185.5	18.6	8.0
Manufactured products	104.7	12.9	98.0	9.8	(2.2)
Chemicals and related products	36.5	4.5	37.7	3.8	1.1
Mineral, Fuels, Lubricants	13.2	1.6	37.6	3.8	41.7
Miscellaneous manufactured	32.4	4.0	28.3	2.8	(4.4)
Beverage and tobacco	13.9	1.7	19.7	2.0	12.2
Animal and vegetable oil	2.9	0.4	11.7	1.2	58.9
Commodities and Transactions NES	27.7	3.4	6.5	0.7	(38.3)
Crude materials	12.9	1.6	5.5	0.6	(24.7)
Total	**813.5**		**995.8**		**7.0**

Source: Authors' computation using IMF and Central Bank of Liberia data.

2.10 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. Liberia exports rubber mainly to these two markets. Over the last four years, 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. Even though 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.

2.1 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, the United States, Thailand, and Brazil.

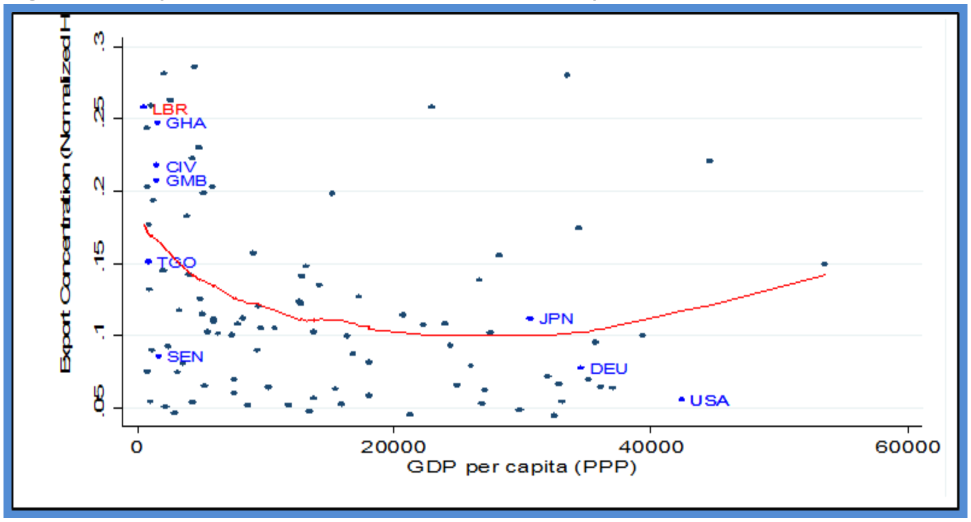
Table 4 : Market Composition of Liberian Exports and Imports (2008-2011)

Export Shares	2008	2011	Import Shares	2008	2011
United States	**42.0**	**32.4**	**BRICs**	**44.9**	**43.9**
			China	40.1	37.0
Europe 27	**27.0**	**27.3**	India	2.8	4.4
			Brazil	1.9	2.4
BRICs	**4.9**	**12.3**	Russia	0.1	0.0
China	1.7	8.3			
India	3.2	2.2	**ECOWAS**	**4.8**	**18.7**
Russia	0.0	1.3	MANU river Union	1.6	8.3
Brazil	0.0	0.5	Rest	3.2	10.4
ECOWAS	**5.0**	**7.6**	**United States**	**13.2**	**9.8**
MANU river Union	3.7	7.5			
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**	**2.0**
Rest of the world	**19.4**	**19.1**	**Rest of the world**	**15.0**	**15.1**

C. Perspectives and Challenges of Export Diversification

2.2 Economic development in low-income countries is associated with increasing sectoral diversification rather than specialization in a narrow range of important products (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 (see, for example, Sachs and Warner 1995, Gylfason 2004, and De Ferranti, Perry, Lederman, and Malony 2002). 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. (See Figure 7 below on Liberia's export concentration, 2011)

Figure 7 : Export Concentration over the Development Process, 2011



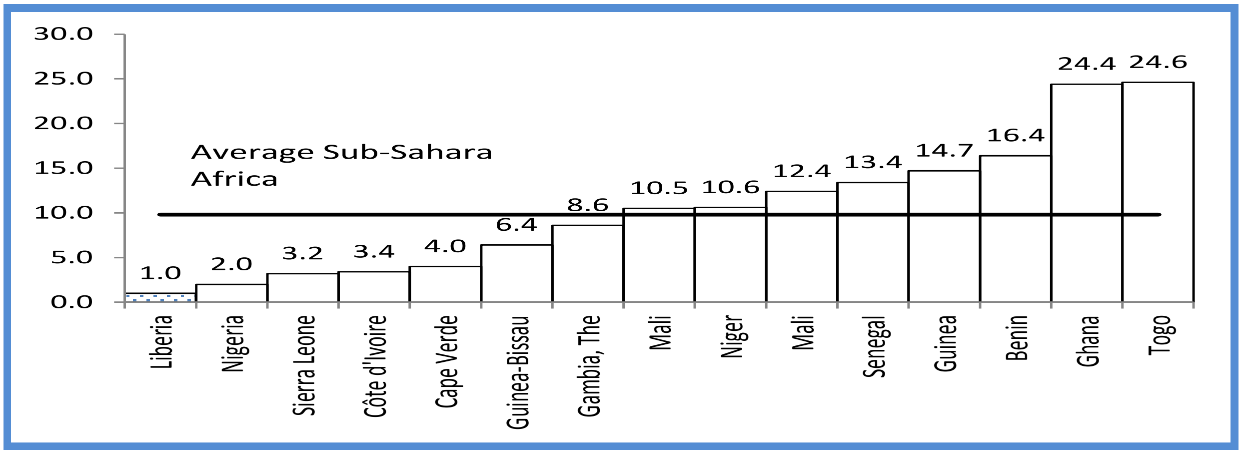
Source: Authors' computation based on IMF, Central Bank of Liberia, and World Development Indicators (WDI) data.

2.11 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 (Figure 8). 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.[25]

2.12 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 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.

[25] Enterprise Survey for Liberia, (2009).

Figure 8: Percentage of Firms Exporting Directly or Indirectly (latest available year)



Source: Authors' calculations based on World Bank data.

2.13 The low level of Liberian firm's participation in international markets compared with similar countries indicates larger costs to exporters in the country than in other peer countries. If countries are of similar size, have a similar distribution of productivity across domestic firms, and face similar worldwide tariff schedules, as is the case for poor African countries, one of the main determinants of firms' participation in international trade is the country-specific trade costs. These costs are of different types. Besides the per-unit costs, such as transport cost, there are also fixed costs, such as the costs of setting distribution channels, comply with foreign standards, and find information about foreign buyers and markets.

2.14 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 exportable sector is mixed.[26]

2.15 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 in the hands of 20 percent firms, which are mostly large multinational firms operating under government concessions in agriculture (rubber) and in the extractive industries (iron ore). 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

[26] Bulir and Lane (2002) find that the tradable sector as a whole has declined by an average of 8 percent per annum 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.

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.

2.16 Foreign direct investments, in the form of concession agreements, are the engines of export growth in the mining and agricultural sectors. Investments in the mining sector are 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. However, 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.

2.17 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.[27] The distance 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.

2.18 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 mining (iron ore), palm oil, and forestry will gain space in the export basket. Imports will increase as well, due to capital imports for large investments projects. In addition, the pending regional trade consolidation through ECOWAS and accession to WTO are expected to bring more dynamism to the Liberian economy.

2.19 The challenge for competitiveness lays in setting polices 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.

D. Trade Policy Reform Initiatives

2.20 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

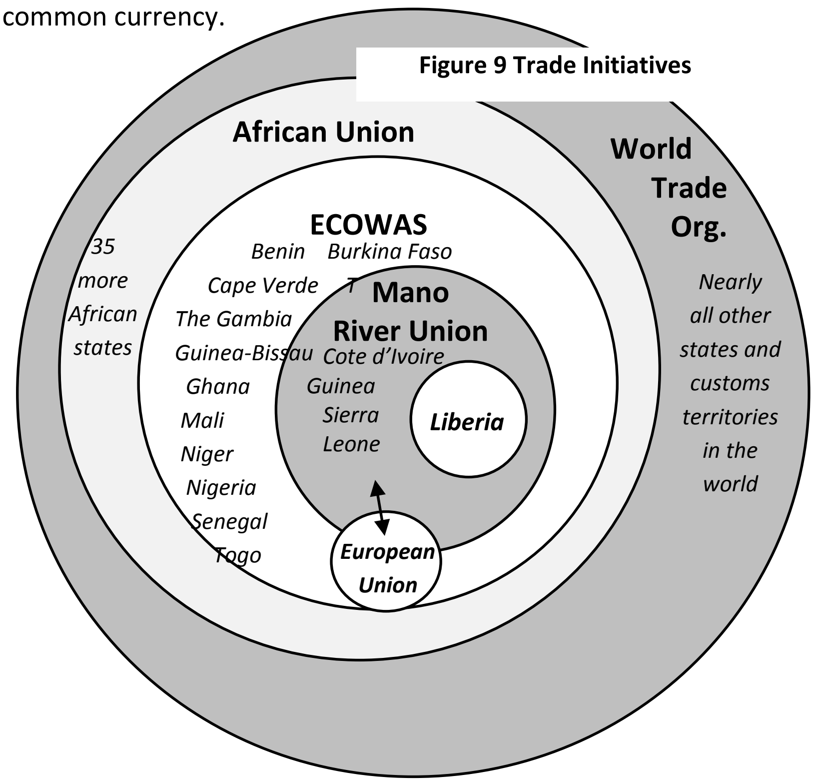
[27] Data source is the UNCTAD's revealed factor intensities database, which cover years only up till 2007. The database is currently being updated.

one another, such that membership in the African Union (AU) may be seen as a subset of the overall membership in the World Trade Organization (WTO),[28] while members of the Economic Community of West African States (ECOWAS) represent a subset of the AU,[29] and the Mano River Union members are, in turn, a subset of the ECOWAS membership. There is activity currently underway in each of these groups that is intended to further the economic integration of their members, albeit with different degrees of effort and with distinct timetables:

- In the Mano River Union, 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.

Figure 9 Trade Initiatives



2.21 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.

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[28] Note that, in addition to Liberia, AU members that are still in the process of accession to the WTO at the time of this writing include Algeria, Comoros, Equatorial Guinea, Ethiopia, Libya, São Tomé and Príncipe, Seychelles, and Sudan. Eritrea, Somalia, South Sudan, and Western Sahara are the only AU members that are neither member of the WTO nor currently in the process of accession. There is a need to check this footnote for clarity……

[29] Note that the AU membership of Guinea-Bissau was suspended after a coup d'état in that country in 2012.

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.

2.22 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 (GSP), as well as more geographically targeted programs such as the European Union's EBA program and the African Growth and Opportunity Act (AGOA) of 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.

2.23 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 alterative 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 real concern in an EPA with the European Union.

2.24 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

2.25 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. The trade deficit is however 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.

2.26 .Liberia's strong performance in the export sector in recent times is a result of the resumption of iron ore production; this has 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 GoL at forging greater integration into the global economy should boost Liberia's prospects of exploring new markets and diversifying the export portfolio.

3 TRADE INTEGRATION: IMPLICATIONS FOR 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. These relate to three initiatives: implementation of the ECOWAS customs union (common external tariff, CET); accession to the World Trade Organization (WTO); and regional cooperation under Mano River Union protocols. These three initiatives are being pursued simultaneously, and are best seen as complementary rather than mutually exclusive. There is no deadline per se for Liberia's accession to the WTO, although Government officials do have benchmarks and goals in their internal plans for this process. Given the expectation that the ECOWAS CET will form the basis for the country's goods offerings, however, the logical sequencing of the initiatives may see accession come only after agreement is reached on the final structure and rates of under the ECOWAS CET.

3.2 The 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 of joining 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—by way of the General Agreement on Tariffs and Trade (GATT) Article III—requiring the "national treatment" of imported goods. That is, 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.[30] 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

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

been found to be in violation of GATT Article III if they impose a higher level of tax on certain types of imported alcohol than on similar types of alcohol produced domestically.

3.5 Another important aspect of Liberia's trade policy since 2008 has been the application of tariff waivers. The analysis examines in great detail the periodic executive orders proclaiming product-specific reductions of tariffs to zero for various (indeterminate) lengths of time, which have been applied to a sizeable share of imported products. Over 2008-2012, tariffs were waived by the 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 The 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. The choice of rice imports beginning in 2008, for example, 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 the capital equipment and other inputs required for long-term investment and continued economic development.

3.8 Liberia's application of zero tariffs through tariff waivers has been a positive step for economic reasons. Nevertheless, Liberia needs a new institutional framework that locks in the applied tariffs at their 2012 levels, to ease concerns about discretionary tariffs that might arise under future trade agreements. The first concern is that current framework system of nontransparent, periodic, short-lived, discretionary waivers creates substantial market uncertainty for firms that cannot anticipate their own costs from year to year, which acts as a substantial impediment to long-term investment decisions. The second concern is that 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 the ECOWAS

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 While intra-ECOWAS trade is expected to increase when a zero internal tariff is applied on intra-ECOWAS partner trade flows, the precise size of the impact on trade is uncertain. It could be quite small in the near term, as Liberia already provides ECOWAS countries (and all trading partners) free 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.) Similarly, the products likely to dominate Liberia's near-term export basket—rubber, iron ore—may not be in high demand by potential ECOWAS partners. If so, these exports should not be expected to increase dramatically, even in the face of zero tariffs on imports from ECOWAS trading partners.

3.11 One important implication of alignment with ECOWAS CET Trade Liberalization Scheme (ETLS) and the expected reduction of import duties for ECOWAS members is a loss of fiscal revenue from import duties on mineral products such as refined petroleum. Recent import data suggest that roughly 20 percent of Liberia's total goods imports are in mineral products, more than 90 percent of which are imported from ECOWAS members (e.g., Cote d'Ivoire). Under the ECOWAS trade regime, if import duties on petroleum are cut to zero, Liberia is expected to lose a substantial amount of fiscal revenue. One straightforward policy reform would be for Liberia to apply a higher excise tax to both imports and domestic production of mineral products such as refined petroleum. If this approach is taken, it will be important to ensure that any new sales or excise taxes are devised in such a way as to avoid complaints that they are not compliant with the "national treatment" requirements of GATT Article III.

3.12 A purely harmonized adoption of the ECOWAS customs union would result in Liberia applying the ECOWAS CET, 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 imported products with zero tariffs in 2012 due to tariff waivers. There are important implications for how those tariffs would change if Liberia were to harmonize its third-country tariffs with the ECOWAS CET. A relatively small number of products—16 out of 275—would continue to have zero tariffs; 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, or even 35 percent under the CET. Because the tariff increases would lead to price increases for rice and processed food imports, imports would also decrease for annual crops, livestock, processed foods, and manufacturing.

3.13 It is therefore important to ensure the proper sequencing of trade reforms. As there is no deadline per se 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. Further, the terms of the ECOWAS CET must be set prior to WTO accession in order for the CET to be the basis for Liberia's bound rates in the WTO. If Liberia were instead to accede to the WTO first, and to bind some tariffs below the level of the ECOWAS CET, it would have difficulty aligning with CET requirements. One option would be for Liberia to be out of compliance with one or another of its obligations, meaning either compliance 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. This is precisely what happened in Suriname, for example, when that country made the mistake of joining the Caribbean Community (CARICOM) and applying its CET only after it had completed its accession to the WTO; it achieved both of those steps in 1995, but completed the tariff negotiations for WTO accession well in advance of completing the CARICOM accession process. Suriname 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.

B.1 Implications of Alignment with the ECOWAS CET

3.14 This section considers the implications for Liberia if it were to change its import tariffs regime and adopt that of ECOWAS CET.

3.15 Liberia's integration with the ECOWAS CET would result in substantial change to Liberia's trade policy. It would differentially affect the tariffs that Liberia applies toward members of ECOWAS and the tariffs that Liberia applies toward third countries (non-members of ECOWAS). While intra-ECOWAS trade is expected to increase when a zero internal tariff is applied on intra-ECOWAS partner trade flows, the precise size of the impact on trade could be quite small. 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 the 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—may not be in high demand in potential ECOWAS partners, so they should not be expected to increase dramatically even in the face of zero import tariffs from ECOWAS partners.

3.16 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.

3.17 Under the ECOWAS Trade Liberalization Scheme, if import duties on petroleum are cut to zero, Liberia is expected to lose a substantial amount of fiscal revenue; Stryker and Amin (2012) provide an important assessment of the proposed revenue impacts for Liberia of the ECOWAS CET relating to fuel imports. However, one straightforward policy reform would be for Liberia to introduce a consumption tax such as value-added Tax (VAT)—applied to both imports and domestic production of gasoline—so that the net impact on consumer prices and collected fiscal revenues after the implementation of the ETLS would be zero for petroleum products.

3.18 Joining the ECOWAS customs union would also mean giving up sovereignty over its applied import tariffs on all other imports from third 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 the development process because of increased cost 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; however, this relatively modest average increase masks substantial variation across different product categories.

3.19 As Liberia's economic activity adjusts in the face of substantially higher-taxed imports from third countries, an implication is potential for substantial new economic losses and inefficiencies due to the reallocation of resources. Column (7) of indicates important subsectors in which these tariffs would increase represent significant shares of Liberia's total imports. This issue is explored more formally in the context of an economic model and simulations presented below in Section 5 of Table 12 below comparing Liberia's 2012 applied import tariff with ECOWAS CET.

Table 12: Comparing Liberia's 2012 Applied Import Tariff with ECOWAS CET

Product	Simple average applied rate, including waivers (%)	Simple average ECOWAS rate (%)	Share of tariff lines with applied duty free, including waivers (in %)	Share of product lines with ECOWAS duty free (in %)	Share of tariff lines with applied duties > 15% (in %)	Share of tariff lines with ECOWAS duties > 15% (in %)	Share of total goods imports, 2007-2010* (in %)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Overall	9.8	12.9	5.3	1.5	16.6	42.0	100.0
Agriculture	9.8	17.9	6.9	0.0	14.1	60.6	19.2
Non-Agriculture	9.8	12.1	5.1	1.8	17.0	38.9	80.8
By sector							
01-05 Animal	7.3	19.3	12.5	0.0	1.2	63.7	6.2
06-15 Vegetable	8.8	15.0	4.0	0.0	8.3	56.3	15.2
16-24 Foodstuffs	13.9	21.5	1.0	0.0	29.0	76.8	9.5
25-26 Minerals	8.6	6.6	0.0	0.0	4.8	5.7	1.1
27 Mineral fuels	9.1	5.3	0.0	7.0	0.0	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	14.0	11.8	0.0	0.0	52.2	30.4	0.1
44-49 Wood	14.6	11.1	0.0	5.5	35.9	31.9	2.2
50-63 Textiles, Clothing	13.9	18.1	0.6	0.1	40.0	73.0	3.0
64-67 Footwear	14.9	18.7	2.1	0.0	2.1	80.9	0.6
68-71 Stone / Glass	12.4	15.7	0.0	0.5	22.6	63.9	0.9
72-83 Metals	6.0	13.3	2.7	0.0	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	8.0
90-97 Misc.	15.9	14.4	1.1	2.3	46.5	55.6	1.3

Sources: authors' calculations based on Customs Tariff of the Republic of Liberia 2012, Executive Orders listed in Table 1 that provide information on product lines with tariff waivers, and the proposed ECOWAS Common External Tariff schedule. *For data availability reasons, imports limited to 2007, 2009, and 2010.

3.20 Overall, Liberia would go from having 5.3 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 12 shed light on the frequency of duty-free tariff lines under Liberia's applied 2012 rates versus those found under the ECOWAS regime. Again, it is important to recall that Liberia's duty free rates in 2012 were undertaken as part of executive order tariff waivers that were in response to economic shocks and were meant to encourage duty-free access to critical imports needed for development. Put differently, it is not as if Liberia's duty free rates in 2012 were randomly assigned; i.e., they were deliberately selected based on recent economic events and are thus likely to be quite important for the Liberian economy. As the lower sections of Table 12 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 (transportation equipment and machinery) would also be significantly reduced.

3.21 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; this has the potential to make up a substantial share of incoming government revenue that forms the basis for government expenditure. The impact on this 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 (see Stryker and Amin 2012).

3.22 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 13, 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.

3.23 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 13 below presents additional information across sectors on the applied tariff differentials under Liberia's import tariff regime relative to the ECOWAS CET. Columns (1) and (2) provide information on the maximum tariff rates. The maximum rate of 50.0 percent is higher under Liberia's current regime than ECOWAS maximum rate of 35.0 percent.[31] 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. As is consistent with Table 6, 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.

[31] Nevertheless, Nigeria has introduced discussion into the ECOWAS negotiations potentially to create a higher additional tariff band of 50.0 percent for sensitive products, which is above the current ECOWAS maximum of 35.0 percent.

Table13:Comparing Liberia's 2012 Applied Import Tariff with ECOWAS CET(II)

Product	Max applied rate (%)	Max ECOWAS rate (%)	Share of tariff lines requiring tariff *increases* (in %)	Share of tariff lines requiring tariff *decreases* (in %)	Share of tariff lines requiring more than 10 p.p. tariff *increases* (in %)	Share of tariff lines requiring more than 10 p.p. tariff *decreases* (in %)	Share of total goods imports, 2007-2010* (in %)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Overall	50.0	35.0	47.1	22.6	17.4	3.6	100.0
Agriculture	25.0	35.0	65.1	27.3	40.7	2.4	19.2
Non-Agriculture	50.0	35.0	44.0	21.8	13.4	3.9	80.8
By sector							
01-05 Animal	25.0	35.0	93.9	6.1	37.9	1.1	6.2
06-15 Vegetable	25.0	35.0	67.1	23.7	39.8	0.7	15.2
16-24 Foodstuffs	25.0	35.0	63.0	29.4	28.6	2.1	9.5
25-26 Minerals	25.0	35.0	9.1	30.9	3.6	4.5	1.1
27 Mineral fuels	15.0	10.0	0.0	55.4	0.0	0.0	24.4
28-38 Chemicals	25.0	35.0	15.2	17.9	3.9	0.6	4.8
39-40 Plastic / Rubber	25.0	35.0	54.5	13.7	18.0	8.6	2.9
41-43 Hides, Skins	25.0	20.0	40.2	58.5	0.0	17.1	0.1
44-49 Wood	45.0	35.0	22.2	59.8	5.4	7.7	2.2
50-63 Textiles, Clothing	20.0	35.0	44.3	6.9	11.9	0.2	3.0
64-67 Footwear	25.0	35.0	72.2	27.8	13.9	0.0	0.6
68-71 Stone / Glass	25.0	35.0	69.8	30.2	46.5	15.8	0.9
72-83 Metals	20.0	35.0	61.6	2.1	35.3	0.0	6.8
84-85 Machinery/ Electrical	25.0	35.0	41.0	33.2	7.8	1.8	13.1
86-89 Trans. Equipment	50.0	20.0	66.8	21.5	10.2	3.4	8.0
90-97 Misc.	50.0	35.0	40.1	46.1	6.2	18.7	1.3

Sources: authors' calculations based on Customs Tariff of the Republic of Liberia 2012, Executive Orders listed in Table 1 that provide information on product lines with tariff waivers, and the proposed ECOWAS Common External Tariff schedule. "p.p." = percentage points. *For data availability reasons, imports limited to 2007, 2009, and 2010.

3.24 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 13 provides this additional information by reporting on 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.

3.25 Next consider the implications of a move to the ECOWAS CET for some of Liberia's key imported products, which have been previously identified as important by virtue of the Government having waived their tariffs to either facilitate the process of economic development or mitigate the domestic economic implications of commodity price spikes.

3.26 Under the ECOWAS CET, Liberia's applied tariffs on imports from third party countries would increase from zero to 10 percent (fuel), 10 percent (rice), and 35 percent (cement); estimates are that these three products alone comprise 30 percent of Liberia's total annual goods imports. Table 14 **Error! Reference source not found.**presents information on these three critical products to which Liberia gave tariff waivers during the 2011/2012 period (see Table 15) through 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. (See Table 14 below **Comparing Liberia's Import Tariff with ECOWAS Common External Tariff)**

Table 14: Comparing Liberia's Import Tariff with ECOWAS Common External Tariff

A. Example of Key Products

Product	Applied tariff, 2011/2012 (%)	ECOWAS tariff (%)	Share of total annual goods imports+ (in%)
Rice	0	10.0	8.0
Fuel oil#	0	5.0-10.0	20.0
Portland cement*	0	35.0	2.0

Sources: Authors' calculations based on Customs Tariff of the Republic of Liberia 2012, Executive Orders listed in Table 14 provides information on product lines with tariff waivers, proposed ECOWAS Common External Tariff schedule, and import data from Government of Liberia. +Average of 2009 and 2010, based on 2-digit HS categories. *Tariff waivers for Portland cement were announced in 2011 and 2013, but not 2012. For selected public sector purchasers for whom fuel oil tariff were waived.

Table 15: Products with Tariff Waivers in 2012

B. Products with Tariff Waivers in 2012

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

Sources: authors' calculations based on Customs Tariff of the Republic of Liberia 2012, Executive Orders listed in Table 1 that provide information on product lines with tariff waivers, and the proposed ECOWAS Common External Tariff schedule.

3.27 However, it is likely that significant shares of these products were not imported from ECOWAS partners previously, even with the zero tariff (waiver), but were imported from third markets. These third markets would now face a substantially higher tariff were Liberia to adopt the ECOWAS CET. Depending on the import demand elasticity for these products, prices in Liberia may increase considerably with the higher tariff, introducing substantially reduced consumption and additional economic distortions (deadweight loss) into the economy, and significant losses to economic welfare.

3.28 A relatively small number—16 out of nearly 275—of the broader set of Liberia's imported products with zero tariffs in 2012 would have tariffs remain at zero under the ECOWAS 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. Table15 provides this information on Liberia's roughly 275 different imported products with zero tariffs in 2012—due to the executive order tariff waivers in existence—and how those tariffs would change were Liberia to harmonize with the ECOWAS CET.

C. Accession to the WTO

3.29 The World Trade Organization forms the backbone of the multilateral trading system. The establishment of the WTO in 1995 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 rules and disciplines cover the vast majority of international trade taking place globally. The WTO, like the GATT before it, serves three primary functions: It establishes a forum for (a) trade liberalization and rules-setting negotiations; (b) resolution of disputes; and (c) monitoring and surveillance of trade policies. The WTO provides an institutional framework through which countries can come together to negotiate reciprocal market access opportunities in other countries for their exporters. Eight rounds of tariff negotiations have successfully been completed since 1947; the most recent was the Uruguay Round, which ended in 1994.

3.30 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. For example, newly acceding countries, such as China in 2001, were expected to liberalize and "bind" import tariffs at rates much closer to higher-income country tariff rates than had been required when peers had joined the system years or even decades earlier. Some of these increased requirements are reasonable, since newly acceding countries are benefiting from more than 60 years of multilateral trade liberalization negotiations under the GATT/WTO. Some of these demands are also motivated by the reality that the tariff liberalization forum role for the WTO is expected to wane over time, given that most major economies in the system already have quite low tariffs.

3.31 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 that a country gains upon accession to the

WTO is the protection provided under the dispute settlement rules; any actions taken by its partners that deny MFN treatment can be challenged in the WTO's Dispute Settlement Body (DSB).[32] The WTO also provides an institutional framework for the provision of transparency and monitoring of global trade policies, which would be particularly valuable for Liberia's existing and potential exporters of commodities such as rubber, cocoa, and palm oil, which are frequently the source of new trade barriers abroad and trade disputes[33]

3.32 Accession to the WTO could also provide other institutional benefits to help Liberia integrate into the multilateral trading system, such as assistance with the trade reform process and with the development of modern trade policy institutions. Further, accession could lead to enhanced foreign direct investment (FDI), as well as 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—with the nature of some commitments determined by the characteristics of its economy, its laws, its relations with incumbent members, and the bargains made by its negotiators—all least-developed countries (LDCs) are given special consideration and are exempted from some requirements (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"; that (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 that (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

[32] 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.

[33] 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.

in exchange will be afforded proportionately higher 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 sub-sectors that do not correspond to their individual development, financial and trade needs." The guidelines also provide for differential treatment during transition periods.

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

3.33 The case of Cape Verde, the only African country to have acceded to the WTO in 2008, gives a good indication of what Liberian policymakers might expect in their own negotiations.34 Cape Verde has two important characteristics in common with Liberia—it is an ECOWAS member, and it shared, for a time, the distinction of being officially designated an LDC. Cape Verde acceded to the WTO as an LDC even though it had graduated from LDC status on 20 December 2007. (see Box 3).

3.34 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.

Box 3: What Is Expected of LDCs in WTO Accession—The Example of Cape Verde

Cape Verde committed to binding its tariffs at rates ranging from zero to 55 percent. Some bindings involved phased reductions. Average tariff bindings were more than 19 percent for agricultural products and 15 percent for industrial goods. Tariffs of 50 percent or more are applied to alcoholic beverages, chocolates, soaps and detergents, carpets, glassware, cars and furniture. Products with tariffs of less than 5 percent included civil aircraft, printed paper, certain medical goods and information technology products. Cape Verde also reserved its right to apply the ECOWAS levy of 0.5 percent on imports.

For trade in services, Cape Verde made specific commitments on 10 services sectors and a wide range of sub-sectors, including land ownership and business visitors. Other obligations—either entered into fully upon accession or phased in over a period of months or years, included:

- **Foreign exchange and payments:** Prior authorization for certain foreign exchange transactions would be eliminated by July 2008.
- **Privatization program and state enterprises:** Cape Verde's ongoing privatization program would be transparent and include annual reports. All state-owned or -invested enterprises, and enterprises with special privileges, would operate on a commercial basis.
- **Pricing policy:** Price controls would be in accordance with WTO principles and take into account the interests of exporting members. The Government would publish a list of goods and services for which it sets the prices.
- **Framework for making and enforcing policies:** Legal and institutional structures would provide for administrative and judicial review in conformity with WTO requirements.
- **Trading rights (the right to import and export):** From the date of accession, any person or company from any member would be able to import goods into Cape Verde without conditions related to physical presence or investment in Cape Verde (importer of record). Rights to import and export would be granted on a non-discriminatory basis. Commercial registration would only be for customs or fiscal purposes.
- **Fees and charges for services rendered:** By December 2012, the existing (ad valorem) customs user fees would be modified to comply with WTO rules. Fees, if introduced in the future, would be applied according to WTO principles.
- **Internal taxes (VAT, special tax on consumption, environmental tax):** By June 2008, Cape Verde's laws and regulations relating to internal taxes and charges on imports would be in conformity with WTO obligations.
- I**mport restrictions:** Cape Verde would eliminate and not reintroduce restrictions on imports or any other non-tariff measures (quotas, bans, authorizations, licensing requirements, permits, etc.) that could not be justified under WTO rules. The import-licensing regime would be fully compatible with WTO rules.
- **Customs valuation:** The Custom Valuation Agreement would be fully implemented by January 2011.
- **Rules of origin:** The Agreement on Rules of Origin would be fully implemented by July 2008.
- **Anti-dumping, countervailing duties, safeguard regimes:** These measures would only be applied by Cape Verde in conformity with WTO rules.

- **Subsidies:** Subsidy programs would be in line with WTO obligations by January 2010. Prohibited subsidies that have been granted prior to accession would be eliminated by no later than January 2015.
- **Standards (technical barriers to trade and sanitary and phytosanitary measures):** Technical regulations or standards and conformity assessment procedures, if introduced in the future, would not constitute any unnecessary obstacles to trade. Cape Verde would fully implement the Sanitary and Phytosanitary Measures Agreement by January 2010.
- **Trade-Related Investment Measures:** Cape Verde would not maintain any measures inconsistent with the TRIMs Agreement from the date of accession.
- **Free zones:** Cape Verde would meet its WTO obligations in the free zones by January 2010.
- **Intellectual property:** Cape Verde would apply the TRIPS agreement by January 2013. In light of the Doha Declaration on TRIPS and Public Health, the provisions related to the scope and use of patents and the protection of undisclosed information would be implemented by January 2016.

Source: Summaries based on information posted at
http://www.wto.org/english/news_e/pres07_e/pr503_e.htm and
http://www.wto.org/english/thewto_e/acc_e/capeverde_other_e.htm.

3.35 In Liberia's case, the ongoing accession negotiations[35] have a somewhat different emphasis. The greatest number of questions from incumbent members concern intellectual property rights, with incumbent members posing no less than sixteen questions on this subject. Sanitary and phytosanitary measures have been the subject of nine questions, and the related topic of technical regulations and standards the focus of six questions. Liberia's existing trade remedy laws (safeguards, anti-dumping measures, countervailing duties) have been the subject of seven questions. Other topics on which incumbent members have posed anywhere from one to four questions include competition policy, customs valuation and a new Customs Code, import licensing, other import restrictions, the draft Revenue Code, the Commercial Law Reform Program, the Export Promotion Strategy, business licenses and fees, rice imports, trade in other agricultural products, the ECOWAS common external tariff, the ECOWAS trade levy, tariff exemptions, pre-shipment inspection requirements, state-trading enterprises, and transparency.

B.2 Implications of WTO Accession

3.36 As part of the negotiating framework for trade liberalization, countries that join the WTO agree to commit to a basic set of rules and obligations, including nondiscrimination. Nondiscrimination under

[35] Liberia is still in the early stages of its accession negotiations. It is in the process of receiving and replying to questions submitted by the incumbent members of the WTO, a fact-finding process that is preliminary to the actual negotiations. Liberia responded to the first set of questions in June 2012; at the time of this writing, Liberia is still in the process of responding to the second set. It received this second round of questions in August-September 2012, but work on answering these questions was not fully taken up until July 2013. The aim is to finish all answers before the first quarter of 2014.

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 implies 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. The logic is that the WTO system allows for governments to differentiate between imported and domestically-produced goods, but it mandates that such differentiation be carried out through the application of a transparent system of import tariffs alone (see Box 4).

Box 4 : 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 basic conformity with WTO rules on nondiscrimination?

There are a number of areas in the administration of its trade policy regime through which the Government of Liberia explicitly or implicitly 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.

3.37 The WTO’s second function is as an institutional forum to resolve international trade disputes. The establishment of its Dispute Settlement Board (DSB) in 1995 resulted in the initiation of more the 450 disputes between members between 1995 and 2012. In a typical dispute, one government brings a case on behalf of its exporting industry against a trading partner that does not comply with one or more of the WTO agreements. Frequently, this is because the trading partner has imposed a new import restriction that is not consistent with its WTO obligations.

3.38 An increasing share of these WTO disputes has involved developing countries filing and pursuing cases to protect their exporters’ foreign market access interests. Furthermore, with the increased importance of trade among developing countries over the last 20 years, an increasing number of disputes involve one developing country challenging another over market access interests. These cases are more in evidence in some developing regions than in others; Latin American countries are the most frequent complainants in the developing world, followed by some Asian countries, but African and Middle Eastern countries have thus far been involved in few disputes, and never as complainants.[36] While there are also many cases in which developing countries have used WTO dispute settlement to challenge high-income countries such as the United States and European Union members, the importance of South-South disputes suggests that countries are using the WTO forum to facilitate the settlement of many kinds of disputes.

3.39 In addition to the legal process provided by the DSU, an inter-governmental legal assistance center—the Advisory Centre on WTO Law (ACWL)—was created in 2001 to provide free or low-cost legal assistance to developing countries on trade issues. The ACWL has been involved in more than 40 formal WTO disputes, working on behalf of developing countries; i.e., more than 10 percent of the entire WTO caseload of disputes taking place during this period.[37] The ACWL also provides legal advice on WTO issues not related to trade disputes, fulfilling more than 100 requests by developing countries each year.

3.40 The WTO's third function in the international trading system is trade policy monitoring, surveillance, and ensuring transparency among its member countries. Transparency is particularly important in international trade, as it reduces potential uncertainty between importers and exporters, which facilitates the investment needed to ensure mutually beneficial gains from trade. The WTO provides this function through a number of complementary approaches. First, its rules, obligations, and committee structures provide established frameworks by which member countries notify one another and discuss national legislative and policy changes that will impact the country's imports or exports. Second, the WTO's standing Trade Policy Review (TPR) body periodically assesses each member country's policy regime toward imports and exports. This not only helps improve the flow of information for commercial interests involved in international trade, but helps developing countries to identify and organize national priorities related to reform. Smaller countries such as Liberia would typically go through the TPR process once every six years, whereas the four largest trading economies—the United States, European Union, China, and Japan—undergo a TPR every two years.

B3 .Benefits of WTO Accession

3.41 Countries sign trade agreements such as the WTO for two main purposes: to obtain and ensure more secure access to foreign markets for their exporters; and to lock in market-oriented reforms at home that could become subject to reversals under pressure by special interest groups. While there are costs and benefits to a country acceding to the WTO, the agreement is generally considered to be one in which the more a country puts into the WTO system, the more the country gets out of it.

[36] Mshomba (2009) provides an extensive assessment of the African experience in the WTO and its DSB.

[37] For developing country use of WTO dispute settlement, including the Advisory Centre on WTO Law, see Bown Chad P. (2009) and Bown Chad P. and Rachel McCulloch, (2010) The ACWL website is at www.acwl.ch.

D2 Using the WTO to Secure Foreign Market Access for Liberia's Exports

3.42 The first main purpose is to make secure the reciprocal exchange of market access commitments between trading partners. The WTO is an agreement by one country to reduce its trade barriers to the exports of another country, in exchange for the commitment by the other country to reduce its trade barriers to the first country. This is one important manifestation of the WTO's principle of reciprocity (see Box 5).

3.43 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 the country's market access. These programs are permitted, but not protected, by the rules of the WTO. Each of these programs is permitted through waivers of the general requirement of MFN treatment, and while there is no reason to expect that those waivers will ever retire the continuation of the programs ultimately depends upon the willingness of the preference-granting partner to maintain them.

D4 Using the WTO to Lock in Liberia's Domestic Trade Reforms

3.44 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.[38] The objective here 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 competition from foreign. Acceding to these demands would be self-defeating. Imports impose discipline on markets by increasing competition and eroding the monopoly rents that concentrated domestic industries might otherwise exact from the public. The benefits for the overall economy are that this competition induces firms to innovate and make productivity improvements in order to remain competitive.

3.45 Trade benefits consumers by bringing them additional varieties of products, potentially higher-quality varieties, and lower prices—i.e., expanded choice**.** For products in which the "consumer" is a downstream industry and the imports are intermediate inputs, this can also lead to increased industrial competitiveness, which can enhance the ability to export. 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, frequently through a policy prohibited by the WTO. Signing on to the WTO would strengthen the capacity of the Government of Liberia to refuse requests for special policies. While such policies may be in the interest of the requesting party, they are frequently not in the national interest because their costs to the Liberian economy outweigh their benefits. WTO membership would allow the Government to refuse special requests by pointing to international

[38] See, for example, the recent research of Maggi and Rodriguez-Clare (2007).

commitments and legal obligations, and reminding its domestic sector that granting special protections would have real costs and consequences for the Liberian economy (See Box5).

Box 5: WTO Institutional Benefits, Using the WTO to halt special interest demands

The Liberian government has deemed Portland cement as important for the national interest and its economic development strategy, as revealed by its frequent granting 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, it turns out that the market structure of the cement industry makes it one whereby many governments face demand from their local producers for new import restrictions Bown, Chad P. (2012))*; there have been at least five formal WTO disputes over alleged WTO-inconsistent new import restrictions on cement* (WTO, 2013).

Suppose, hypothetically, after Liberia joins the WTO, a politically powerful set of domestic firms in Liberia's cement industry demands a halt to imports of cement. 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 that would not be enough, the Government would point out that if it were to implement a new WTO-illegal policy, Liberia 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 the WTO-illegal new 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 — e.g., perhaps 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 the specific costs that would likely arise if it were forced to follow through with the initial policy request for new trade barriers — in order to help generate countervailing political support among Liberian exporters (who do not want to be exposed to WTO-authorized foreign retaliation) to prevent the undue influence of the special interest group in the first place.

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

D5. Costs of WTO Accession

3.46 Intellectual property rights protections, liberalization of trade in goods and services trade, removal of restrictions on foreign direct investment, removal of mandatory local content requirements, and elimination of forced technology transfer. While reforms can entail both political and adjustment costs, there is also evidence that WTO accession undertaken alongside complementary reforms to the domestic economy is positively associated with economic growth.[39]

3.47 Membership in the WTO over the long run does require a commitment to transparency, reporting requirements to the other WTO members through the Secretariat, and multilateral engagement in committees and other ongoing matters and 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.

D. Negotiating Commitments on Trade in Services

3.48 Trade in goods is not the only area in which Liberia will be expected to make commitments on market access. WTO negotiations on services are more technically complex and often are more politically challenging than those covering trade in goods. In a sense the procedures 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 foreign services providers, and it is up to the acceding country to propose specific exceptions.

3.49 As previously noted, the commitments that Cape Verde made upon its accession in 2008 may offer some guidance as to what Liberia can expect in its own accession negotiations. Cape Verde made an unusually large number of commitments in its GATS schedule, covering sectors including legal services; accounting, auditing and bookkeeping services; taxation services; agricultural services; engineering services; urban planning and landscape architectural services; veterinary services; computer and related services; research and development services; real estate and rental/leasing services; other business services such as advertising, market research, public opinion polling, management consulting; courier services; telecommunication services; audiovisual services (motion picture and video tape distribution services); wholesale trade, retailing, and franchising services; educational services; environmental services; insurance and insurance-related services; banking and other financial services; hotel and restaurant services; travel agencies and tour operators services; recreational, cultural and sporting services; international maritime transport; maritime cargo handling services; storage and warehousing services; and other services related to maritime and road transportation.

[39] Tang and Wei (2009) examine the impact of WTO accession on growth and investment and find that accessions tend to raise income for countries that were subject to rigorous accession procedures. Countries with poor governance find policy commitments associated with WTO accession to be helpful.

3.50 It is possible, in light of the 2012 adoption of the new guidelines for LDC accession, that incumbent members may make fewer demands of Liberia than they did of Cape Verde. Those commitments that are required, however, need not be seen as “concessions” in the sense that the country is being asked to give up something of value. For some sectors it may instead be appropriate to see the accession as an opportunity for the country to demonstrate the depth of its commitment to market reforms, and to lock in existing or new reforms by way of its GATS schedule.

C1 WTO Accession and Trade-Related Aspects of Intellectual Property Rights

3.51 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 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.

3.52 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-plus Agreement.”

3.53 One controversial issue associated with the TRIPS Agreement is the impact of pharmaceutical patent protection on the cost of medicines, especially for drugs used to treat epidemics such as HIV/AIDS and tuberculosis. The monopoly extended by pharmaceutical patents can allow patent holders to charge exorbitant prices for these medicines. Concerns over the impact of TRIPS rules on access to medicines led to the negotiation in the WTO of the Declaration on the TRIPS Agreement and Public Health (2001), followed by the more detailed and substantive Decision on Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health (2003). These agreements have had the effect of modifying, but not nullifying, the application of TRIPS rules with respect to pharmaceuticals, and have provided (among other things) for more relaxed rules with regard to the production and trade of generic pharmaceuticals. These modifications have extended the phase-ins that LDCs are allowed. The TRIPS Agreement initially provided that the LDCs had to come into full compliance with the terms of the Agreement by 1 January 2006, but it also provided that the TRIPS Council “shall, upon duly motivated request by a least developed country Member, accord extensions of this period.” The TRIPS Council has granted three extensions, the most recent in June 2013. The extension for each LDC will run either until July 1, 2021 or until that country ceases to be an LDC.

C2. WTO Accession and the Agreement on Trade-Related Investment Measures

3.54 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, export a certain percentage of their output, and the like.

3.55 One issue in Liberia's FDI policy that is likely to be a topic in WTO accession negotiations concerns the restriction of certain sectors to Liberian citizens. 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 to Liberians to 16: supply of sand, block making, peddling, travel agencies, retail sale of rice and cement, ice making and sale of ice, tire repair shops, auto repair shops with investments of less than US$550,000, shoe repair shops, retail sale of timber and planks, operation of gas stations, video clubs, operation of taxis, importation or sale of secondhand or used clothing, distribution in Liberia of locally manufactured products, and importation/sale of used cars (except authorized dealerships which may deal in certified used vehicles of their make).

3.56 The revised Investment Law also provided that foreign investors may invest in the following 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): production and supply of stone and granite, ice manufacturing, commercial printing, advertising agencies, graphics and commercial arts, movie theaters, production of poultry and poultry products, operation of water purification or bottling plants (specifically the production and sale of water in sachets), entertainment centers not connected with a hotel establishment, sale of animal and poultry feed, operation of heavy duty trucks, bakeries, and sale of pharmaceuticals.

3.57 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, "In order to preserve, foster and maintain the positive Liberian culture, values and character, only persons who are Negroes or of Negro descent shall qualify by birth or by naturalization to be citizens of Liberia." A comparable provision was in the previous constitution of 1847, the 13th section of which provided in part that, "None but persons of color shall be admitted to citizenship in this Republic." These provisions are linked to investment policy. Article 22(a) of the 1986 constitution provides that "only Liberian citizens shall have the right to own real property within the Republic." Similarly, the 12th section of the constitution of 1847 provided that "No person shall be entitled to hold real estate in this Republic, unless he is a citizen of the same."

3.58 This policy could be a major point of contention in the 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."[40]

3.59 Several other aspects of Liberian law could also be examined closely. WTO members already raised concerns in the first round of questions regarding a requirement to incorporate a business in Liberia in order to engage in trade; that 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, are the following:

- 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 appear to be different for Liberian-owned businesses

3.60 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.

C3. WTO Accession and the SPS/TBT Agreements

3.61 Two other WTO agreements establish disciplines on the standards that members may impose on imports. These are 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 provides 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 at ensuring 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

[40] See http://photos.state.gov/libraries/liberia/328671/pdfs/2012_investment_climate.pdf.

decide whether a product conforms with relevant standards must be fair and equitable. It discourages any methods that would give domestically produced goods an unfair advantage.

3.62 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 a significant vulnerability. One disadvantage under which Liberia operates in the global economy is the lack of a full-fledged standards bureau. Preliminary steps have been taken towards the establishment of such a body, including assistance from the Government of Brazil and the United Nations Industrial Development Organization, but as yet there is not sufficient capacity in the country to certify that goods produced in Liberia meet international standards. This is an especially significant deficiency in the area of agricultural and fisheries products, where failure to meet the standards of major developed markets can 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

3.63 Assessment of original data from Liberia's statutory and applied tariffs over 2008-2012 identifies 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.

3.64 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 Liberian adoption of the CET would lead to substantial tariff increases for a number of key imported products away from the currently applied tariff rates that are quite low.

3.65 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.

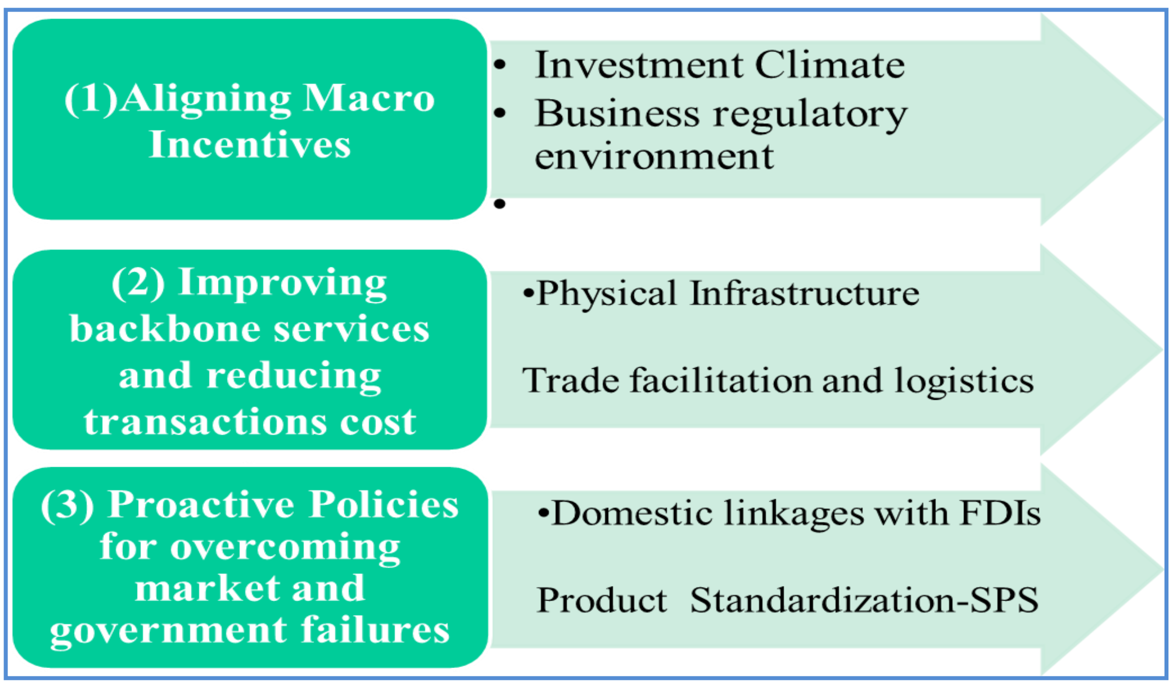
3.66 Nevertheless, starting from a scenario in which Liberia adopted the ECOWAS rates, followed by WTO accession, would result in substantial economic benefits to the country in the long run. Even in the absence of substantial foreign tariff reductions, Liberia stands to gain from WTO accession because 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.

4 IMPROVING TRADE COMPETITIVENESS

A. Conceptual Framework for Trade Competitiveness

In order to reap the benefits of a potential increase in market access resulting from WTO accession and CET alignment, Liberia will have to address the multiple “behind-the-border” constraints to trade. This section provides an assessment of the key constraints to Liberia’s trade competitiveness based on the three key pillars of Trade Competitiveness Diagnostic Framework developed by the International Trade Department of the World Bank as illustrated in Figure 10 below. The three key pillars[41] are: (i) Aligning macro incentives: Investment climate and the business regulatory environment ;(ii) Improving backbone services and reducing transaction cost- access to backbone physical infrastructure and trade facilitation (iii) Proactive policies for overcoming market and government failures; strengthening domestic linkages with FDIs and standardization of products (SPS) and Addressing these constraints will improve the country’s productivity and will reduce the cost of trading across borders. Chapter 4 of the report covers pillars 1 while chapter 5 and 6 cover pillars 2 and 3 respectively.

Figure 10 : Trade Competitiveness Diagnostic Framework



4.2 Improvement in trade competitiveness requires dealing with some crucial obstacles that impede productivity rise and/or increase transaction costs in the economy. In order to give some sense of prioritization, given the limited availability of firm level data in Liberia and the impossibility to explore

[41] 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.

broader enterprise surveys containing firm characteristics, this report relied more on qualitative information (as was the case of the Growth Diagnostics for Liberia —World Bank, (2012), especially the field interviews, as well as on the conclusions obtained through the value chain analysis. three main obstacles were identified for this report: access to finance, land management, and high cost of energy. These constraints are analyzed in detail and specific actions to deal with them are suggested.

4.3 Significant among the trade costs is the cost of interconnectivity, which can be addressed under the *trade facilitation and logistics reform agenda.* With the large reduction in tariffs in the last 30 years, the biggest deterrents to trade today are physical, administrative, and informal obstructions to the movement of goods (WEF, 2013). Trade facilitation refers to measures aimed at reducing the cost and time associated with trading across borders. These depend on the quality of the transport infrastructure networks, and the cost and time associated with cross-border trading procedures (such as complying with border-crossing logistics procedures relating to Customs and other administrative agencies involved in the clearance process). These also depend on the regulatory environment that can either impede or aid in the movement of freight, people, and vehicles in trading across borders. Therefore, both hard and soft infrastructure trade facilitation issues need to be considered for achieving higher integration at both regional and global levels.(see Chapter 5)

4.4 Learning from the Mozambique example (Box 6), a key strategy for improving productivity and trade competitiveness is to leverage the natural resources of the country, by attracting FDI and strengthening its linkages with the domestic private sector. Liberia is a country where FDI and exports are intertwined. The possibility of significant export growth in the short and medium term is entirely dependent on the performance of current concessionaires and on the attraction of new investors. The presence of concessionaires has so far not created many local linkages. On a longer run perspective, coordination with concessionaires to create linkages between FDIs and local enterprises will result in improving the local economy and generating capacity to grow and export. To this end, supply side program including the setting up of a standardization facility by the government will strengthen the capacity of domestic suppliers to respond to local demand from FDIs. On the management of concessions, establishment of monitoring mechanism for concessions should help the government measure to what extent which individual FDIs contribute to establishing linkages with the domestic economy (see Chapter6).

4.5 Finally sector specific obstacles are analyzed in more detail using a value chains approach. The analysis was conducted for three of the main export commodities — rubber, palm oil and cocoa — as well as rice, which is one of the principal cash crops, as well as being the staple food for Liberians. The DTIS identified Liberia's tree crops, particularly rubber, oil palm and cocoa as subsectors that could offer strong and shared growth in the medium to long term. Expansion in volume growth fell short of forecast growth, despite favorable commodity prices during the period 2007-2011. The value chains analysis undertaken for this report reviews the strengths and weakness for the afore-mentioned tree crop value chains in terms of factor inputs, processing and market access, identifies market failures and government failures, as well as, the institutional support needed to help accelerate the contribution of these value chains to inclusive growth. Measures taken to address identifiable constraints in these value chains are expected to benefit all other productive value chains (See Chapter 7).

Box 6 : Mozambique Recovery of Exports and Economic Growth in the post-war context

Background —Recovery from the Civil War:

After the exhausted civil war ended in 1992, Mozambique faced a challenge to emerge from decades of economic stagnation and decline. Despite the devastated infrastructure and its economy, the country achieved the unusual degree of political stability for the African context. This has been accompanied by prudent and stable economic policy continuity. These factors have contributed to sustained economic growth that averaged 7.8 percent between 1992 and 2006. In other words, the real GDP soared from 125 billion metical in 1992 to 300 billion metical in 2004.

Once the civil war came to the end, the initial period of peace allowed for agricultural output to grow as refugees returned to their villages, devastated infrastructure was rebuilt, agricultural extension program were revived. Thanks to the political stability and deepening of economic reforms, new investments were attracted at first in agriculture, where export-oriented production of cash crops began to expand. Since 1998, FDI in large-scale and capital-intensive extraction projects (megaprojects) have led to significant increase in output and exports. The megaprojects have helped the construction sector to experience significant growth rates during the same period.

Mozambique's Export and Trade Performance

Mozambique had to start over from the stagnated exports level. Between 1994 and 2006, Mozambique was able to introduce 18 new products in both agricultural commodities and manufactures to its export basket. However, its growth of exports from 1998 to 2008 was concentrated on almost three megaprojects; namely, the Mozal aluminum smelter, hydroelectricity from the Cahora Bassa dam, and natural gas exported to South Africa. While the megaprojects increased importance and preponderance in exports in Mozambique, other export commodities, such as prawns, cotton and cashews grew slowly. 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. Mozambique has several preferential agreements that have increased access to markets. For example, Generalized System of Preferences (GSP), Cotonou Agreement, and AGOA are the some of these agreements. At the regional level, Mozambique is a member of SADC, which has enabled Mozambique to engage more in regional markets and its trade. Nowadays, Mozambique also aims at additional markets outside of SADC to expand export diversification.

Mozambique's experience shows that the country encouraged a competitiveness promotion and trade integration as vehicles for high productivity growth and wealth generation. To achieve these goals, the country has identified the private sector as main engine for investment growth and employment. Even though Mozambique has achieved successful recovery from the civil war, and the country is in a natural resources boom, the country is making further effort to improve an investment climate for economic diversification and inclusive growth by strengthening its private sector competitiveness.

Source: Thomas Farole et al

4.9 The pillar on aligning macro incentives, addresses cross-cutting policy issues that prevent countries from exploiting trade opportunities for long-term economic growth. This comprises the removal of tariff and non-tariff barriers, real exchange rate misalignment, distortive tax regimes, factor market conditions, effective regulation and property rights protection. This section will however focus on the business regulatory environment and the investment climate. These two factors are considered very critical to encouraging domestic firms to invest, produce and to export.

B. Investment Climate

4.10 The overall investment climate reforms in Liberia have contributed to improvements in the country's competitiveness rankings within the African context. The Global Competitiveness Index (GCI) 2012-2013, which included Liberia for the first time, ranked the country 111th with a score of 3.7, slightly above the Sub-Saharan Africa average of 3.6, and similar to the one for Algeria, Senegal, and Cameroon. Among the group labeled as fragile countries, Liberia performs well, leaving Cote D'Ivoire (131th, score of 3.36) and Guinea (141th, score of 2.9) behind. Also, according to the Global Competitiveness Report, (GCR, 2012-2013), Liberia performs slightly better than other resource based economies, under which Liberia is categorized. However, the same report revealed that most problematic factors for doing business include particularly access to finance, inadequate educated workforce, inadequate infrastructure, and corruption.

4.11 As discussed in chapter 2, the very 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 factor of production into non-traditional export products. Based on these surveys and using primarily qualitative information from field interviews, as well as information stemming from value chains analysis, we identified *three main obstacles that limit the productivity of firms and/or increase trade costs and hence limit the ability of firms to export and grow*: access to *finance, access to land and energy availability and costs*.

B.1 Access to Land and Land Tenure

4.12 Like in many countries in Sub-Saharan Africa, land rights in Liberia are a concern and there are on-going reforms in the policy and legal framework aimed at improving land rights and tenure security for the majority of the population. This is critical because Government realizes that an efficient land market is a solid foundation for investments, job creation and broad-based socio-economic development. In order to be able to properly harness the country's abundant resources and ensure that foreign direct investment in land related sectors (i.e. agriculture, forestry and mining) are well managed to support the country's economic growth, an efficient land administration system is inevitable. However, the land sector challenges in post-conflict Liberia are more daunting and deep rooted than other countries in sub-Saharan Africa (SSA) because of its historical legacy as well as the effects of over a decade long civil war.

4.13 As discussed widely in literature, insecure land rights associated with the customary land tenure systems as existing in most developing countries give rise to inefficient resource allocation, and sub-optimal investments in many sectors, including agriculture. Such inefficiencies are thought to arise because indigenous land rights are ambiguous, are communal, and are afforded insufficient legal protection. The insecurity of tenure leads to inferior investment incentives, undersupply of credit, and constraints on efficiency-enhancing market exchanges. In a few cases, however, customary tenure systems have evolved to become more secure and endow more rights comparable to private tenure systems, as in the case Ethiopia and Tanzania, for example, where strong community-level institutions capable of safeguarding community interests in land have been built over-time. However, in many countries, security of tenure under the customary system continues to be limited and is threatened by the pressure exerted by private sector investors' increasing demand for land.

4.14 Given that the biggest proportion of the land in Liberia is still governed under the customary tenure system, it is likely that investments in agriculture and other sectors have been sub-optimal due to the insecurity associated with the dominant land tenure system. In the specific case of Liberia, there are a number of real property rights issues which have affected investment decisions for many years. These include the granting of concessions for the production of rubber (a major export commodity), forest plantations for timber production, private use permits (PUPs) for large-scale land acquisition for commercial agriculture and other uses, tribal certificates, informal occupations, and absentee-owned and unused and/or underutilized large landholdings. Many of these issues are so important for agricultural investment, and ultimately the performance of agriculture both in terms of food security and agricultural trade. Many of these have been addressed through ad hoc arrangements without a proper policy context.

4.15 Due to sub-optimal investments, agricultural performance has often been affected. This partly explains the abysmal performance in terms of agricultural trade. Furthermore, despite the abundant potential agricultural land, Liberia has been a net importer of food. According to the State of Food and Agriculture prepared by the Food and Agriculture Organization, Liberia has been among the countries with perpetual import requirements. In 2010/11, the country's actual total imports for cereals amounted to 345,000 tons. In 2011/12, the total import requirement in order to meet domestic food needs rose to 374,000 tons. Although this may be due to a complex set of factors including the effects of the rebuilding/reconstruction period, the sub-optimal investments in agriculture due to the dominant insecure land tenure partly explains the less than favorable agricultural terms of trade for the country.

4.16 The other key element related to land reform and agricultural investment relates to the differential rights to land that exists among men and women even within the same land tenure system. As in many countries in Africa prior to policy reforms, in Liberia women have limited land uses rights and have no control over production and management decisions. Women's rights to land and property are very limited and dependent on their marital status. However, given that the majority of active agricultural producers (over 70 percent) or suppliers of significant labor are women, there is need to legislate policies that offer fair access to land rights and tenure security among women. There are relevant experiences in Africa where policy reform has made significant strides to improve women's rights and security over land[42]. Supporting elements to these ingredients include: education, awareness and information campaigns highlighting women's land rights; providing for adequate representation of women in program implementation teams; and an open and accessible appeal system to address the concerns of any aggrieved parties. It is important to reflect these elements in both the design and implementation of policy reforms in order to have the desired impacts on agricultural production, investment and trade.

4.17 The implications of land access on actual output of existing investments (versus what is implied in the concession announcements) are significant. In the case of Firestone, for example, despite having a concession of 110,000 hectares for more than 50 years, they have only managed to plant on around 20,000 hectares. More recently, Cavalla rubber signed a 50 year concession giving on 27,000 hectares for rubber and another 15,000 for palm oil yet to date they have only secured 50 percent of this land, and have found that despite the concession they were forced to negotiate with groups of communities in order to access pieces of the land under their concession. Certainly, there are other factors that impact the utilization rate of the concession, and achieving anything close to 100 percent is unrealistic, but clearly land tenure issues are a significant constraint to investment and growth.

4.18 In addition to blocking the potential of large concessions (and damaging the prospects of future investment in similar concessions), the land problems also impact two other areas of investment that are critical to Liberia's long term trade and development prospects:

- *Value addition to existing crops*: For example, existing oil palm concessions are delaying investments in processing equipment until they are able to generate sufficient scale of palm oil to utilize the plant efficiently — this will not be possible until lands granted under the concession can finally be secured. Similarly, land access problems may limit the potential to produce at scale to make value addition profitable in other crops.
- *Smallholder development*: Land tenure problems are not restricted to large concession. Indeed, they have a potentially bigger impact on smallholders who, without secure tenure on their land, are unable to access finance that would enable them to become a sustainable supplier, for example in the context of a contract farming arrangement. This is identified as a significant barrier to establishing more effective linkages between large agricultural concessions and local farmers (see Section 3).

State of Land Rights, Tenure Types and Security

4.19 Like many countries in Africa, Liberia has a dual land tenure system under the statutory (formal) and customary tenure systems. The extent of land rights and tenure security endowed by the two systems is different. The statutory system is administered under the 1956 Land Law (amended in 1974) which primarily governs land held by the American-Liberians under a deed system mainly considered private property or freehold land. The statutory law stipulated that land in the areas inhabited by the American-Liberians, mainly in Monrovia and the coastal regions is held in fee simple, a system that dates

[42] For example, in Rwanda and Ethiopia, policy reforms have incorporated the key ingredients to improving access to land among women: 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.

back to the earliest 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 establishment of a house. It is estimated that land which has been alienated under the fee simple system constitutes over 40 percent of the total land (USAID, 2008). However, this could be an underestimate, given that an active land market exists in Liberia involving the land already alienated as well as the customary land[43].

4.20 According to the same 1956 Land Law, indigenous Liberia people, who constitute the majority of Liberian society, are not entitled to access public lands for ownership under fee simple or deed system. Indigenous Liberians are entitled to user-rights under the customary system, although currently, land transactions do take place within the customary system, and between the customary and fee simple system. However, according to the customary land tenure, with no formal written customary land law, land in the designated indigenous areas come under a system of tenure based on traditional customary law. In this system, no individual ownership is legally recognized. Instead 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 the chief who has a communal deed for tribal areas and administers its distribution to the people under his communal jurisdiction.

4.21 The endowment of land rights and tenure security is still perceived to be limited and not entirely guaranteed in Liberia. Due to the legal uncertainty regarding customary land rights, and the ensuing demand for customary land alienation to the fee simple or freehold system, many rural communities, for fear of losing their rights to land, are struggling with the high cost required to change communal land ownership into modern title deed system. Although the 1974 registered Land Law formalizes the land registration system and empowers the Government to designate areas for adjudication and registration, and landholders are allowed to register their land, only a small number of communities have secured their communal areas under the fee simple system many due to the costs involved. However, it is evident that many indigenous community members continue to seek formalization of communal land into the fee simple system. According to (Wily, 2007), some towns, clans and chiefdoms are endeavoring to secure collective ownership of land under the fee simple system.

Land Reforms

4.22 The process of land reform has been on-going in Liberia for some time. The justification for reform is based on the need to review the laws which have been rendered inadequate to deal with the changing conditions, needs and values in the present day Liberia. Among the many land sector issues is the concern regarding the legal treatment of customary land tenure, as has been argued, the majority of Liberians holding land under customary tenure suffer serious insecurity of tenure. As such, one of the principal reforms required was to provide customary landholders the security of tenure comparable to

[43] Americo-Liberian settlers can purchase public land held by rural communities but first have to first go to the chief to get permission and pay a token of good intention. The purchaser then follows the letter of the law and the procedure to have this land deeded.

other private tenure types. To achieve this, the two systems need to be harmonized: customary rights should be recognized, given legal parity with statutory rights, and provided with comparable legal protection by the land law.

4.23 In order to undertake a comprehensive reform process, the Government through the recommendation from the Governance Commission drafted and approved the Land Commission Act which led to the establishment of the Lands Commission in 2009. The Land Commission is mandated to propose policy and law reforms and to coordinate all government activities in the land sector. A new Commission was appointed by the President in 2010, with a five-year lifetime extendable if needed for two additional years. Currently, the Commission has undertaken a series of studies and consultations and has prepared the draft Land Rights Policy. The draft land rights policy recognizes customary tenure, and thereby guaranteeing land rights to all Liberians. This draft policy is the first major review since the 1956 Land Law and its amendment in 1974. The draft policy proposes to create four fundamental land tenure categories: *Government Land, Public Land, Customary Land, and Private Land*. In addition, it provides for Protected Areas across these categories to be conserved and managed for the benefit of all Liberians. The Policy also touches on issues of land management, use, and administration, with more details to be included under the separate Land Administration and Land Management Policies.

4.24 The draft Policy is based on an extensive review of past Liberian laws and policies regarding public land as well as comparative best practices drawn from various African countries. The studies provided three issues which guided the strategic focus of the proposed policy: (a) there has never been a clear policy governing public land in Liberia, (2) the laws governing public land have not been significantly changed for 150 years, and (3) the public land laws of Liberia are inconsistent with comparative best practices. Among the key recommendations, the policy proposes formal and legal recognition of customary land. Rights to Customary Land, including ownership rights, must be secured by ensuring that these rights are as protected as private land rights. Rights to Customary Land include rights of the community as a collective land owner and rights of groups, families, and individuals within the community. Secure rights to customary land will promote long-term decision making and thereby strengthen the country's economic growth. Furthermore, the policy proposes a major change with regard to the endowment of rights under customary land. This change requires community ownership of Customary Land shall be formalized by the issuance of a deed to a legal entity, bearing the name of the community. The legal entity shall have legal personality and may therefore enter into contracts, own land, and participate in court actions or proceedings before alternative dispute resolution bodies. The deed shall provide for private ownership by the community, so long as any decisions regarding management, use, and transfer are made in accordance with the principles of customary land. These policy recommendations, if adopted, will invariably imply fundamental changes to the nature of land rights, as well as improving the security under the customary tenure.

4.25 It is however important to note that these policy recommendations will require a significant paradigm shift in terms of land administration and governance, including the legal framework that will underpin the implementation of these recommendations. In many countries in Africa where such progressive reforms have been undertaken, three key issues (among others) have made a difference in terms of their success at ensuring improved land rights and tenure security: (a) improved and decentralized land administration; (b) development of more open/transparent land governance systems at all levels and; (c) adequate mechanisms for land dispute resolution, through the strengthening of the formal legal system as well as mainstreaming of alternative dispute resolution mechanisms (ADR). Moreover, the reform of policy and law governing land rights is not just about improving the property rights. In fact the improvements in land rights are unlikely to be achieved or even sustained without corresponding changes in the institutions which are mandated to implement the land law. The legal mandates and structures are a critical part of the legal framework for land.

4.26 In the case of Liberia, the institutional framework for land administration and management is fragmented because various sectoral entities across a number of ministries and public agencies play cross-cutting roles and responsibility and most of them have weak capacities. As such consideration should be given to: (a) ensure better coordination through the creation of a new unified agency with a more robust mandate for dealing with land sector issues; (b) there is need to improve the capacity of the new unified agency in order to provide more effective land sector services in an efficient manner. Relatedly, in order to consolidate the Government's decentralization policy, the authority over land at county and sub-county levels needs to be reformed, in order to ensure that there are mutually supportive linkages to the central government agency responsible for land.

Policy Implications

4.27 Perhaps more than anything, the conflicts that arise over land use raises significant risks of social conflict in Liberia's fragile environment. This is would obviously have a significant impact on future investment and export potential, and much more besides. From the foregoing, a number of policy recommendations are suggested in order to inform the on-going discussions to shape the current reform and the development of the new Land Rights Policy and the associated legal framework. In order to ensure that the policy reform should have the desired impact on agricultural investment and trade, the following policy implications/recommendations are suggested within the framework of the agricultural policy matrix of the DTIS:

4.28 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

4.29 Land administration, the development of more open/transparent land governance systems at all levels and the establishment of adequate mechanisms for land dispute resolution, through the strengthening of the formal legal system as well as mainstreaming of alternative dispute resolution mechanisms (ADR).

4.30 Related to the above, there is need for the establishment of a unified Land Sector Agency with the robust mandate to coordinate the provision of land sector services. This should be established in such a way as to replace the Land Commission and other public sector entities who undertake various roles and responsibilities in the land sector.

4.31 The current policy reform should also come up with practical recommendations and strategies to deal with number of real property rights issues which have affected investment decisions for many years. These include the granting of concessions for the production of rubber (a major export commodity), forest plantations for timber production, private use permits (PUPs) for large-scale land acquisition for commercial agriculture and other uses, tribal certificates, informal occupations, and absentee-owned and unused and/or underutilized large landholdings.

4.32 Finally, the land rights policy should also deal comprehensively with gender issues in terms of land rights and tenure security. There is need to include policy recommendations on legal recognition of women's rights to land including the recognition of women's inheritance rights, as well as the associated education, awareness and information campaigns highlighting women's land rights.

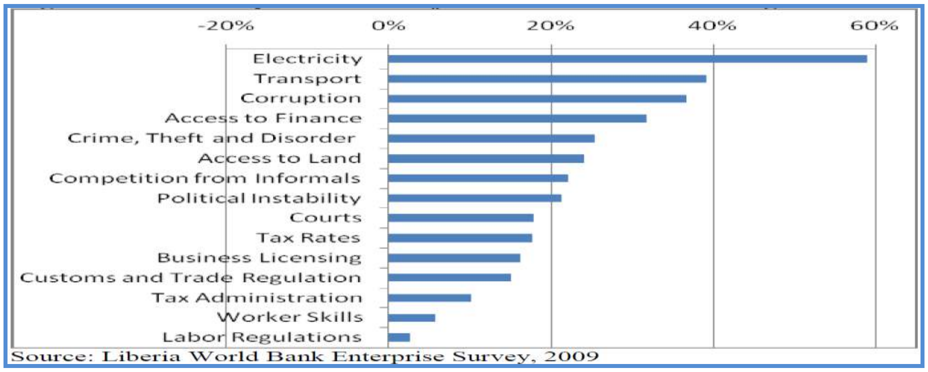
B.2 Access to Finance

4.33 Based on the last available Enterprise Survey Data for 2009, access to finance is one of the top four constraints impacting businesses[44]**.** As shown in, almost 60 percent of firms identified access to electricity as a major constraint, another 40 percent mentioned transport as a constraint to doing business. Corruption and access to finance were also identified as major concerns by another 37 and 31 percent of firm managers respectively. Use of financial services by firms is low relative to the average for Sub-Saharan Africa. Of the firms surveyed, 66 percent had a checking or savings account and 12 percent of firms surveyed had a loan or line of credit. Only 2 percent of firms were using overdraft facilities. 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 by internal funds and retained earnings. Bank finance makes up a relatively small fraction of working capital and new investment. Supplier credit is also very limited in Liberia. International comparisons show that this heavy reliance on internal funding is common in countries near Liberia. (see Figure 11 below on constraints to doing business_

4.34 As with most developing economies, the financial sector is predominantly comprised of banks. The sector comprises of nine licensed and operating banks, 24 insurance companies and 3 insurance brokers registered with CBL, about 220 credit unions and 141 new Village Savings and Loan Associations (VSLAs), the National Social Security & Welfare Corporation (NASSCORP), unknown number of Susus , and nine microfinance institutions (non-deposit taking) . No deposit taking MFIs exist in Liberia. While Access Bank serves this segment, it is licensed as a commercial bank. Based on latest available data, financial assets of the banking system represent about 95 per cent of total financial assets. The remaining sectors account, each one, for one per cent of total financial assets, with the exception of the insurance sector, which might represent two per cent.

[44] Investment Climate Policy Note (ICP, 2011)

Figure 11: Perception of Major Constraints to Doing Business



Source: Liberia Investment Climante Policy Note using 2009 Enteprise survey Data (ICP, 2011)

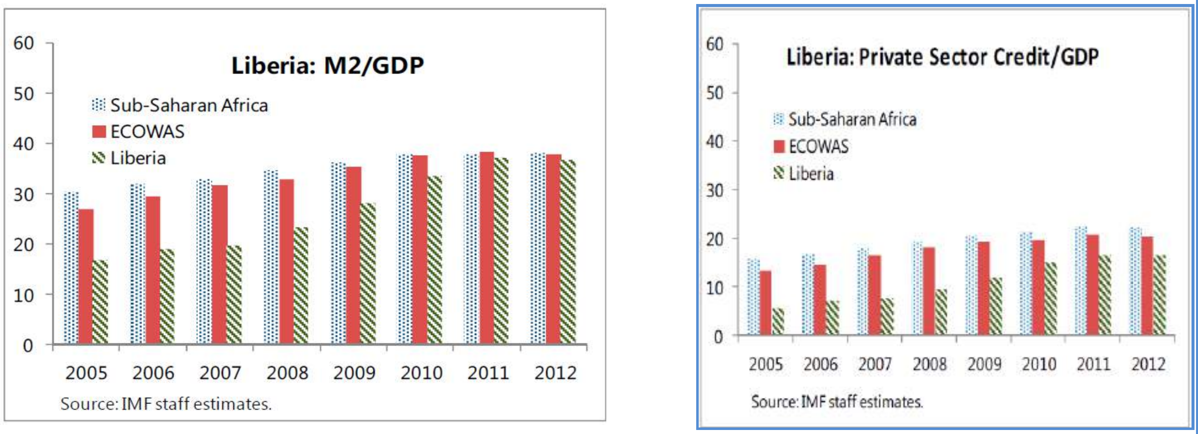
Banking Sector [45]

4.35 The Liberian banking sector is composed of the following 9 licensed and operating banks — the Liberian Bank for Development and Investment (LBDI); International Bank Liberia Limited (IBLL); Ecobank Liberia Limited (EBLL); the First International Bank (FIBank); Global Bank Liberia Limited (GBLL); United Bank for Africa Liberia Limited (UBALL); Guaranty Trust Bank (GTB); AccessBank Liberia Limited (ABLL); and Afriland First Bank Liberia Limited (AFBLL). These banks account for 78 branches across the country of which 59 percent are in the Montserrado county and 11 percent in the Margibi County. Figure18 shows the combined balance sheet of the banking sector indicating a significant expansion since the 2006. As noted in Figure 12 below, growth in Broad Money (M2) and private sector credit slowed since 2010.

4.36 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.

45 This section is largely based on the Annual Report (CBL, 2012)and Article IV Consultation report IMF November 2012

Figure 12: Growth in Broad Money (M2) and Private Sector Credit



Source (IMF, Nov 2012)Article IV Consultation report,

4.37 As noted in in Table 19 the spread between borrowing and lending is high. Lending rates average to 14 percent. Savings/deposit rates average to 2-4 percent. Inflation, like in the previous year, remained in single digit; averaging 6.9 percent for 2012, less than the 8.5 percent recorded in 2011 and 7.5 in 2010; however these figures imply a real return on savings that is highly negative. The absence of a money market instruments (T-bills) in one aspect that serves to contain lending rates; the issuance of Liberian dollar denominated treasury bills, which was expected by December 2012, would help mop up excess Liberian dollar liquidity in the system and to encourage mobilization of Liberian dollar deposits. The operational costs (average non-interest expense per average earning asset) are high for Liberian banks with an average of 21 percent in 2011, while the Net Interest Margin (average net interest income per average earning asset) is at 7 percent. The low net interest margins lead banks to rely on non-interest income (such as fees, wiring, remittances), which accounts for nearly 60 percent of revenue Article IV, (IMF, Nov 2012)

Table 5: Commercial Banks Loans by Economic Sectors (in Millions L$)

Interest Rates	Dec-10	Dec-11**	Nov-12
Avg. Lending Rate	14.17	13.85	13.84
Avg. Personal Loan Rate	14.15	11.02	13.36
Avg. Mortgage Rate	14.19	14.03	12.00
Avg. Time Deposit Rate	2.90	3.70	2.60
Avg. Savings Rate	2.01	2.02	2.00

Source: CBL Annual Report, (2012)

4.38 Liquidity ratio for the sector remained strong marking 43.6 percent as of October 2012, which is above the 15 percent minimum requirement. Capital Adequacy Ratio (CAR) which marked 20.9, down from 22.8 in 2011, exceeds the minimum required by 10.9 percentage Points. However it is important to note that Capitalization has been eroded by the stock of bad loans with a few banks falling below capital requirements. CBL is working with the affected banks on their recapitalization plan to ensure their full compliance with the regulatory requirement- which was expected by December 2012 Article IV (IMF, Nov 2012).

4.39 Table 7 below, shows the loan distribution of Liberian by economic sector between 2010 and 2012. A disaggregation of total loan and advances by sectors showed that Trade, Hotel & Restaurant accounted for 42.4 percent; Construction, 7.0 percent; Transportation, Storage & Communication, 7.0 percent; Mining & Quarrying, 5.4 percent; Agriculture, 4.3 percent; and Manufacturing, 0.9 percent. The 'Others' sector which comprises loans to individuals and public institutions accounted for 33.0 percent of the total loan for the period under consideration.

Table 6: Loan Distribution by Sectors

Sector	Dec-10	Share of Total	Dec-11**	Share of Total	Nov-12	Share of Total	Percentage Change 2011-Nov, 2012
Agriculture	398.3	3.2	748.3	4.6	830.4	4.3	11.0
Mining & Quarrying	2.1	0	139.6	0.9	1,044.4	5.4	648.1
Manufacturing	162.7	1.3	324.1	2	166.5	0.9	-48.6
Construction	1,215.4	9.6	1319	8.2	1,341.3	7.0	1.7
Trans. Storage & Comm.	2,823.6	22.4	1,351.6	8.4	1,340.5	7.0	-0.8
Trade, Hotel & Restaurant	3,977.7	31.5	6,662.2	41.2	8,148.5	42.4	22.3
Others	4,043.7	32	5,625.6	34.8	6,355.3	33.0	13.0
TOTAL	**12,623.5**	**100**	**16,170.3**	**100**	**19,226.8**	**100.0**	**18.9**

Source: Annual report (CBL, 2012)

4.40 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 are raising bank operational risk. Some of these factors are mitigated by the fact that most of the banks are subsidiaries of larger foreign banks that may be able to backstop liquidity and capital needs if necessary. However, low profits make the banking environment less attractive to potential entrants and hampers financial development.

4.41 Aiming at enhancing credit to the economy, the CBL launched the Credit Stimulus Initiative for Liberian-owned SMEs in January 2010 by placing long term US dollar deposits at commercial banks. The objective is to encourage a better maturity structure for loans to Liberian entrepreneurs and making the cost of credit more affordable. The facility average annual interest rate to SMEs is about 8 percent and with a minimum and maximum tenor of 12 and 60 months, respectively. CBL is considering how additional medium-term resources for targeted lending can be provided. This approach carries potential risks to both CBL and the participating commercial banks if too much moral suasion is exerted to provide finance to possibly non-credit worthy clients.

4.42 It is worthwhile to also note that a US$10.0 million CBL Mortgage Stimulus Initiative was launched during 2012. This program is intended to provide, for the first time in Liberia, the opportunity for Liberians to access loans for home ownership. Following the launch of the mortgage program, a US$7.0 million Agricultural Stimulus Initiative was also launched to help provide access to finance to the agriculture sector. This is an opportunity to make medium- to long-term credit facilities to farmers in order to stimulate private investment in the agricultural sector and create employment.

4.43 The CBL is taking active measures aimed at strengthening the banking system and other financial institutions. The CBL is engaging banks below minimum capital requirements to oversee recapitalization plans. The current risk-based supervision regime of the CBL, whose first cycle of bank inspections successfully ended, will focus on emerging credit risks, aggressive monitoring of banks to ensure that they remain 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 CBL worked with various stakeholders, including the Liberia Bankers Association (LBA), the Liberia National Bar Association (LNBA) and the International Finance Corporation (IFC) to ensure the successful enactment of the Revised Commercial Code, the legislation for the establishment of a fast-track commercial court, and the operationalization of the court. The establishment of the court is expected to enhance the enforceability of financial contracts, including loan agreements, through inexpensive, speedy and simple procedures. An improved credit culture should lower the cost of borrowing and enable more credit extension to the private sector. The authorities 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; and it is not a court of final appeals, which limits its effectiveness.

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

4.44 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 at end-September, 2011. In 2012, new 9 microfinance institutions were certificated by the CBL. Credit unions registered with the CBL at the beginning of 2012 were 69 and increased to 220 by end-December. They operate across all of the 15 counties. To revitalize the Credit Union Movement, the CBL commenced the process of working with existing credit unions around the country to reconstitute the apex organization, the Liberia Credit Union National Association (LCUNA). Regarding Village Savings and Loan Associations (VSLAs), which cater mainly to women in rural areas, CBL commenced the process of identifying the VSLAs in the country as there is currently no national apex structure. By the end of 2012, VSLAs existed in all of the 15 counties. A 3-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. A new strategy covering the next 3 years is currently in the process of being developed.

4.45 During the course 2012, the Bank made available over L$200 million to Microfinance institutions (MFI), Credit Unions and Village Savings and Loan Associations (VSLAs) throughout the country through the Loan Extension and Availability Facility (LEAF) as a means of boosting financial inclusion and enhancing output and employment. The program was intended to provide soft-loans to microfinance institutions, credit unions and village savings & loan associations. The program provided loans to these institutions for a 3-year period at only 3.0 percent to facilitate onward lending to their clients and members. The institutions will be lending these funds at their usual customer rates.

4.46 CBL has published regulations for credit only MFIs "Micro Finance Regulatory and Supervisory Framework for Liberia-June 2009," Furthermore Regulations on Deposit-Taking Microfinance Institutions were developed, with support from the World Bank, and approved by CBL in 2011. The latter provide a regulatory framework for specialized microfinance institutions wishing to take deposits from microfinance clients, however as of date there are no entities registered under these regulations. The only entity that is acting as a deposit taking MFI is Access Bank; however it is licensed under the Banking Legislation.

4.47 Under a World Bank/FIRST supported project the CBL team received IT based training in 2011 to support their operations in supervising MFIs. This support included field examination of the MFI institutions: BRAC Liberia, Access Bank Liberia Limited-ABLL, and Liberia Enterprise Development Finance Company- LEDFC. It covered operational risk assessment; on-the-job training on Computer-Assisted Examination Techniques (CAETs) use and IT environment assessment; in addition to classroom training through 5 half-day sessions to the all CBL Supervisions Department staff on CAETs use.

Credit Only Agencies (NBFIs)

4.48 In 2011 CBL, with support from the World Bank/FIRST Trust fund, developed Non-Bank Financial Institutions (NBFI) Regulations, which were approved by the CBL Board in 2011. The regulations cover: Finance companies, 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[46].

4.49 As noted in the CBL 2012 Annual Report, the CBL has made it a specific policy objective to broaden the scope of financial services. One of the measures identified by the CBL is the development of a lease financing industry as part of the financial sector. The development of leasing as complementary tool to bank loans will provide an alternative solution for financing major capital investments such as equipment, and could significantly expand the available pool of medium and long-term capital to SMEs.

Capital Markets[47]

4.50 At present, there is only minimal capital markets activity in Liberia. Apart from a handful of offers to customers of banks and one telecom company, which were not fully successful, there has been no other capital markets activity of any kind.

[46] 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)

[47] "A Proposed Framework for the Development of Capital Markets in Liberia" (January 2013- developed under a FIRST Funded Project)

4.51 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, state-owned enterprises (SOEs), banks, telecom companies, and other private sector enterprises, indicates that there is a low likelihood of anyone 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 will be few potential investors in Liberia over the same time period. The analysis further suggests that there will be insufficient demand for capital markets activity to sustain a securities exchange (with associated clearing and settlement) and that alternative means should therefore be found for encouraging, facilitating, and regulating any developing capital markets activity.

4.52 International experience suggests that any attempt to accelerate the pace of capital market development without ensuring that there is an adequate supply of and demand for securities risks creating an ill-functioning capital market that **unnecessarily drains resources and does not stimulate** economic development**.** Additionally is important to note that 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. Most countries have experienced cases where companies have raised funds on the basis of fraudulent prospectuses and have stolen investors' money. 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. A key element of capital markets law and regulation are designed to minimize the risks. However they must be accompanied by a strong and effective regulatory authority whose powers are recognized, understood, and upheld by the courts.

4.53 The CBL needs to adopt a vision for the development of the capital markets in Liberia in an incremental and orderly fashion. It should then seek to raise awareness of the securities markets and promote investor education, within the context of an overall financial awareness campaign that would focus, initially, on the use of banks. The government is likely to be the first significant issuer of securities in the form of Treasury bills (T bills) and then longer-term bonds. Other steps should also be taken to encourage companies to reach the point where public offers of debt or equity securities are feasible

4.54 With support from the World Bank/FIRST Trust Fund, a Capital Market Development Strategy[48] and a Securities Markets Bill were developed. The strategy and the Bill were drafted in a way to allow CBL to develop this market incrementally. In the short term, the CBL should only issue licenses to intermediaries who provide services solely to professional investors (namely, institutions and wealthy high net worth individuals (HNWI)). Similarly, issuers of securities should only be permitted to make offers to professional investors. The scope of activity of those permitted to engage in capital markets activities should be gradually increased (and regulations developed accordingly) as interest in capital markets develops and regulated persons gain experience. Only at the end of the process, after the conclusion of a successful financial awareness program, should ordinary retail investors be allowed access to capital markets activity.

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

4.55 Moreover, when capital markets activity develops to the point where there is a substantial supply of and demand for securities, so that the use of formal exchanges and settlement systems can be considered, the CBL should first seek to come to an arrangement whereby Liberian investors and companies can use an existing exchange elsewhere in the Economic Community of West African States (ECOWAS). Supplemental information on the potential suppliers and buyers of Capital Market Securities in Liberia is explained in the appendix.

Proposed Actions

4.56 Given the lack of data for the latest picture of the financial sector and the impact of existent programs, it is foremost important to have a diagnostic to understand the current issues of the sector. This type of assessment can appropriately lead to policy level actions accordingly. Firstly, conducting a Financial Sector Assessment Program (FSAP) would be the first best option to provide a solid diagnostics of the sector and the related recommendations. The last diagnostic report of the sector, "Financial Sector Diagnostic Report — April 2009", was based on 2008 data and is now largely outdated. Unlike Ghana, Sierra Leone, and most countries in SSA, Liberia never had an FSAP.

4.57 Secondly, it is necessary to undertake a Financial Sector Development Strategy (FSDS). A FSDS entails the design of development policies for various financial sub-sectors such as: banking, insurance, pensions, money & capital markets, micro finance, Non-Bank Financial Institutions, access to finance and 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/phased Action Plan for implementation, which can be costed. The value and substance of a FSDS is increased if it follows an FSAP diagnostic.

4.58 Lastly, an independent evaluation of the Credit Stimulus Initiative would be vital not only to see the consequence of the provided lending but also to determine the allocation of additional resources in the future. There is no information on the impact and effectiveness of the existing subsidy facility developed by the CBL on both banks and SMEs. The evaluation can also show lessons learned that will encourage the CBL to improve a management of the program. Without confirming concrete results and improvement of the subsidy program, there will be a risk for the program to fail.

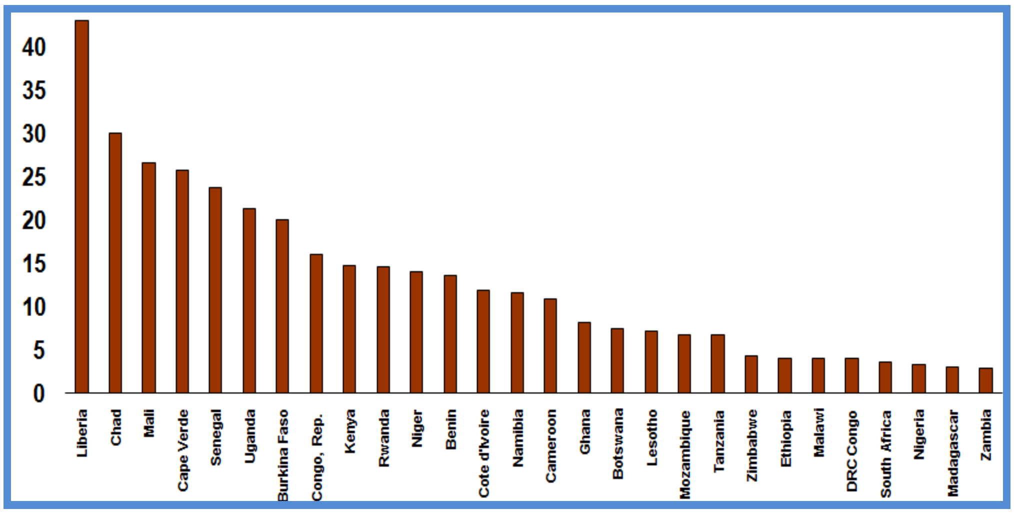
B.3-High Cost of Electricity

4.59 The availability and cost of energy, in particular electricity, is one of the most severe constraints to exports, investments and economic activity in Liberia. The sector suffered with the devastation by the civil war, and today is not even able to supply electricity to meet the demand of the capital city Monrovia. The shortage and very high cost of electricity result in default of various indispensable public services, not only to the citizens, but also to businesses and exporters. As recognized in the recent Poverty Reduction Strategy II issued in 2013 the development strategy for the country requires short and medium term actions to cope with this situation.

4.60 Liberia is far below of a sub-Saharan Africa average in terms of generation capacity. Before the civil war, Liberia had installed capacity of 177 MW, which served 35,000 customers or 7 percent of the population[49]. However, the civil war destroyed energy infrastructure and deprived production capacity. According to the report prepared by (AfDB, 2012)[50], the rate of access by the population to publically provided electricity in Liberia was close to zero in mind-2011. Liberia Electricity Company (LEC), the national electricity utility, served about one percent of the Monrovia urban population. Lack of public electricity resulted in dependency on private generators.

4.61 The cost of electricity is another serious hindrance for Liberia. The electricity tariff is one of the highest in the world. The tariff for Liberia (US$ 0.50 per /kWh) is far much higher than that of the average for sub-Saharan Africa (US$ 0.15 per /kWh). The reason for this high cost is mainly due to the dependency on the high cost diesel generation. In addition, average losses are still high due to poor commercial and technical performance. LEC recorded about 24 percent losses on average, and it reached 40 percent in some months in 2012[51]. (see below Figure 13: regional Electricity Tariffs in 2009)

Figure 13: Regional Electricity Tariffs in 2009 (US cents per KWh)



Source: Liberia Electricity System Enhancement Project Appraisal Document (WB, 2010)

4.62 LEC ceased its operation due to the civil war but resumed its operations in 2010. A management contract for LEC was signed between Ministry of Lands, Mines, and energy (MLME) and Manitoba Hydro International (MHI) to reestablish electricity supply services and to improve its performance to the Monrovia area. Although the management is making progress in operation profit, there are still many areas in which there is need for improvement.[52]

4.63 Liberia expects steep increase in electricity demand, but the demand growth depends on the capacity of LEC. The LES's master plan of 2012 projects some scenarios of the growth of peak demand.

[49] Project Appraisal Document for Accelerated Electricity Expansion Project (WB, 2013)

[50] Liberia: Growth and Infrastructure An infrastructure Action Plan Factoring in Regional Integration and Stability (AfDB, 2012)

[51] Project Appraisal Document for Accelerated Electricity Expansion Project (WB, 2013)

[52] The contract includes the following obligations i) 33,000 new connection over a five year period, ii) reduce technical and commercial losses from 25 to 12 percent, iii) increase collection by 5 percent, iv) provide capacity building to LEC that will result in LEC's ability to sustain improved operational performance over the long term.

The basic scenario is based on the grid connection to the small and medium-sized users if the connection gradually increased. It is important to note that the demand growth is contingent on the ability of LEC to deliver in some critical areas, such as adequate generation capacity, reducing electricity costs for consumers, and expansion of transmission and distribution network to the users. Despite of the ambitious scenarios, LEC has already experienced delays in on-going electricity projects.

Table 7: Average cost of Generation under the least cost energy system Scenario

	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)

4.64 The government is keen on restoring energy sector in a sustainable manner, and electricity is considered as the foremost priority for the development of Liberia. The government aims to increase electricity coverage to 70 percent of population in Monrovia and 35 percent nationwide by 2030. To this end, MLME has prepared a Least Cost Power Development Plan (LCPDP) and an investment program. The latter indicates priorities as a short-term investment program such as (a) construction of Heavy Fuel Oil (HFO) storages and associated infrastructure to replace diesel to HFO-based generation, and (b) connecting Liberia to the regional Western Africa Power Pool for a cheaper regional energy source.

4.65 In addition to the short-term investment plan with HFO and the WAPP, it is necessary to have alternative energy supply sources for a sustainable energy supply in the mid-term and long term. Given the specific characteristic of Liberia, such as a seasonal hydro production, Liberia needs to have a balanced combination of energy supply to compensate shortages. The World Bank (2011)[53] conducted analysis based on a conservative electricity demand scenario for the least cost energy system. It suggested that the mixture of hydropower generation and thermal power generation by diesel, HFO, and the WAPP LSCG transmission would be the most economic option to expand the interconnected power system. In particular, hydropower generation has a great potential to cover about the half of supply peak capacity in 2020. Rehabilitation of Mt. Coffee hydro power project, Saint Paul River development and Mano hydropower project would enable Liberia to provide substantial electricity obviously during the wet season. However, the hydro production capacity depends on the water inflow, and it varies greatly from season to season. In addition, as Liberia will be phasing out of older diesel generators, HFO-generated and traded electricity by the WAPP will be crucial to support this transition. This mixture of supply system encourages Liberia to manage the supply gap both in a sustainable and a cost efficient manner (see

4.66 Furthermore, the biomass power generation has a possibility to play a significant role in the electricity supply mix in the long term. Considering Liberia is endowed with significant renewable energy resources, biomass can be a strong alternative for the least cost energy expansion plan. However, due to

[53] Options for the Development of Liberia's Energy Sector. World Bank (2011)

the high unit capital cost, which is estimated at US$ 4,167 /MW installed, the biomass option is not selected for the least cost energy system for both the mid-term and the long term. Yet, in the future, provided that a unit investment cost drops to US$ 2,419 / MW installed with an assumption of the use of rubber trees, a biomass plant can be selected at full capacity. If a biomass plant already starts to supply electricity in 2015, it is assumed that more than half of the electricity peak supply can be by the biomass plant in 2020. In any case, the remaining supply significantly needs to rely on the WAPP transmission line and hydropower generation. Regardless of the availability of biomass, the mix supply with hydro should be in the energy expansion plan.

Interventions in electricity in Liberia

4.67 The government's objectives in the power sector have shifted from emergency managing to develop the sector in a sustainable manner by expanding and improving electricity services. The development of the electricity sector in Liberia and the restoration of minimum conditions for expansion of economic activity and trade require interventions in generation capacity, distribution, transmission, as well as in the regulatory framework. The rehabilitation of the Mount Coffee Hydro Power plant, which was used to generate the public electricity for Monrovia and was severely damaged during the war, is a crucial and indispensable initial step. It is being undertaken with funding from several donors[54] and is expected to be completed in 2015. The reconstruction of Mt. Coffee is considered by the government as a national emergency and it is the highest priority infrastructure project currently being undertaken.

4.68 However, rehabilitation of Mount Coffee will not be enough to provide the power generation the country will need, and complementary measures are required. There are currently several options under study, including expansion of Mt. Coffee's capacity and possible installation of new hydro-electric plans on the Mano, St. Paul and Cavalla rivers. In addition, there are plans to have Liberia benefit from imports of electrical energy from exporting sources in the West Africa sub-region, through connecting itself to the West Africa Power Pool.

4.69 On the distribution side, the World Bank has financed the electricity system enhancement project (LESEP) in order to expand and enhance the distribution networks of LEC in Monrovia[55]. As a part of this project, GPOBA funding managed by the World Bank provides grid connections of new low —income customers. This project is expected to be completed in December 2014. In addition to physical interventions, the contract with MHI to improve LEC performance is underway and it has obligations to upgrade the information system and build capacity of LEC for efficient management.

4.70 Furthermore, more projects in pipeline will contribute to reduce the electricity cost by changing generation and connection models. As the government has decided to shift from diesel-based generation to HFO-based generation, three thermal plans which will use HFO with individual capacity of 10 MW are to be installed in 2014 as a part of the facilities of LEC in Bushrod Island. One of them will be

[54] In addition to own funding of the government, EIB, and KfW will co-finance the rehabilitation.
[55] Project Appraisal Document for electricity system enhancement Project (LESEP) (WB, 2010)

financed by the World Bank. The World Bank project finances the construction of offload, storage, and pumping HFOP facilities from tanker ships[56]. Most importantly in this project, the government will have a legal agreement with China Union[57], which is concessioner for the Bong Mining Company, on the use of their pier to offload HFO to the new storage tank. The use of existing pier will allow LEC to buy HFO in bulk with lower price and to store large quantities of HFO. in addition, the West African Power Pool Project (WAPP-CLSG), which was approved in March 2012 by the World Bank Board, will finance an approximately 1,349 kilometer 225 kV transmission line to connect Cote d'Ivoire, Liberia, Sierra Leone, and Guinea[58]. These projects will eventually lead to the reduction of electricity costs substantially.

Conclusions and Policy Options

4.71 Electricity supply is crucial for both public services and the private investment, and the decisions related to electricity access by the government are in the right direction. In particular, participation in the West African Power Pool and the transition to the HFO-based production will bring the structural changes in the Liberian electricity provision. The WAPP-CLSG enables Liberia to access to cheaper electricity and encourages the deeper regional integration. The analysis conducted for the WAPP explains that the project has net benefits of US$38 million and the economic rate of return of 42 percent for Liberia under the base case assumption59. The access to the regional electricity can provide cheaper electricity for Liberia in more sustainable manner. Therefore, the regionally provided electricity well complements the domestically produced electricity. Moreover, the project in Liberia focuses on Monrovia for the time being as LEC is still reestablishing their services, the proposed line (see Figure 13: Regional Electricity Tariffs in 2009 (US cents per KWh) by WAPP can give more possibility of a grid electricity access for provinces remote from Monrovia.

4.72 The thermal power generation with HFO will be a least cost supply option as well as an opportunity to work with concessionaires for public good. HFO is estimated to be 25 percent cheaper than diesel[60]. Because a HFO power plant needs a HFO landing infrastructure, which was absent in Monrovia so far, it was impossible to consider HFO as a main source for electricity generation. However, the investment by the concessioner who rehabilitates the best pier at the Freeport of Monrovia brought a chance. Liberia now can consider HFO imports without investing completely new port infrastructure. This use of concessioner's infrastructure by third party enables the government to invest less in new infrastructure and benefit the public with electricity at lower cost. However, while construction of handling facilities and generation plants are financed by the development partners, it is also important to remember that the operation and maintenance costs and the fuel costs will be huge burden as well. The management capacity of LEC will be crucial.

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

57 The signed legal agreement between two entities will be a condition of the declaration of effectiveness of LACEEP.

58 Project Appraisal Document for West Africa Power Pool (WAPP) for WAPP integration and technical assistance project,http://www.worldbank.org/en/news/press-release/2012/05/31/new-power-program-for-west-african-countries-will-increase-their-electricity-supply. The project has co-financiers: CLSG governments, AfDB, EIB, and KfW.

59 Project Appraisal Document for West Africa Power Pool (WAPP) for WAPP integration and technical assistance project — Annex 7 (Economic Financial Analysis)

60 Project Appraisal Document for LACEEP — Annex6 (Economic Financial Analysis)

4.73 In addition to the clearly defined physical infrastructure plans, management ability and technical improvement for the facilities need to be accompanied with infrastructure development. Some plans have already faced delays in implementation. In this regard, close monitoring of implementation is fundamental for all projects. Monitoring activities should be seen as a part of management. Furthermore, as high average commercial and technical losses rate indicates, weak technical skill causes unnecessary loss, and there still needs efforts to achieve the goal of 12 percent. Currently, people who are committed in implementation work for electricity industry are from Ghana or Kenya. In order to make operation and management sustainable, local technicians are needs to be trained.

4.74 Aligned with the PRS II[61] objectives of the power and energy sector, Acceleration of the creation of the land infrastructure for HFO and Adoption of the complementary measures to the implementation of the WAPP can be the triggers to bring improvement in the energy supply in Liberia. The only way to provide more affordable electricity for communities is to reduce its cost. HFO —based production, in this sense, will enable Liberia to produce electricity at much lower cost and is expected to be affordable for more Liberians at decent expense. On the distribution side, strengthened M&E of the WAPP can support its implementation. The M&E functions of WAPP secretariat and CLSG Regional Transmission Company (RTC) are supposed to monitor the implementation. Because of the challenge to manage the regional project cross countries, monitoring teams for the project needs to be clearly defined and keep up with each progress among four CLSG countries.

[61] Agenda for Transformation Steps Toward Liberia Rising 2030, Liberia medium term economic growth and development strategy (2012-2017) Ministry of Planning and Economic Affairs of Liberia, 2013

C. **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, but some inefficiencies and distortions remain. The GoL introduced a revised Revenue Code[62] in 2009 and a new Investment Code[63] in 2010. Most importantly, within the Investment Code, investor protection was strengthened significantly through guarantees against unfair expropriation, protection of intellectual property, provision of access to international dispute resolution mechanisms. In addition, investors were assured of the right to repatriate capital and profits.

4.76 A second major reform of the new legislation consolidates all incentives under the Revenue Code, rather than being dealt with under the Investment Code as was the case previously. Moreover, for standard incentives, the nature and level of incentives and the eligibility requirements are now set out clearly, improving both predictability and transparency. Another good practice under the new policy is that, rather than offering tax holidays, the incentives provide tax deductions and duty exemptions based on actual investments. Finally, they are offered for a fixed period (5 years for small investments; up to 15 for larger investments). To be eligible for incentives, investments must meet a minimum size threshold of US$10 million for foreign investors and US$1 million for domestic investors (US$500,000 for full Liberian investments). This sets a relatively level playing field between domestic and foreign investors, although most domestic investments will still fall below the threshold to receive incentives.

4.77 However, incentives are restricted to a specific set of sectors[64];thus reducing possible impact on the entire economy. A simpler approach may have been to establish a negative list of investments that are ineligible for receiving incentives. In addition, the new Investment Act retains a set of 28 sectors that are reserved for Liberians, 16 of which are fully reserved and another 12 of which set minimum thresholds for foreign investment — most of these sectors are not internationally traded..

4.78 Both eligibility and the level of incentives offered is based on a somewhat complex set of factors, including 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. Perhaps more importantly, it also opens up the possibility that the granting of incentives will at least be perceived to have some discretionary element, particularly as 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 on 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 8). While they are unlikely to be problematic in the near term (particularly on promoting local content in extractive sectors), they may need to be amended in the future.

Box 7: 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 is 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, there exist some fiscal incentives 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 way to comply with WTO provisions would to remove subsidies completely. Of course, as 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 while linking the subsidies to targeted policy objectives.

As a least developed country, however, Liberia remains exempt from the 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 fromFarole T. (Farole T., 2011)

4.79 The biggest concern about the investment regime, however, 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. Loss of transparency is also a concern, although as Liberia is compliant with the Extractive Industries Transparency Initiative (EITI), details of negotiated incentives agreements are available publicly, at least for the concession[65] 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 all the large concessions.

4.80 The somewhat unpredictable nature of incentives under the negotiated regime is apparent in the large-scale concession contracts, which account for the large majority of existing foreign investment. The general structure and broad terms of these concession agreements is similar. According to the

As a result, all foreign investments are often referred to as concessions. However, in this report, we use the term with its specific meaning.

recent IMF Article IV note for Liberia, the tax code for natural resource sectors is adequate. However, the IMF notes that ad hoc terms remain in many concession agreements, resulting in foreign investors facing significantly different fiscal environments in practice. To be fair, many of the concession agreements negotiated some years in the past, and more recent agreements tend to be more standardized and follow good international practice. Therefore, much of the concerns about 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.

D. Best practice in investment policy

4.81 How have other countries facing broadly similar circumstance to Liberia managed to achieve successful diversification? A review of African countries with similar characteristics to Liberia (e.g. relatively small; landlocked or with some other difficult economic geography; focused on natural resources; and having faced significant social and political conflicts not long before their period of diversification) 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 macro context to support private sector investment, ensured substantial and sustained investment in education and other social sectors, 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 investment (FDI and domestic) in catalyzing diversification, aggressive attention to business environment reforms appears to be critical success (e.g. Rwanda).

- *Leveraging trade agreements and actively exploiting trade preferences*: In most of the 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 the "anchor" investor strategies to approaches that target smaller scale investments and joint. 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 the government to establish the framework. While in all cases, government did intervene with direct sector support, it did so in response to market signals communicated by the private sector. In the examples presented, government 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.

Policy Implications

4.82 What do these findings suggest for Liberia, given the investment patterns and constraints discussed in this section?

Focus on addressing constraints rather than negotiating incentives

4.83 When considering investment policy it is important to realize that the effectiveness of incentives and other instruments is associated directly with the 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 James S. (2010). 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 Farole T. (Farole T., 2011). 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.

4.84 Of course, Liberia remains a relatively high risk environment for international investors. And in this context there is a case for offering some incentives to offset risk, particularly in the non-resource sectors (in sectors like mining, for example, there will always be complex tax arrangements that are out in place linking exploration and production phases of investment). In this case, 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 (beyond US$10m) with the exception of the large concessions, with some flexibility for the very large concessions.[66]

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

4.85 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 that are available for the investment generation mandate are used as efficiently as possible. This will require not only effective targeted 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 (e.g. SEZs; linkages) and policy areas (e.g. business reform) that are closely linked to its core mandate. Given the strength and influence

[67] 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. (Source: UNCTAD, (2011), http://unctad.org/en/Docs/TN21_Asycuda.pdf).

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.

Improve monitoring and delivery on existing concessions

4.86 As discussed in this section, 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 government are meeting their obligations, and to take action where it will support improved outcomes.

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

4.87 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 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. For that, though, there would not necessarily need to be a Special Economic Zone with the accompanying regulatory framework and the need for establishing a separate regulatory authority — instead, a simple industrial park should be sufficient. In the longer term, however, the SEZ environment may be a useful instrument for supporting investment and agglomeration.

4.88 If Government goes forward with SEZs in the short term, it is recommended that they be considered as one instrument in a wider set of coordinated interventions to address the investment climate, focusing specifically on land and infrastructure. Ideally, SEZs or industrial parks could be developed within existing corridor initiatives, allowing them to link with investments in backbone energy and road infrastructure.

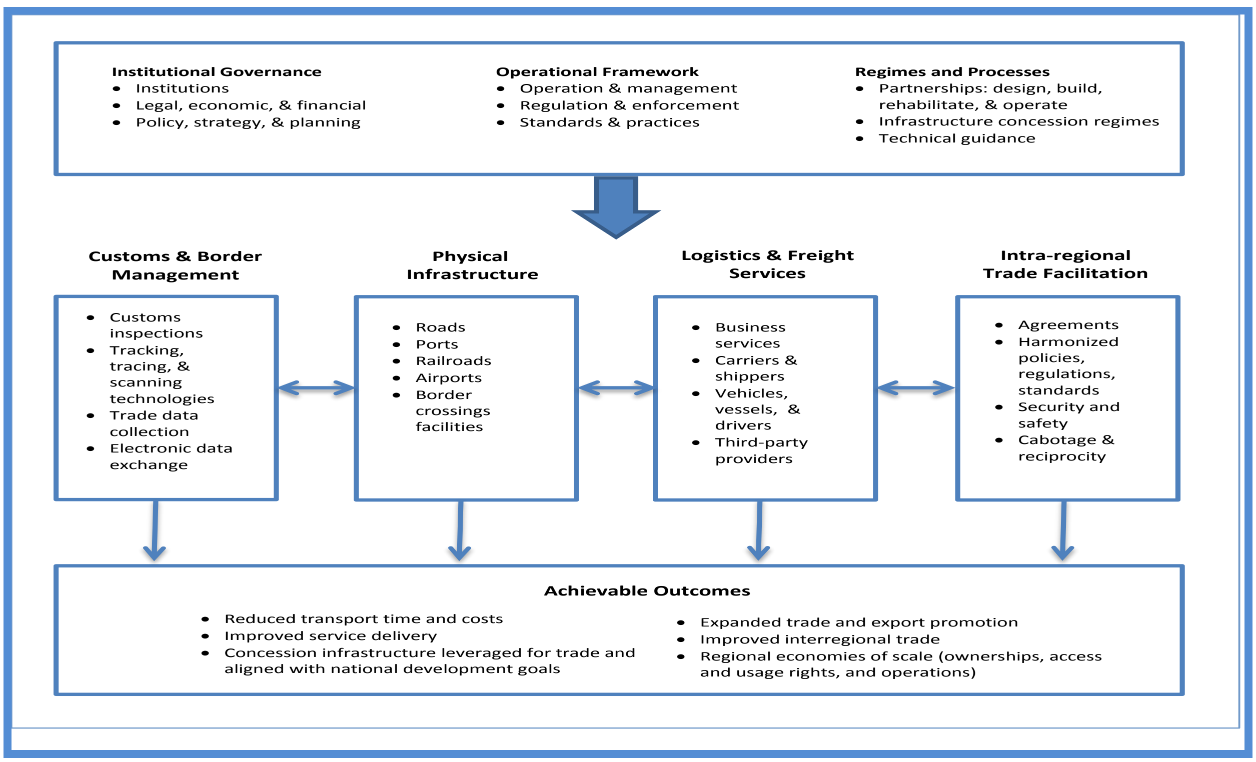
4.75 In addition to the Global Competitiveness Report, the WB Enterprise Survey conducted in 2009 identified constraints faced by local enterprises to grow their business. Access to finance is the obvious challenge among local businesses as this is a common problem in Sub-Saharan Africa (SSA) (see Figure 8). Indicators on infrastructure, particularly electricity, imply a more serious obstacle for the businesses in Liberia than those of other Sub-Saharan African countries. No less than 59.1 percent of the surveyed firms answered that electricity is a major constrain, while 49.2 percent for the SSA average. Due to the shortage of electricity, Liberian enterprises have been forced to use generators; as a result, electricity from generators reached 63.1 percent, compared to only 12.9 percent for the SSA countries. Following electricity, transport was identified as a major constraint in infrastructure by 39.3 percent of the enterprises in Liberia, which is higher than 26.9 percent for the SSA average. This reality of the needs for infrastructure has been reflected in the PRSII, and the government prioritized public investments in electricity and transport in infrastructure sector.

5 TRADE FACILITATION AND LOGISTICS

5.1 This section presents the findings of the Trade and Transportation Facilitation Assessment (TTFA) Phase 1 study, conducted as part of the Liberia Diagnostic Trade Integration Study (DTIS) Update. This assessment provides an overview of the current state of trade and transport logistics in Liberia, identifies constrains 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, which is covered under each because while the capacity development needs are interconnected the challenges are unique. Figure 14 below shows the components of Liberia's trade and transport logistics facilitation system that must function together to facilitate the efficient flow of goods and 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.

Figure 14: Typology of Liberia's Trade and Transport Facilitation System



Source: Authors.

Major Accomplishments and Ongoing Challenges

5.3 Overall, since the 2008 DTIS, the Government of Liberia has actively embraced the importance of trade as an enabler of broader economic growth and has pursued specific measures to improve trade facilitation. While there have been measurable gains, the government still faces many challenges (Table 8: Major Accomplishments in Trade Facilitation). The major accomplishments and the ongoing challenges include (see Table 10 below):

Table 8: Major Accomplishments in Trade Facilitation

ASSESSMENT AREA	MAJOR ACCOMPLISHMENTS	ONGOING CHALLENGES
1. Customs and Cross-Border Management		
Customs	• ASYCUDA World adopted in 2009 and functional at Port of Monrovia and selected facilities • Improved customs processing of shipments	• Institutional arrangement among agencies with overlapping trade and security roles at the ports and border crossings • Cumbersome and duplicative pre-shipment inspection processes • Further implementation of risk mar module
2. Infrastructure Condition and Performance		
Maritime Ports	• Marked improvement in infrastructure at Port of Monrovia, partly due to effective PPP agreement • Major port restructuring • Increased cargo throughput • ISPS security certification	• Significant infrastructure needs at other three seaports: Buchanan, Greeneville, and Harper • Rehabilitating degraded terminal capacity • Sustained upgrading (dredging) to handle growth in traffic • Lighted navigational aids at ports of Monrovia and Buchanan to extend hours of operation and

ASSESSMENT AREA	MAJOR ACCOMPLISHMENTS	ONGOING CHALLENGES
		increase productivity.
Roads	• Improved condition of primary roads from increased donor financing • Prioritization of road infrastructure rehabilitation as part of the Transport Master Plan	• Extensive reconstruction of secondary and feeder roads • Improving access to rural roads • Securing dedicated innovative Road Fund mechanism • Spending on roads far less than what is needed • Enforcement of road transport and trucking services regulations and rules
Railways	• Rehabilitated nearly half of the entire rail network under concessions	• No connected railroads. Three individual rail roads—two yet to be rehabilitated • Ensuring and enforcing third-party access to tracks through a system of track usage rights • Adopting a new paradigm of infrastructure ownership in all *future* concessions to ease third-party access and better align infrastructure to development goals
Airports	• Restoration of air service at Roberts International Airport	• Attracting and enhancing more air cargo for select time-sensitive products

ASSESSMENT AREA	MAJOR ACCOMPLISHMENTS	ONGOING CHALLENGES
		• Enhancing air safety and security measures since safety remains a concern
3. Logistics and Freight Services		
Maritime Ports	• National Ports Authority playing "landlord" role in effective PPP arrangement with terminal operator • Improved port operations and efficiency • Good improvement in reducing cargo dwell times at Port of Monrovia	• Further improving tracking and tracing of containers to reduce dwell time • Improving inspection processes and removing duplicative inspections • Develop stronger working relations with private sector shippers, carriers, and third-party logistics providers • Extending hours of operations by Customs, NPA, and APM to speed up cargo clearance process.
Road	• Prioritization of road infrastructure rehabilitation as part of the Transport Master Plan	• Enforcement of regulations • Controlling and monitoring of commercial trucking service providers • Enforcing rules on truck overloading
4. Intra-regional integration		
	• Strong recognition by the Government for the importance of intra-regional	• Efforts hampered by poor condition of national network of paved roads that connects

ASSESSMENT AREA	MAJOR ACCOMPLISHMENTS	ONGOING CHALLENGES
	integration in overall economic growth	neighboring MRU countries • Regional border security issues • Clearly defined transit and cabotage regimes • Improved land border crossing facilities • Market regulations and regional enforcement of common standards
Cross-Cutting		
Capacity Building Effective Coordinating Body	• Continuous training of staff at all levels from policy, management, to operation and maintenance staff • Establishment of multi-agency committee for handling trade facilitation	• Capacity building remains the single most important cross-cutting area that affects all of the important functions needed to make significant progress on the country's trade facilitation goals • An effective national coordinating body with new responsibilities, budget resources, and technical capacity for implementing the broader trade facilitation vision and agenda.

A. Customs and Border Management

5.4 As a low-income developing country, Liberia is dependent on Customs duties as a source of fiscal revenue, and Liberia Bureau of Customs and Excise (BCE)—an agency within the Ministry of Finance—has to reconcile two twin goals: safeguarding Customs revenue and facilitating trade by expediting the customs clearance of traders. Liberia recently went through a three year strategic Customs modernization program. The program was launched with stakeholder engagement in 2009 and focuses on automation and training, communication and change management, infrastructure development, and policy and legislation. The effort also put risk management in place, so that only importers deemed to be "high-risk" could 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 through educating Customs officials and businesses on export and import requirements in line with WTO and ECOWAS standards, and building a robust copyright and industrial property office within the Bureau of Customs and Excise and the Ministry of Commerce and Industry.

ASYCUDA Implementation

5.5 Since the 2008 DTIS, Customs has made progress in the modernization and automation of procedures with the use of the ASYCUDA web-based system.[67] 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 (such as the roles and number of security agencies administering varying requirements at the ports) and resource constraints (including full rollout of the system and training in the use of the system).

5.6 Liberia introduced ASYCUDA to automate the Customs processing at the Freeport of Monrovia in November 2009 and expanded services to the port facility used by the Liberia Petroleum and Refining Corporation (LPRC) in 2010. The rollout of the ASYCUDA system to the Monrovia oil terminal and the Roberts International Airport (RIA) was completed in September 2011. ASYCUDA enabled Customs to file clearance documents electronically. In relation to traders, the government conducted consultations with stakeholders to inform them of the launch of ASYCUDA, the new process, and formalities. It also had capacity building exercises by training traders on ASYCUDA as well as conducted quarterly meetings with users to find out how the system works.

5.7 The ASYCUDA implementation is improving Customs clearance times. Specifically, implementation of the system is making it easier for customs brokers to submit declarations that properly value the imported goods and are not inaccurate. This in turn saves time resolving incomplete and false shipment declarations. A Time Release Study, financed by the USAID and conducted in 2012 provides details on average clearance times.[68] Using data provided by the Bureau of Customs and Exercise (BCE), the study measured the total time required by Customs to release goods from the time goods arrived at the port / airport/ land border until its release to an importer or a third party agent. The report showed that it takes on average about 5 days for the BCE to clear goods at the Freeport of Monrovia. For the Roberts International Airport, it is 0.82 days on average. According to Customs, although the average Customs clearance time was 14 days in 2008, now it takes a maximum of 7 days.[69]

[67] 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. (Source: UNCTAD, (2011), http://unctad.org/en/Docs/TN21_Asycuda.pdf).

[68] USAID, Liberia Trade Policy and Customs: Time Release Study, May 2012.

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

5.8 According to the same study, it takes longer time in processing entry due to delays in a series of port processes. For example, unloading of items from ships on average takes 24 hours, while, traders claimed that presentation of documents to locate containers takes time due to the inefficient way APM stacks containers. Furthermore, brokers sometimes had to wait for reimbursement from importers before they go to collect the containers. It turned out that the delays are caused at various stages of processing as described below. Although the installation of ASYCUDA has reduced physical inspection from 100 to less than 85 percent of imports in the Freeport of Monrovia, a relatively high level of physical inspections often turns out no results.

5.9 According to the Bureau of Customs, the installation of ASYCUDA at the remaining ports and border posts is expected to be completed by June 2014. After the installation of the system at the ports, Customs would need to improve communications between the border posts and headquarters in Monrovia and provide additional staff training to ensure maximum use of the individual ASYCUDA modules to aid in cargo valuation, assessment, inspection, clearance, and elimination of paper documents.

5.10 It remains unclear the direct effect of ASYCUDA on the primary Customs reform of implementing risk management, particularly at the Port of Monrovia. Further training of Customs staff and the trading community (traders, customs brokers, and clearance agents) on the use of ASYCUDA could allow Customs staff to better identify misrepresentation of cargo type and value of shipment and improve the process of categorizing shipments into the risk management categories.[70] This would reduce the number of physical inspections and increase cargo clearance after traders have submitted all required documents.

5.11 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 the selected favoured traders will not be subject to the same level of inspections, allowing Customs to prioritize the limited inspection resources on the remaining cargo for improved cargo clearance.

5.12 ASYCUDA is improving the collection of detailed trade statistics for imports and exports at the detailed Harmonized Schedule (HS) commodity code level. Collection of reliable trade data is improving especially at the Port of Monrovia, which handles over 90 percent of the value of Liberia's total international merchandise trade. However, until ASYCUDA is fully implemented at Port of Monrovia, the other major ports, and all the remaining border posts, there will be limited gathering of reliable statistics on cross-border trade and the transfer of data from the border posts to the Customs headquarters will be hampered.

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[70] Customs should consider establishing a "Train-the-Trainer" program that allows UNCTAD to train the Customs staff who then will become permanent trainers for the trading community. This would be an effective approach for maximizing assistance for capacity building.

5.13 Lack of basic infrastructure, such as electricity, office equipment, reliable Internet connection, and Customs staff accommodation, at small border posts along the border with Sierra Leone and Guinea remain a major challenge for the Bureau of Customs and Excise. Even at the Port of Monrovia, logistics professionals claimed serious shortages of electricity. Because of the absence of basic needs, Customs at many border posts cannot make best use of the ASYCUDA system. The absence of secured office premises to use the ASYCUDA system causes difficulties in capturing accurate trade statistics at border posts.

5.14 In the medium-term after ASYCUDA has been installed at all the major ports and border-crossing posts, Customs should consider giving traders direct open access to the system. Currently because there is very little freight forwarding business in Liberia, all cargo clearance is done by customs agents and therefore only licensed agents are provided access. With training it is possible to have large traders prepare customs and trade documents themselves and submit them electronically. This would reduce cost of processing trade documents and quicken the clearance and release of imported merchandise.

Pre-Shipment Inspections

5.15 All shipments in Liberia are required to be 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.[71] The threshold value of imported goods subject to PSI is USD 3,500 for ocean cargo; USD 1,500 for air cargo and land border posts; and all vehicles (excluding duly authorized exempt vehicles) are subject to inspection regardless of price. PSI is the physical verification and documentary checks of 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).

5.16 Currently, PSI inspection is conducted by a private contractor, the Bureau of Inspection, Valuation, Assessment and Control (BIVAC).[72] BIVAC has been providing PSI contracting services to the Government since 1997 and has been the exclusive PSI provider since 2004. In July 2012, Customs renewed its PSI contract with BIVAC for another three years to last until July 2015. The Government also has a contract with SGS Inspectors to perform dedicated inspections of forestry products for exports.

5.17 BIVAC conducts its pre shipment inspection (PSI) separately and many traders consider the BIVAC process to be cumbersome. The PSI fee has been reduced from 1.5 percent of the FOB value (DTIS 2008) 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 (to USD $1.00 per metric ton for rice). At the end of the contract in 2015, the Government of Liberia should consider negotiating for further reduction of the BIVAC fees for PSI to below 1.0 percent as is the case in other African countries. Or better still, the Government should consider a more competitive – and open - inspection regime, with many players.

[71] Only designated entities are exempt, such as diplomatic consignments, United Nations Organizations, NGOs, etc. If traders don't choose PSI, then they must do destination inspection, otherwise penalties are imposed by BIVAC.

[72] BIVAC International Liberia is a wholly-owned subsidiary of Bureau Veritas Group headquartered in France.

5.18 For any import above the threshold value and if the commodity is listed on the Ministry of Commerce and Industry's IPD Administrative Notice MCI / No. 008/06/2013 for seventeen (17) commodities,, the importer is required to submit an Import Permit Declaration Form (IPD)containing details of the intended import to the Ministry of Commerce and Industry,. For eligible products and commodities which are not mentioned in the above Administrative Notice, a Request for Inspection (RFI) is submitted directly with BIVAC Monrovia. BIVAC then issues a Pre-Shipment Inspection Order (PIO) and proceeds with the inspection.[73]

5.19 In the case of imports not subjected to PSI, Destination Inspection is required upon arrival in Liberia, except where the shipment is exempted — and importers pay a penalty. This includes all containers that have undergone PSI, but for which the seal affixed further to the inspection has been broken and all containers shipped as Partial Container Loads or Free Cargo—with approval by the Ministry of Finance and Customs.[74]

5.20 There is often duplication of inspections by Customs and BIVAC, which is a major contributor behind the extra delays. Discussions with Customs officials confirmed inefficiencies in the inspection process. Customs regularly performs separate inspections after BIVAC has conducted its own pre-shipment inspections. Customs explained that it conducts these follow-up inspections because of ?? (Inaccuracy about the value of the goods imported and the risk profiling of the customer, classification issues) problems with BIVAC's inspections. The quality issues include misclassification of products, under valuation of products, and inaccurate and mismatched shipment information. There is an urgent need for Customs and BIVAC to investigate the underlying reasons behind this performance challenge and take immediate corrective actions to significantly reduce the need for Customs to duplicate the inspections.

5.21 In addition to the duplication in inspections, many traders reported that BIVAC charges fees (such as scanning fees), even when no scanning service is provided. As a result, traders end up paying for the inspection costs regardless of whether or not an actual inspection is performed. Considering that the government still depends on external sources for its national revenue, the PSI secures a certain amount of this revenue for Liberia. Although this revenue is important, it hinders business by imposing significant costs and unnecessary time for the PSI process. According to BCE, during 2011, PSI increased to 17,446 inspections with the FOB value of 2.5 billion Liberian dollars from 10,363 inspections with goods valued 944 million Liberian dollars in 2010.

5.22 The high inspection rate and multiple inspections imply that ASYCUDA World has not been efficiently used to strengthen the risk management. Only some modules of ASYCUDA World have been

[73] BIVAC conducts the PSI to verify the following: quality and quantity of cargo, export market price (for foreign exchange and government information purposes), customs classification (based on HS and adjusted for ECOWAS), value for customs purposes (according to the Brussels Definition of Value), assessment of customs duties and taxes, sealing and identifying inspected loose cargo, and post clearance reconciliation of import declarations and revenue collection.

[74] Destination inspection is required for the following upon arrival in Liberia *without penalty*, where no PSI was conducted: less than Container Load (LCL) containers, containers of personal goods whatever their value, goods imported by air which value is above USD 1,500 to USD 3,500, goods imported by road which value is above UDS 1,500.

implemented. Yet, the introduction of the remaining ASYCUDA modules could contribute to establishing an effective risk management system.

5.23 After the expiration of the current BIVAC contract in 2015, there may be a possibility for Customs to conduct pre-shipments inspection in-house as destination inspection. To this end, capacity building of the Customs officers is now part of the new contract. The first BIVAC contract did not include a requirement for capacity building to transfer knowledge or move to destination inspection. By mid-July 2013, 20 Customs staffs have been trained. The training opportunities have also been extended to the Ministry of Commerce and Industry. More than a dozen staff at the Ministry has been trained in GATT Valuation, Standards and General Inspection thematic areas. In addition, several donors such as USAID and SIDA (Sweden) have provided Customs with training programs. Customs needs significantly more basic and specialized training before it will be ready to conduct the PSI as destination inspections. As of October 2013, the agency had not developed an implementation plan with measurable milestones in preparation for when the BIVAC contract ends. It is unclear if the Government of Liberia will exercise its option to not renew the current contract in 2015. Technical assistance for training would help ensure Customs is ready for a transition after 2015.

Other Border-Related Issues

5.24 **Agency Coordination:** The number of public agencies involved in shipment inspections and clearances directly affects trade facilitation at the Port of Monrovia and the land-crossings. There is a need to collaborate the functions and roles of the border clearing organizations including Customs and the national security and investigation agencies. The several border management agencies at the port do not have electronic data processing systems that could be linked or harmonized to the Customs data gathering system, including ASYCUDA and risk management module. There is an urgent need for Customs to assume its lead role at the port and coordinate all the non-customs procedures and security alerts into its risk management module. This would make cargo clearance easier, more predictable, transparent, and less subject to corruption. This issue of multi-agency coordination at the Port of Monrovia is an important challenge and opportunity for the Trade Facilitation Forum, the ministerial level coordinating body, to urgently address. Resolving this at the ministerial level will provide a Memorandum of Understanding needed to authorize and empower Customs to take the necessary steps to reduce and remove duplication of functions and roles at the port.

5.25 **One-Stop-Shop:** A Customs-clearance one-stop-shop is in operation in the Freeport of Monrovia, and all related agencies are now in the same building, thus easing the Customs clearance processes. This facility houses Customs, Ministry of Commerce and Industry, BIVAC, and commercial banks. Having representative of these entities co-located at a single location streamlines the process for completing regulatory procedures for cargo clearance and reduces the time for getting official signatures on all the required documents.

5.26 **Required Documents:** While Liberia made progress in reducing the number of required documents and permits for both imports and exports, these reforms have not benefited some traders enough due to poor dissemination of information about the new requirements. As of June 2013, shippers were required to submit 11 documents for imports and 10 documents for exports.[75]

5.27 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, through the issuance of Administrative Regulations in June 2012 and June 2013.[76] Currently, IPDs are required for 17 import product categories and EPDs for 4 export categories. This reduction is a positive action that will improve trade facilitation and directly reduce cost and time for traders and shippers. The Ministry has also put together a draft Foreign Trade Law with the assistance of the International Senior Lawyers Project (ISLP) and the IFC.

5.28 Despite these improvements in both the number of documents and the products that require permits, cumbersome duplication of paper documents still continues. There is no electronic submission of documents. Traders still need to submit same transaction documents, in paper form, to two or more trade agencies. This duplication is attributed to the lack of data sharing among the agencies involved in the clearance process. ASYCUDA should be able to play a role in resolving this duplication and providing the basis for starting pre-arrival processing of some of the documents including electronic manifests, declarations, and shipping documents.

5.29 **Outreach and Communications:** While these important improvements were made during the past year, the MoCI and Customs need to improve their outreach and communications to the trading community to better disseminate information about the improvements being made and increase compliance. Many traders noted they were not notified about these changes, which resulted in them submitting applications for permits that are no longer required. Although few documents announcing these changes are available on the MoCI website and others on the Customs website, it is not easy for the trading community to access all the necessary documents for complying with the trade and customs regulations. This creates an opportunity for the Trade Facilitation Forum to launch a single website that provides information and links to all the relevant trade-related information. This could be modelled after the agencies currently housed in the one-stop-shop facility at the Port of Monrovia. The designated host of this single trade website could also be the central channel for sending regular and periodic emails to the trading community on major changes and announcements.

5.30 Customs should aim to improve compliance of trade rules by making the shipper community more informed. 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. They should automate the process of communicating with businesses and trade associations such as the Chambers of Commerce.

[75] The required documents are: **Import**—Bill of Lading, Certificate of Origin, Commercial Invoice, Customs Import Declaration (SAD), Exit Note (issued by Customs); Gate Pass (issued by NPA), Import Permit Declaration (IPD), Inspection Report (from BIVAC), Packing list, Release Order (issued by Customs), and Terminal Handling Receipts (from NPA). **Export**—Bill of Lading, Cargo Acceptance Note (shipping note), Certificate of origin, Commercial Invoice, Customs Export Declaration, Customs Release Form, Export Permit Declaration (EPD), Inspection Report (from BIVAC), Packing List, and Terminal Handling Receipts (from NPA).

[76] 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.

Additionally, the MoCI should promote the sharing of trade information at the cross-border posts to encourage enforcement and facilitate goods movement with the Mano River Union partners. Improved compliance at the cross-border posts would contribute to collection of better trade data on the informal freight movements at the major border crossing points.

5.31 **New Customs Code:** Despite the installation of ASYCUDA, regulatory reforms lag behind. A new Customs Code, which complies with international standards and fully consistent with the Kyoto Protocol, provides for the transition from Brussels Definition of Value (BDV) to transaction value, has been prepared with the assistance from the IFC, and is awaiting ratification by Parliament.

5.32 The new Customs code is expected to improve the overall Customs modernization effort, especially because it defines transition to the use of transaction values, the role of security agents, and the licensing for Customs agents. Therefore the new Customs code needs to be approved by parliament to institute efficient customs operations. Once the new code is operational, Customs will be better positioned to collaborate with BIVAC and the various security agencies on risk management. This would further allow data from ASYCUDA to be shared among security related agents to reduce and ultimately eliminate the multiple physical inspections. Without restructuring of the physical inspection system among the counterpart government agencies, improvements from ASYCUDA and the other modernization effort will be minimal.

5.33 **Risk Management**: The effectiveness of the risk management protocols deployed by Customs is uncertain. By September 2013, it was unclear the results of the risk cargo profiling into the four risk channels—Green (submission of declaration/documents), Yellow (review of declaration and documents), Blue (scanning), and Red (physical inspection). Information was not available on the proportion of imports that are assigned to each category or on detection rates. Also it was not possible to determine if this profiling has helped to identify "preferred" or "safe" shippers for fast-tracking. Improved data collection on the risk profiling is critical for monitoring Custom's performance of the physical inspection and reducing the number of shipments that must be inspected. Customs should improve and tighten the risk management protocol based on enforcement and intelligence criteria because Customs cannot check and physically inspect 100 percent of the consignments. Moreover ASYCUDA's risk management module could yield more effective results when implemented properly; selective inspections and targeted controls under a well-executed risk-management program could yield equally effective results.

5.34 To significantly improve the risk-management program, Customs should form a Risk Management Committee, with representatives from various Customs offices with the task of setting, assessing, and monitoring the effectiveness of the new risk criteria for the major ports and the border-crossing posts. Additionally, Customs should expand its Risk Management Unit and seek additional training for this unit to allow it to better maintain and operate the system, as well as plan towards use of electronic manifest to provide for advance identification of high-risk shipments.

5.35 Custom should also complement the targeted controls based on risk-management with audit-based controls and compliance measurements to simplify procedures for fast-tracking authorized traders.

These “fast-track” procedures require minimal intervention by Customs in the release and clearance of goods. Traders and logistics providers who are sufficiently “known” and trusted by Customs based on their good compliance record of accurate declarations and timely payments could be exempted from the ordinary controls and subject to fewer procedures and requirements. Results of Customs’ post-clearance audits are essential for gathering data on compliance measurement and for determining the extent to which traders conform to Customs requirements.

5.36 **Hours of Operation**: Liberia’s trade facilitation would be improved significantly by extending the opening hours available for cargo clearance at the Port of Monrovia. Currently, the opening hours are Mondays to Fridays 8:00 am to 5:00 pm and Saturday 9:00 am to 2:00 pm. However, according to Customs officials and APM, the terminal operator, the effective operating weekday hours are far shorter, mostly ending around 3:00 PM. Regularly because of this, some shippers wait until the next morning to exit the port gates even after they have completed all the required procedures and have their containers secured to a truck. These loaded trucks wait overnight outside the APM storage yard but inside the NPA authorized waiting area. The restricted opening hours is a constraint that should be reviewed by the Trade Facilitation Forum and resolved quickly to allow shippers who have completed the clearance process and have their cargo to leave the yard. Simply extending the effective hours of operation to start at 8:00 am until 8:00 PM Mondays to Saturdays would have an immediate positive impact of reducing the overall logistics costs for shippers and increasing just-in-time deliveries.

5.37 **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. The Bureau of Customs and Excise should enhance its on-going training program of the brokers to improve their specific understanding and use of ASYCUDA to enter the values and HS codes of traded goods. Customs should proactively work with the National Customs Brokers Association of Liberia to effectively improve the testing, certification, and re-licensing procedures. Improving the brokers’ use of ASYCUDA would reduce filing of inaccurate declarations, reduce the need for re-evaluation by Customs, directly improve the Customs risk management regime, and significantly reduce the cargo clearance time. Additionally, improving brokers’ use of ASYCUDA would reduce the direct contact between brokers and Customs officials, reducing the potential for brokers paying unofficial fees to the officials which increases the cost of imports.

B. Infrastructure Condition and Performance

5.38 While Liberia primarily depends on two freight transport modes, maritime and roads, it also relies on rail and air cargo for the movement of international merchandise. Maritime accounts for the vast majority of international freight, handling over 90 percent of the weight or volume of imports and exports. Road transport accounts for a relatively smaller share of international trade because Liberia’s over-land trade with its neighboring West African countries is less than 10 percent of its overall foreign merchandise trade.[77] Road transport, however, dominates domestic freight movements within Liberia

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

for all distances because there is no interconnected rail network for moving commercial freight and inland waterway transport is very negligible.

5.39 The physical infrastructure network (both maritime and road transport) that handles the freight transported within the country and through its international gateways has improved since the 2008 DTIS. Between 2008 and 2013, the Government completed privatization of operations at the Port of Monrovia, rehabilitated principal road corridors, improved the conditions of some urban access roads, and upgraded the physical condition of the Roberts International Airport in Monrovia. While the physical condition of large segments of the urban and rural roads are still a constraint to trade facilitation, their condition is improving.

Maritime Transport Sector

5.40 Liberia has four seaports. The major port in terms of maritime traffic is Port of Monrovia (also called the Freeport of Monrovia) and the other three ports are Buchanan, Greenville, and Harper.[78] The Monrovia port has Freeport status, and at present is the only domestic port with the handling capacity (berths) for commercial containerized, general, and bulk cargo.

5.41 The National Port Authority (NPA) is an autonomous agency that manages all four ports and has the statutory responsibility to plan, design, construct, administer, regulate, and operate all public seaports 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.

5.42 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 Buchanan port could potentially serve as a primary gateway for iron ore exports from neighbouring Guinea.

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

5.44 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 have the NPA focus on port management and operational issues and have a Maritime Authority deal with the regulatory matters. Such a governance framework would be similar to how the aviation sector is administered with the Liberia Airports Authority (LAA) handling management and operations while the Liberia Civil Aviation Authority (LCAA) handles the regulatory issues.

Port of Monrovia

[78] Fairplay (2011).”Ports and Terminal Guide 2011-2012.”

5.45 The Port of Monrovia is a multiuse seaport that handles containerized cargo, general cargo, break bulk, dry bulk, liquid bulk, cement, and Ro-Ro cargo. The port contains four piers and one main wharf with four berths. The port's two breakwaters are in reasonable condition. The primary physical impediment at the port is the shallow access channel. The approach channel was originally dredged to between 14.0-15.0 meters to allow large iron ore carriers. Today even after recent dredging water depths are reported to be about 10.0m CD at the oil jetty and 9.0-9.5m CD elsewhere, including the turning circle. There are no immediate plans to widen or deepen the channel.

5.46 All approaching vessels are towed by two very old tugs and towage is mandatory even when vessels have bow thrusters. Pilots boarding calling vessels still launch from a small speedboat. There are no lighted navigational aids in the approach channel limiting vessel operations to daylight hours.

5.47 The Marginal Wharf, that is the primary facility for handling containers and general cargo, is in good condition after rehabilitation by APM, which assumed management of the port in February 2011 after signing a 25-year contract worth US$115 million with the Liberian government. The quay which was collapsed and posed a major safety hazard for ships and port workers is completely rebuilt and is in good condition facilitating cargo handling and increasing port productivity.

5.48 At present, the port is equipped with the minimum operational infrastructure and equipment. Nearly all the cargo is handled using vessel mounted gear and equipment. Containers are not released directly to shippers from the vessels. They are first stored at the APM container storage yard located adjacent to the transit area behind the apron. The berth dedicated for container vessels has no gantry or mobile cranes explaining why all cargo handling is done by ship's gear. APM indicated the container yard is being rehabilitated as part of its 18-months Phase 2 projects which it expects to complete by mid-2015.

5.49 APM's operation of its container storage yard is a source of concern for many shippers who complain of delays in having their containers located and released after they have obtained all the clearance documents and signatures. APM officials blamed any setbacks to temporary delays during 2012 when they had equipment malfunction that took longer than expected to resolve. By September 2013, APM claimed it had all the cargo handling equipment to prevent future delays in cargo clearance. The terminal operator indicated it had purchased 2 new reach stackers, 2 new empty handlers for a total of 6 reach stackers and 2 handlers. On the inspections side, there are two mobile scanners for containers are functional but not yet operational, although they are expected to be soon according to Customs and BIVAC.

5.50 A major obstacle to efficient handling of containers at the APM container storage yard is the manual system used for keeping track of the stored units. APM should improve its container handling by migrating from the manual recording of container storage location to an automated system that provides real-time location of containers. Such systems combine RFID tags with wireless web and database technologies. The simple electronic labels are tagged to containers the moment they arrive at and are checked into the storage yard. Containers could be easily tracked, located, and monitored for tampering, relocation, and security. Ultimately speeding up the clearance process.

5.51 A related and equally severe problem is landside access to the port and parking for trucks inside the terminal facility. Land access to the port remains an issue with heavy traffic congestion outside the terminal and trucks parking haphazardly within the NPA authorized area. This situation is worsened by the fact that not all the roads in this parking area are paved.

Cargo and Vessel Traffic

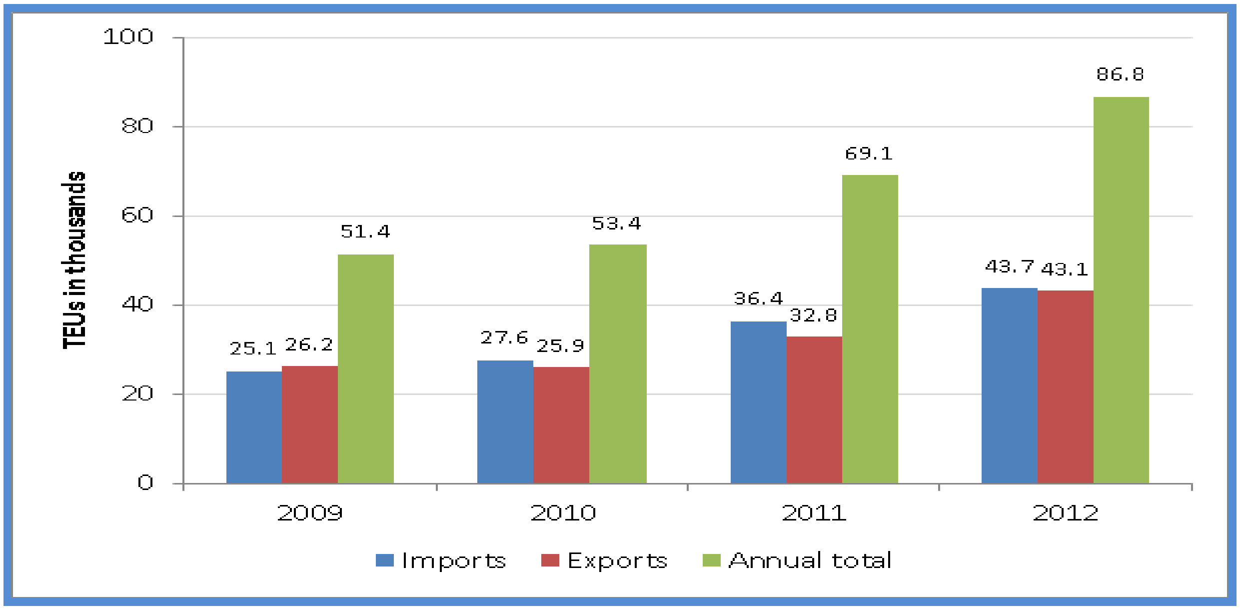
5.52 Currently, the port handles mostly imports which accounts for over 75 percent of the value of total freight handled. Export traffic can be anticipated to increase dramatically as the mining — and to a lesser extent — agricultural and forestry concessions begin to ramp up their production. It is estimated that total export traffic could increase from under 500,000 tons per annum today to potentially over 80 million tons per annum by 2030. Though predominantly iron ore, this would include potentially 3 million tons per annum of agricultural and forestry exports.[79]

5.53 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.

5.54 The number of vessels calling at the Port of Monrovia rose the past few years. In 2012, a total of 359 vessels of all types called at the port and increase of 6 percent from 339 vessels that called in 2011. Of the vessels that called, containerships were the most frequent, 125 in 2012, accounting for over one-third (35 percent) of the total. In 2011, there were 101 containerships, accounting for 30 percent of the total. The number of container vessels rose by 24 percent over the two years. In terms of share of the total, these vessels were followed by marine service vessels and fishing vessels.

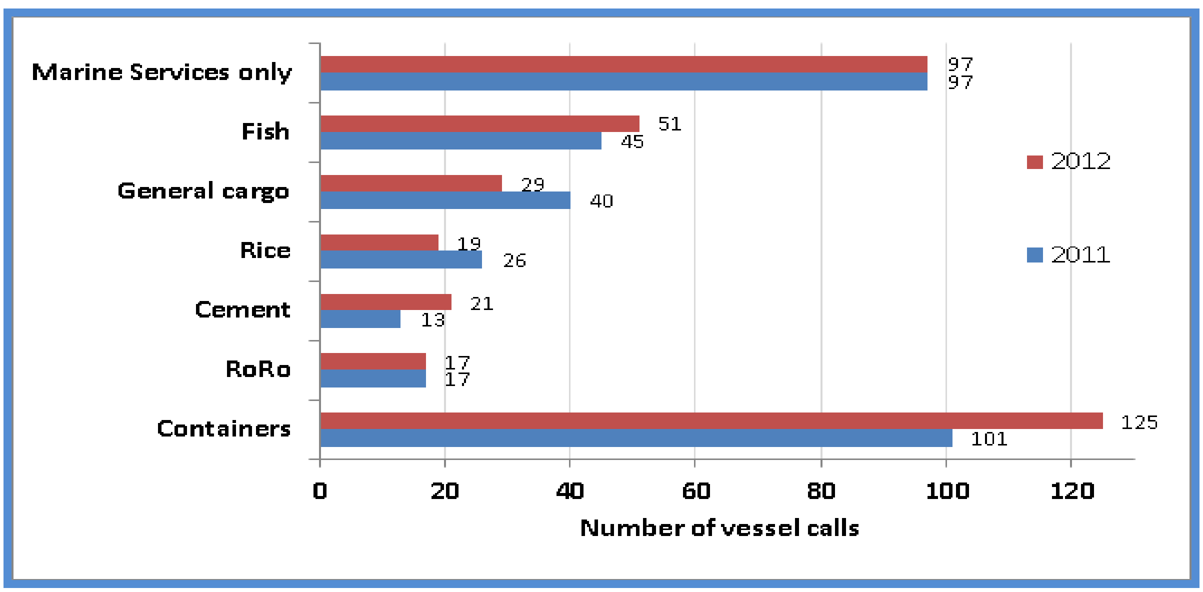
Figure 15: Number of Containers Handled at Port of Monrovia: 2009-2012

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



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

Figure 16: Number of Vessel Calls at Port of Monrovia: 2011-2012



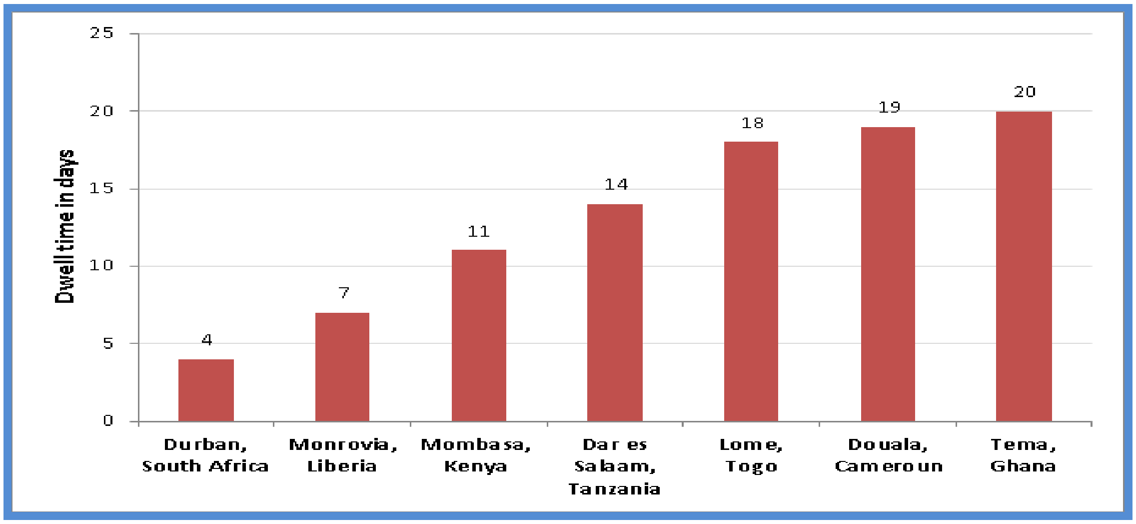
Source: Authors National Port Authority, APM Terminals Statistics, 2010.

Cargo Dwell Time

5.55 While port operation has improved, APM Terminals still aims to reduce cargo dwell time. By mid-2013, with all the new improvements and upgrading of the equipment at Port of Monrovia, there are still issues of insufficient equipment in the port for tracking and locating containers that are in storage.

Despite these challenges, the port's performance in terms of cargo dwell time is comparable to that of other ports in Africa (see Figure 17 below). Container dwell time at the port has declined from 14 days in 2008 to 7 days in 2012, and APM terminals aims to reduce it further to 5 days. To achieve this APM plans to reduce free container dwell time to only 2 days by 2015.

Figure 17: Container Dwell Time (days) for Liberia and Selected African Ports



Source: Authors, based on Raballand et al (Raballand et al, 2012) and DTIS mission to Liberia (2013).

5.56 The port terminal provides free storage period for traders, which helps in facilitating the Customs clearance process, but the cause of actual dwell time could be due to several reasons, including the limited effective opening hours for cargo clearance. The USAID Time Release Study identified the following 16 stages for cargo clearance at the Port of Monrovia. These stages do not always occur in sequential order and delays at each point contribute to the overall dwell time.

5.57 Streamlining the Customs procedures, document requirements, risk-management protocols, and collaboration among the border management agencies, BIVAC, and APM is needed to further reduce delays in cargo release and clearance.

Ports of Buchanan, Greenville, and Harper

5.58 The Port of Buchanan situated approximately 90 km South East of Monrovia is an important iron ore export terminal. It is also used on a small extent for export of logs and wood chips and imports of project cargo, cement, and Ro-Ro.

5.59 The Buchanan port has two breakwaters that are in fairly good condition. The channel depth is currently 12.8 meters, although originally 14.95 meters. The port has 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 signed in December 2008. The oil berth which requires rehabilitation and refurbishment is currently not being used but is being consider for possible use by Chevron. The commercial quay is in reasonable condition and has a small shed about 80 meters in length. All cargo handling is done with ships' gear. A single mobile crane at the port is very old and in bad condition. Customs inspection is performed on the quay by local Customs staff.

5.60 Major obstacles at the Buchanan port are absence of lighted navigational aids and presence of wreckage in the channel. The port officials indicated that two of the wrecked vessels have been donated to the Grand Bassa County government and are expected to be removed shortly. Both port and Arcelor Mittal officials noted that Arcelor Mittal has installed some lighted navigational aids that are yet to receive final approval from the NPA.

5.61 Because of the shallow channel depth ArcelorMittal uses a Panamax (50,000+ dwt) vessel as a barge to transfer iron ore from the terminal to Capesize vessels (180,000+ dwt) anchored two miles offshore. This is not an efficient and productive method but given the existence of a rock in front of the iron ore berth and the restricted channel no further deepening of the channel is being planned. Maintenance dredging is expected every 15 years.

5.62 There is the potential for another new berth to be added at the Buchanan port if plans with BHP Billiton proceeds with its mining concession. Since the maximum capacity for the current berth is 15 million tons per annum and Arcelor Mittal could use all that capacity after it has completed its Phase 2 expansion for increased throughput, a new berth is highly possible.

5.63 Greenville port located 241 km SE from Monrovia is not operational due to a sunken ship constricting the harbor and hence in need for dredging. The port is protected by one breakwater with two quays. Although not operational, the port is being considered for a sizeable expansion as the export outlet for a new iron ore development.

5.64 The Harper port located 473 km SE from Monrovia is protected by one breakwater. The concrete pier has a water depth of 5.5m. Vessels berth using their own power and there is no need for tugs because the channel is too small for ship and a tug. The port is presently being used on a small scale for coastal shipments of equipment and supplies for the United Nations. It has strong potential for timber and palm oil.

5.65 The port facilities at Buchanan, Greenville, and Harper needs to be improved through various Public-Private Partnerships projects. The Government of Liberia should charge the NPA to actively seek and incorporate PPPs for these three ports in its port master plan.

Coastal Shipping

5.66 Currently, there is very limited coastal shipping among the four seaports. With no transshipment of international merchandise among the ports the only coastal shipping is from project cargo for United Nations personnel and programs. The vessels used for these cargo movements are multipurpose vessels of about 2,000 dwt serving mostly ports of Monrovia and Harper. Because Buchanan is too close to Monrovia and Greenville is not operational for commercial traffic they do not provide any coastwise services. As of June 2012, a German shipping company, Coastal Marine Limited, had officially launched a coast to coast commercial service for both passenger and freight from Monrovia to cities along the south-eastern region.[80]

Road Transport Sector

5.67 Roads in Liberia are the main surface transport mode for moving freight among the production, consumption, and external markets. The majority of roads is unpaved and do not provide all-year access to the county capitals or the major international cross-border posts. According to the Transport Master Plan, less than one-third (28 percent) of the primary road network is paved.[81] More than two-thirds (72 percent) of these major roads have gravel surface. All the secondary and feeder roads are graveled and not paved. 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.

5.68 The pace of road infrastructure growth during the past decade has been led by the Government of Liberia and the mining companies operating in Liberia through forestry, iron ore, and agricultural concessions. The re-engagement of the 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 around 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.[82]

5.69 The other source of road infrastructure is by the multinationals investing in Liberia. The mining companies have built their own roads; they also own significant portions of the rural road network.[83] This transport infrastructure is managed by the mines which link the concession sites directly with ports, airports, and areas that serve as feeder locations. The 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.

5.70 According to the Transport Master Plan in 2012, two Mineral Development Agreements (MDA)[84] out of the five signed by the government with concessionaires make specific commitment to provide roads infrastructure. 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.[85] The Putu Ore Mining Company is required to pave the 191.5 km (1119 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.

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[80] Ministry of Transport (Ministry of Transport, April - June 2012). Page 15.

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

[82] World Bank (World Bank, March 2011). Liberia's Infrastructure. A Continental Perspective., Washington, D.C.: World Bank.

[83] World Bank (World Bank, 2011)

[84] 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.

[85] Information from an interview with China Union Investment in Monrovia.

Extent and Condition

5.71 Liberia's current road network covers 10,600 km.[86] Paved roads account for barely 6 percent of the total road network, and less than a quarter are classified as all-weather roads (roads which are usable year round). By 2011, about 60 percent of the road network was rated as in good or fair condition, an improvement compared to the immediate post conflict condition World Bank (World Bank, 2011).

5.72 During the rainy season significant portions of the non-urban roads linking agricultural production centers 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.

5.73 The National Transport Policy and Strategy and the Transport Master Plan highlights the major constraints for the road transport sector, including muddy roads during the rainy season that cause delays and high trucking costs; restrictions and lack of proper bridges for water crossing; and sustained basis of funding for periodic and annual road maintenance is an issue.

5.74 The Transport Master Plan also acknowledges that in order to provide a regular and continuous maintenance program, Liberia plans to introduce a Road Fund — a semi-autonomous agency — for securing a sustainable basis of funding for road maintenance (such as through fuel levy or toll tax).

Existing and Planned Roads Infrastructure

5.75 The road sector in Liberia has a mixed progress during the implementation of the Poverty Reduction Strategy 1 (PRS 1, 2008-2011). The construction of primary paved roads was in some cased delayed with no obvious contingency plans for resumption. For example, only 40 per cent of the planned feeder roads are now built (Table 9: Status of PRS1 (2008-2011) Deliverable in Miles: As of end of December 2011). As a result, the access to primary roads by small holders is still very much limited impacting local travel and economic activities.

5.76 Continuing the efforts made by the PRS1, the PRS2 set a new target for the period of 2012-2017. This target includes rehabilitation and maintenance works on roads and bridges noted in the Transport Master Plan (Table 10: PRS2 Deliverables in Miles: 2012 to 2017).[87] The Transport Master Plan gives substantial weight to maintenance program. The GIZ mainly supports the MPW in establishing a maintenance system, such as securing allocation of funds to conduct sustainable maintenance work.

5.77 According to the Transport Master Plan, priority roads needs to be built, and maintenance of the roads should be systematized. Furthermore, a regional road network, especially with Guinea and Sierra Leone, should be strengthened under the ECOWAS and Mano River Union (MRU) schemes in order to facilitate the flow of traded goods.

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[86] World Food Program (World Food Program, 2009)"Liberia: Logistics Capacity Assessment"

[87] The Ministry of Transport and Ministry of Public Works (MPW) prepared the Transport Master Plan with financial support from the Germany Society for International Cooperation (GIZ).

Table 9: Status of PRS1 (2008-2011) Deliverable in Miles: As of end of December 2011

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
Feeder Roads	400	164	236	0

Table 10: PRS2 Deliverables in Miles: 2012 to 2017

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

Source: Ministry of Transport, (MoT, 2012).

5.78 Based on Road Economic Decision Model (RED) analysis, the Transport Master Plan provides several scenarios, which correspond with an available budget level. The scenarios reflect the following recommendations of the Transport Master Plan: rehabilitate the all-weather strategic primary network that links Monrovia to the country capitals and to its main border points with Sierra Leone, Guinea, and Cote D'Ivoire; construct two main links that could save substantial travel costs — Buchanan to Tappita and Buchanan to Harper — provided that these new development is not negatively impacted by resources needed to maintain existing infrastructure.

5.79 Although the government has a well-researched Transport Master Plan, the government is constrained in its implementation. For instance, even though the road between Buchanan to Harper is one of the recommendations in the master plan, the government has not yet made any plans for this road, mainly due to the lack of resources and capacity to implement the master plan. The Ministry of Transport needs to prioritize how it is aligning projects identified in the Transport Master Plan with the development goals of the Agenda for Transformation.

Rail transport sector

5.80 Liberia has a limited rail network of about 500 km. This was constructed by mining companies for transporting iron ore from the mines in the Mano River basin to the ports 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 a global mining giant which include rehabilitating 240 km of railroad and the road from the mines in Yekepa to Buchanan (World Bank, 2012). 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 Sierra Leone border.

5.81 The Government of Liberia recognizes the importance of railways to 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, currently Liberia has no legal framework for constructing and operating railways; and concession agreements (contract law) form the only legal basis for regulating and administrating railroads in the country. There is an urgent need for the Government of Liberia 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. Doing 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.

5.82 Currently in Liberia, third-party access to concession infrastructure is required, typically as long as spare capacity exists, there is no interference with existing operations, and associated costs are covered by third parties. The provisions are weakest in the case of Arcelor-Mittal and strongest in case of Putu. While the MDAs give government the right to use any “excess capacity”, the term is not explicitly defined leaving significant space for legal disputes and contractual challenges. Further the 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.

5.83 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 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 will bring an estimated savings of US$313 million over 20 years, about 23 percent of total costs.[88]

5.84 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 Liberal 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 rehabilitating of the railroads to Yekepa and possibly to new BHP mines in Guinea. This extended and any new railroad as part of the corridor could eventually be used for iron ore from the Simandou range in Guinea facilitating intraregional cooperation and trade.

Air Transport Sector

5.85 Liberia has about 12 airports and airstrips providing air cargo and passenger services. The Roberts International Airport (RIA), located about 45 km outside of Monrovia is the country's only international airport and is managed by the International Airport Agency. The other airports are the James Spriggs Payne Airport, Foya Kamara, Greenville, Harper, and Voinjama. The state of the airport infrastructure is generally poor with the exception of the Roberts airport.

5.86 Following the peace accords in 2003, the Roberts airport has been restored to the minimum International Civil Aviation Organization (ICAO) standards through the purchase of essential equipment (World Bank, 2012).[89] The runway, terminal buildings, navigational facilities, and security equipment have been mostly restored. The Government has developed a new a master plan for the Roberts airport. An ongoing challenge is to improve the infrastructure at the other domestic airports to the minimum ICAO safety and security standards using various forms of public private partnerships.

Intra -Regional Trade

5.87 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. Also, 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.

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

[89] (World Bank, 2012)Liberia Country Evaluation Program Evaluation: 2004-2011. Washington, D.C.: World Bank.

5.88 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.

Logistics and Freight Services

5.89 Logistics and freight services in Liberia are primarily provided at the major seaports, land border crossings, and along the major road corridors. During the past decade, a key part 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. 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.

5.90 The current state of infrastructure services in Liberia in mixed and depends on the mode of transport. Maritime services are improving markedly. Road transport services continue to face daunting bottlenecks. Rail and air cargo services are less of a challenge because of the relatively small proportion of the volume of the international trade they handle.

5.91 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, increase the port's cargo throughput, and enhance the port's overall performance by offering integrated transport and logistics services.

5.92 By December 2010, the Government of Liberia has achieved this goal for the Port of Monrovia through a concession with APM 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 National Port Authority to generate increasing revenues for the port services.

Maritime Transport Services

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

5.94 Since currently high-value and time-sensitive goods are limited in Liberia's exports, maritime ports are the main transport mode for Liberia's foreign trade. Over 95 percent of Liberia's foreign trade is through maritime ports. About 90 percent of this trade volume passes through the Port of Monrovia.

5.95 The current port operator, APM Terminals is making considerable progress in improving the port's performance. APM Terminals signed in 2010 a 25-year concession agreement for the privatization of the Freeport of Monrovia, giving them a 100 per cent ownership of the port. The terminal operator is already committed to investing US$120 million in reconstruction and upgrading of equipment for the port under its concession, and these are expected to be completed by August 2013. It has installed a state-of-the art Navis container Tracking system, a 24-hour dedicated power supply to protect refrigerated cargo, new lighting, and refurbished structures.

5.96 The fact that Liberia shows moderate improvement in trade facilitation and logistics services in the last couple of years indicates that interventions made so far brought some positive changes. However, the speed of improvements is very slow. This may imply that more efficient interventions and comprehensive reforms are necessary. In addition, taking account of further economic growth, Liberia needs to take actions to keep up with its growth in both physical investments and policies.

5.97 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.

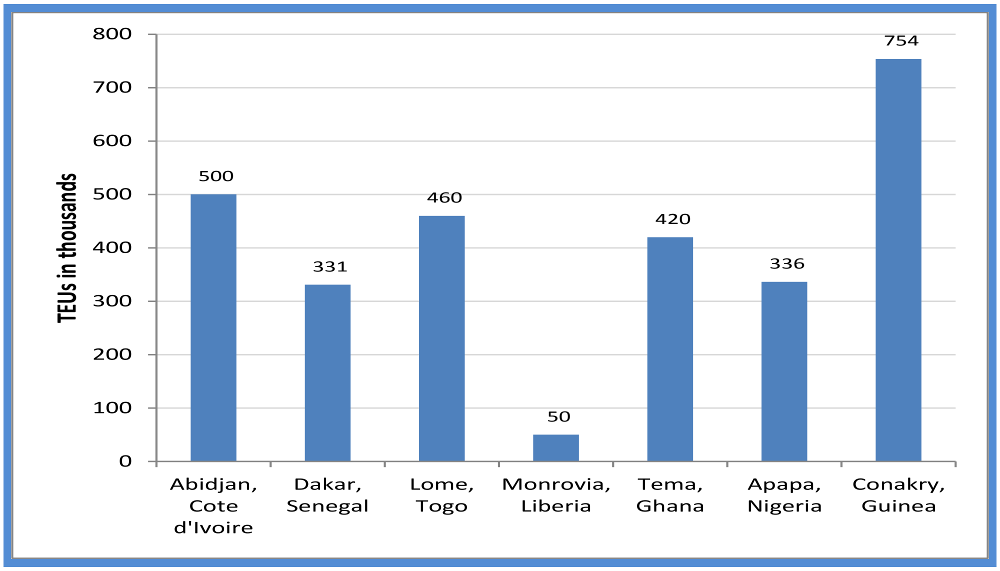
5.98 ***Transhipment.*** The modernization and improvements of the operation at the Port of Monrovia is expected to revive the regional transhipment business in Liberia as the port used to be a transhipment port and transhipment fees were a major source of the revenue. However, due to the bad road network conditions, they lost this business. Therefore, it is under consideration that the transhipment rate can be reduced from 2.5 percent from 1.5 percent, but this rate is yet to be confirmed and signing of the draft regulation is expected since July 2011. There is also a plan in place to introduce the transit module T1 in ASYCUDA, to capture transhipments. With a better monitoring and tracking system introduced, not only is the traffic volume by road expected to increase, but also service levels for providers as well.

5.99 A prosperous transhipment port requires not only a good port performance, but at the same time, seamless road networks to neighbouring countries are even more important. For instance, from the port of Conakry in Guinea to the West African region, roads are in good condition. While in Liberia, all transhipment consignments are escorted and roads maintenance and regional access roads are limited. Furthermore, once shipments cross border from Liberia to Sierra Leone, the road condition suddenly deteriorates and hinders containers traffic. Currently, there are some prospects to regain some of the transhipment business from a rubber plantation in Guinea. Truckers would prefer to pick up those volumes by road due to its proximity compared to Conakry, given that the road linking to Central Africa will be built. In addition, if the regional road network improves, a booming mining industry in Guinea and Sierra Leone, as well as in Liberia, can be a trigger to revive the transhipment business.

5.100 Currently, ECOWAS lacks better transhipment links, and major shipping lines use European ports such as the port of Malaga in Spain, as their trade hub for West Africa. (AfDB, 2010) explains that although there are numerous small ports in West Africa, the region lacks a concrete program in the transportation sector, as well as in infrastructure. In addition, port performance in this region is relatively lower than in other regions. Ranganathan R. Foster V. (2011 R. R.) pointed out that crane productivity in ECOWAS ports is less than half of the international benchmark. A container dwell time also takes more than double of that for Southern Africa. However, given that there are landlocked countries (particularly Burkina Faso Niger, and Mali), efficient transhipment hubs are always in demand for West Africa.

5.101 If Liberia wants to revive its transhipment business, it needs to play a strategic role to compete with other ports, but also considering export commodities. The Freeport of Monrovia is small as compared with other ECOWAS ports (See Figure 28).The port can only attract transhipments to the landlocked countries when the port completes upgrading of its infrastructure and facilities, and serve as a specialized port for such as booming mining industry.

Figure 18: Total Container TEUs Handled at Liberia and West African Seaports



Source: (ADB, 2013)

Road Transport Services

5.102 Liberia has a severe deficit in road transport services and the underlying causes of this deficit are daunting to tackle. Since 2008, while there has been measurable improvement in the physical condition of parts of the road network, there has been negligible improvement in the delivery of services commensurate with the infrastructure improvements.

5.103 The Ministry of Transport (MOT) is the agency responsible for the regulating the quality of road transport services in Liberia. The Ministry of Public Works (MPW) is in charge of 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.

5.104 The capacity and quality of trucking services in Liberia is unsatisfactory because of weak industry sector structure, over-reliance on outdated vehicles, excess capacity, and lack of back-haul which result in relatively high vehicle operating costs. This is worsened by the poor conditions of the roads, poor road safety, and rising costs of petro/gasoline. Additionally, the poor road condition contributes to high vehicle maintenance costs for the truck carriers who are mostly independent owner operators.

5.105 Liberia would benefit from a major restructuring and organizing of the trucking service industry, as a necessary step for improving trade facilitation and movement of imports and exports to and from the seaports and throughout the country. The Ministry of Transport could use assistance and support to develop the necessary regulations for developing the trucking service industry. This would include driver and vehicle safety training, attracting private investors and micro finance 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 Mano River Union frameworks. This enhanced regulatory action would also include working with the Ministry of Justice and the Liberia National Police to develop enforcement framework for axle load and overloading and forming a 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:

5.106 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.

5.107 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.

5.108 Controlling and enforcing rules on truck overloading which has a direct impact on deterioration of the rood network—especially the feeder roads that are not paved. Truck overloading, high tire pressures, and disregard for safe driving rules have serious impact on trade facilitation.

5.109 To make progress on these well-known challenges, MOT needs significant capacity building of transport regulators, enforcement officers, and dedicated funding source for massive public awareness campaigns that involves the private sector. The agency needs to 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. MOT needs targeted support to develop the institutional capacity necessary for performing its required role of ensuring safe and efficient commercial trucking services.

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

5.110 Liberia has historically adopted a “concession- approach” to development. Between 2003 and 2012, over 30 concession agreements have been negotiated and several more have been identified for future negotiations World Bank (2011). In view, of the huge infrastructure gaps in Liberia, concessionaires are often given incentives to finance their own infrastructure development needs. The total infrastructure investments of the mining concessionaires alone could exceed US$5 billion in recent times.[90] The resulting collection of roads, railways, and port facilities *could* however 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

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

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.

5.111 Evidence from different parts of the world suggests that mining-related infrastructure investments are potential enablers of increased trade, productivity, and economic growth (IFC, 2013).[91] Liberia has had little success in this regard. Third-party access to transport infrastructure under the mining concessions has been limited. To address the challenge, future transport infrastructure development agreements under the various concession agreements have to be better structured in terms of ownership, public and third-party access, and usage rights. It also matters that transport projects in individual concessions align with the short, medium, and long term national development goals.

5.112 Leveraging Liberia's concession-related transport infrastructure to facilitate its merchandise 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 the 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 the 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.[92] 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

5.113 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 World Bank (2011a). Together these large scale mining operations will depend on the three existing railroads and/or newly built railroads that are 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 Greeneville, with Buchanan centered 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 all the primary roads become all-weather roads.

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

92 According 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.

5.114 As development of new transport facilities follow these mining concessions, it would be important for Government of Liberia 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 Monrovia corridors could be linked to the ports by both all-weather primary roads and an integrated double track rail system (instead of the current single track rail serving one concessionaire). 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

5.115 Leveraging mining concession infrastructure for trade facilitation will require government commitment in two areas: (1) embracing a paradigm shift 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.

Embracing a Paradigm Shift

5.116 In order to move away from the absence of third-party use of mining-related transport infrastructure, Government of Liberia would 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 could be considered for all future concessions.

5.117 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 the 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 (IFC, 2013).[93] Instead of 100 percent private sector ownership in the underlying hard infrastructure (railroad, ports, roads), there are several proven models for structuring pragmatic partial equity ownership arrangements, particularly in Public Private Partnerships regimes (PPPs). A good case example is the Maputo Port PPP (see Box 15 below). While there are urgent and competing demands on the Liberian 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.

5.118 Pragmatic options that strengthen the government's position for open access regimes include:

[93] (IFC, 2013). Fostering the Development of Greenfield Mining-related Transport Infrastructure through Project Financing. April 2013.

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 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. And good case example is the MRS Logistica PPP in Brazil (IFC, 2013)

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 the 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.

Embracing New Regime of Innovative Financing Infrastructure in Concessionaires

5.119 An equally important complementary policy that the Liberian government should embrace is that it is in the government's ultimate interest to ensure continued financial profitability for the 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.

5.120 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. The International Finance Corporation (IFC, 2013) report discusses in details some of the applicable options and their pros and cons.

Box 8: 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.

5.121 In order to enable the Liberian government to be in the position 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 provide 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 credit worthiness 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.

5.122 Regardless of what concession regime the Liberia government decides for particular transport infrastructure—whether build-operate-transfer (BOT), build-own-operate-transfer (BOOT), or rehabilitate-operate-transfer (ROT)—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 reduced , thus increasing further the number of potential foreign investors.

D. Conclusions and Recommendations

5.123 Liberia showed moderate improvement in trade facilitation and logistics services in the last couple of years. However, the speed of improvements is slow, suggesting the need for more efficient interventions and comprehensive reforms. Interviews with key stakeholders and logistics professionals in the government and the private sector indicated several 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.

The findings lead to the following specific recommendations:

Effective Coordinating Body

5.124 The Government of Liberia recognizes the need for efficient transport and trade logistics reforms, which can enhance intraregional exports. Our preliminary assessment suggests that while many of the recommendations of the 2008 DTIS have been implemented, there are still some priority action items that remain to be addressed.

5.125 One of the critical reasons for the limited implementation of some of the Action Plans is the need for improving the effectiveness of the single coordinating agency that was created by 2012 and charged with overseeing and monitoring both the implementation and performance of the adopted plans.

5.126 For a more sustainable development of the Liberia's logistics sector, the Government and the private sector need to expand the role of the coordinating body and develop a comprehensive vision and a strategic plan of action for logistics both at the domestic levels, as well as regionally, focusing on the entire supply chain. However, it should not be just a consultative mechanism whereby the various Ministries involved are consulting the private sector on a strategy, but rather it should be a process with strong ownership by the private sector with a work program and clear timelines and milestones.

Customs and Cross-Border Management

5.127 The Government of Liberia is continuing the modernization of Customs and border management practices. The short and medium term agenda should include:

Short Term

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

Customs code needs to be approved as soon as possible and be in place for efficient Customs operations.

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.

- Major push for increased and sustained capacity enhancement and expanded training for enforcement, inspections, and data collection. Increased in-house capacity of the Customs staff is a necessary condition in order to handle better risk management. In addition to the capacity building plans by BIVAC on the PSI, Customs staff needs more training on handling declaration data for ASYCUDA. The strengthened capacity for Customs staff will also result in improvements in risk management and reliability of the trade data.

Maritime Transport Sector

5.128 The Government of Liberia is continuing the modernization of Customs and border management practices. The short and medium term agenda:

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 it takes for containers to be located and loaded to a truck after they have been cleared.

- As a high priority action, the terminal operator should follow through on plans to modernize and upgrade the port's equipment.

- The National Ports Authority should begin to plan for expansion of the terminal, to accommodate the expected growth in container vessels calling at the port.

Medium Term

- For Port of Monrovia, secure sustainable funding for maintaining adequate dredging to prevent siltation.

- For the ports of Buchanan, Harper, and Greenville secure sustainable funding through PPPs for the repair of basic infrastructure, wreckage removal, and dredging.

Road Transport Sector

5.129 Although there has been progress rehabilitating and upgrading Liberia's roads, significant gaps remain in the implementation of the country's road rebuilding strategy. The following areas need focused attention:

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.

Embark on enhancing capacity of the Ministry of Transport and Ministry of Public Works to effectively manage the expected growth in 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. But the urgency is growing particularly for local technical capacity for enforcement and safety personnel, in light of the increasing Mineral Development Agreements.

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.

Strengthening Intra-Regional Trade Integration

5.130 From a trade facilitation perspective, export diversification requires concentrated action on not only transport infrastructure, but also regional efforts aimed at seamless movement of goods, people (truck drivers) and vehicles through transit systems. Liberia and the MRU partners should jointly focus on:

- Supporting bilateral cooperation at the border and an agreeing on an implementable transit regime.

- Ensure that upgrading of physical transport infrastructure is coordinated with establishing of new institutional and regulatory framework for the Union. It is 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 the MRU insurance regulators 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.

- Review the new opportunities that the recent discovery of huge mineral deposits in the MRU states and the granting concessions bring to Liberia in collectively improving the gaps in the physical infrastructure, particularly in the road and rail sectors.

Summary

5.131 The Government of Liberia has numerous opportunities to take action that will directly improve trade facilitation and the country's competitiveness in global international trading. The key actions items include:

Continuing to improve the quality of the ports, road, rail, and air infrastructure and freight transport services.

a. Ensuring that government actions to reduce cumbersome administrative procedures remain an important priority.

b. Improving administrative efficiency at the ports by streamlining clearance and pre-shipment inspections and customs re-evaluation procedures.

c. Reducing the presence of multiple security and border management agencies at the ports to facilitate greater government control of the clearance process and ease business compliance.

d. Improving and tightening the risk management protocol based on enforcement and intelligence criteria because Customs cannot check and physically inspect 100 percent of the consignments.

e. Expediting the elimination of paper IPDs and EPDs and accelerating the move to electronic processes of trade documents and declaration.

f. Maintaining active outreach and communication with trading/shipper community to increase informed compliance and reduce administrative costs.

g. Monitoring and ensuring the modernization of the terminal and container storage and tracking facility at Monrovia port to facilitate efficient clearance that will save time, costs, and reduce opportunity for non-tariff barriers.

h. Continuing the export diversification strategy that will promote intraregional trade with the Mano River Union neighbors and in the long term deepen trade with ECOWAS partners.

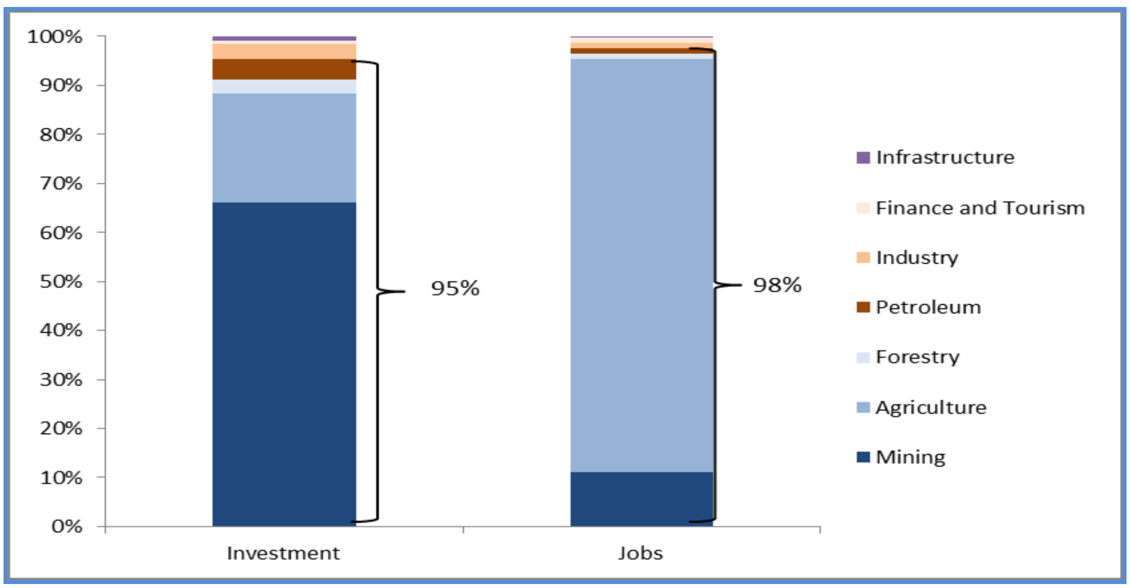
i. Reviewing the policy and paradigm regarding ownership, access, and use of transport infrastructure in future natural resource concession agreements to open further investments opportunities and better align the transport network to overall development goals.

j. Consistent with the Transport Master Plan and the Agenda for Transportation, accelerating the prioritization of critical capacity building needs to assist and guide the multilateral organizations in providing needed support.

A. The Role of FDIs in Liberia

6.1 Liberia's FDI, like its exports and its economy in general, is almost synonymous with natural resources. Over recent decades rubber and iron ore have been the mainstays of the economy, and it is these sectors which still account for the largest share of new foreign investment. However, other commodities are also becoming important, including gold and diamonds in the minerals sector; and palm oil in the agricultural sector; and, potentially of most importance, off-shore oil. Of the recent major investments (2006-2010), the mining sector accounts for about two-thirds of committed investments, with some 95 percent in iron ore. Agriculture is the second largest sector for investment but by far the most important in terms of job creation, accounting for 84 percent of potential jobs arising from recent investments. Within agriculture, virtually all of the major new investments are in palm oil. Overall, commodity sectors (agriculture, mining, and petroleum) account for 95 percent of committed investment and 98 percent of potential job creation from these investments (see Figure 19) although investments under the US$10m threshold, for which we have no information, are likely to be more diversified.

Figure 19: Share of Potential Jobs from FDI Contracts by Sector (2006-2010)



Source National Investment Commission (NIC)

6.2 FDI in Liberia is obtained from a broad range of international sources, which is in line with the commodity based nature of investments. In fact, almost all the main investments in mining and agriculture originate from different countries. And while investments in Liberia traditionally came almost exclusively from the US and Europe, recent investments have had strong representation from developing countries, including China, India, and Russia in iron ore, and Malaysia and Indonesia in palm oil because the Liberian private sector still generally lacks the finances to fund significant investments in commercial agriculture or processing activities.

6.3 In a static sense, FDI also continues to offer Liberia a lifeline in terms of capital inflows and foreign exchange. FDI is also a critical source of revenues to a government that otherwise has few alternatives outside of donors and of jobs, in an environment in which there exist few domestic, private sector sources of employment. Perhaps most importantly, in a dynamic sense, foreign investors have the potential facilitate the development of the Liberian private sector, and ultimately the Liberian export sector, following its collapse due to the civil war.

6.4 This may happen through several channels including direct supply chain linkages, which may help build scale and sustainability among select domestic goods and services providers, through spillovers of knowledge and technology that occur through such linkages, as well as through the development of human capital, which may eventually end up working in Liberian firms or become entrepreneurs because the Liberian private sector still generally lacks the finances to fund significant investments in commercial agriculture or processing activities.

6.5 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. This includes risks that are inherent to FDI and risks that arise from the commodity nature of the investments. First, a common concern about FDI is that foreign firms are likely to be "footloose" — that is they are more likely to close up and leave the country if the conditions are no longer profitable or if other locations offer better conditions. In practice, sudden decisions to shift out of markets are not common, particularly in the natural resource sectors that are the focus of investments in Liberia. Certainly foreign investors will leave when a mine's productive life reaches its end and there are significant economic, environment, and social sustainability concerns that arise from this, but such situations do not arise all of a sudden and can be planned for effectively. And any sudden decision for an investor to leave prior to the end of the productive life of the resource should be relatively easily replaceable (in comparison, for example, to a clothing firm leaving an empty factory shell).

6.6 A second risk is that foreign owned firms "crowd out" the local industry. This may happen by outcompeting local firms in their traditional domestic market, by capturing scarce financing from local banks, or by attracting the most skilled labor available in the market. Again, given the existing focus of foreign investors on resource sectors this may not be a direct and immediate problem. That said, there may well be a substitution effect. 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

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. Such dynamic benefits from the spillover of knowledge and technology into the domestic economy. As foreign firms are almost inevitably more productive and more technologically advanced than most firms in the domestic market (this can be inferred from the fact that they are able to export and/or invest outside their home market), spillovers can play a critical role in improving the competitiveness of domestic firms. These spillovers occur through three main channels Hoekman & Javorcik (Hoekman & Javorcik, 2006); Crespo & Fontoura (Crespo & Fontoura, 2007):

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*).

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.

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, it 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: Authors based on Faole, T. Staritz C. & winkler D. (Farole, T., Staritz, C., & Winkler, D, 2012) better opportunities. This has the effect of reducing the quality of the labor pool (and potentially raising wages) available to the domestic private sector. This is, however, unlikely to be an issue of FDI per se and rather part of the “Dutch Disease” effects that come from a commodity boom — indeed, evidence from other countries suggests this happens whether the natural resource sectors are foreign or domestically controlled. Crowding out also occurs through domestic capital being diverted away from local production and traded services to invest in activities linked to the commodity sectors, as well to non-tradable like real estate, construction, and retail. Again, this is really a function of natural resources sectors rather than of FDI per se. whatever the cause; however, crowding out of the nascent domestic private sector is potentially a significant concern for Liberia.

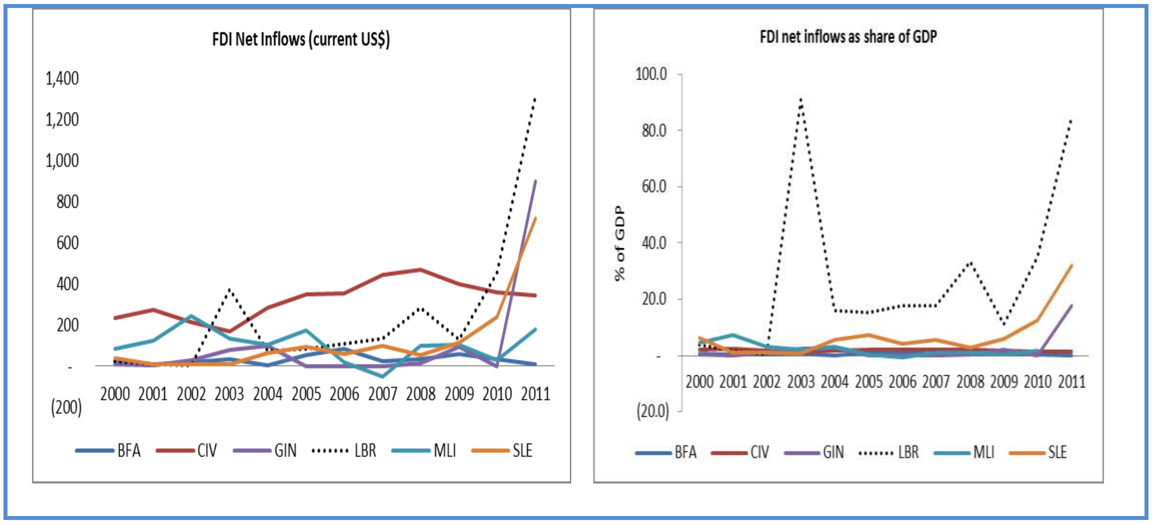
6.7 Finally one of the biggest risks in FDI is that it could aggravate social divisions (particularly in resource sectors and particularly when linked to land). It is estimated that the current negotiated concessions encompass some 40 percent of Liberia’s land area and 30 percent of the rural population (World Bank, 2011). 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. In this context, Liberia’s trade and investment policy should focus on two objectives in order to leverage foreign direct investment to support trade competitiveness: (a) attracting FDI beyond the traditional resource sectors and (b) 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 well planned and executed effort to maximize spillovers from existing natural resources based investments, including (but not limited to) developing more effective supply chain links. These issues are covered in turn in the next two sections.

B. Strengthening Linkages between FDIs and Domestic Economy

6.8 Liberia is in the midst of a major boom in foreign direct investment (FDI) that is poised to shape the country’s pattern of trade in the years to come. Between 2009 and 2011 alone, Liberia attracted nearly US$2 billion in net FDI inflows; almost as much in three years as it attracted in the previous two decades combined. 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 20).

6.9 While the FDI boom may be unprecedented in its scale, the Liberian economy has long been an important destination for FDI; indeed, the economy has been highly dependent on FDI for much of its history. FDI stocks per capita far exceeded those of regional peers throughout the past thirty years (Figure 20**)**, although from a long term perspective, FDI stocks per capita have not grown appreciably since 1990. FDI inflows have gone through several cycles, reaching up to 80 percent of GDP on several occasions (late 1980s, late 1990s, following the civil war in 2003, and again since the late 2000s). But again, even prior to the cyclical booms that began in the mid-1980s, the relative importance of FDI in the Liberian economy is evident throughout the 1970s.

Figure 20: FDI Inflows: Liberia v Regional Peers (2000-2011)



Source: World Development Indicators (WDI)

Note: BFA= Burkina Faso; CIV=Cote d'Ivoire; GIN=Guinea; LBR=Liberia; MLA=Mali; SLE=Sierra Leone

6.10 Data limitations prevent an analysis of the full range of investments in Liberia[94], but it is clear that the agreements signed in the period 2006 through 2012, would dominate the economy in the foreseeable future. Total reported FDI commitments from the 33 contracts[95] are over US$12 billion — implemented over the next 20-30 years period, such investments would alone account for more than one-third of Liberia's current GDP annually. They would also reportedly deliver up to 100,000 jobs, which is significant in the context of a country with only 15 percent of the population employed in the formal sector.

6.11 FDI also dominates Liberia's exports. Again, no data is available that would allow us to disaggregate exports by foreign versus domestically owned firms. However, given that over 80 percent of exports are in rubber and minerals, which are sectors almost fully controlled by FDI, with close to another 10 percent in wood (also largely controlled by FDI), the dominant position of FDI is clear.

6.12 It is critical for Liberia to build a more competitive domestic private sector that can become exporters in the medium to long term. In this regard, concessionaires and foreign investors more broadly play a critical role for at least three reasons: 1) they are major buyers

[94] We have information only on the investments classified as "major investments", which according to the Liberian Investment Act are investments of at least US$10m for which concession agreements are signed covering a ten year period

[95] Plus an additional 20 contracts for petroleum stations

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; 2) they operate at the forefront of global markets and so provide important 'conditioning' to domestic suppliers, ensuring that they can meet the demands of global markets; and 3) they offer potential links to global markets.

6.13 At the moment, while foreign investors deliver critical revenue flows to the Government they remain largely 'enclave' activities with very weak linkages to the national economy[96]. 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.

6.14 According to a recent study carried out by GIZ on behalf of the NIC Burger A. (2011 B. A.), based on current signed concession deals, if as little as 10 percent of spending by foreign concessions entered the Liberian domestic economy, the contribution would be 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.

6.15 At the moment, how, such linkages are extremely limited. This is not only the case for mining and agricultural concessions, but also for the largest actor in the Liberian economy — UNMIL. A study carried by the Peace Dividend Trust in Liberia and seven other countries in which they operated, found that Liberia ranked near the bottom of the list in terms of the share of UNMIL's spending that entered the domestic economy Burger A. (2011) B. A.) Only 4 percent of total spending and only 2.1 percent of procurement was spent locally — thus out of a total mission budget of nearly three-quarters of a billion dollars, only 0.7 percent was spent on local goods and services.

6.16 More recently, Building Markets (as the Peace Dividend Trust is now known) carried out a major survey of Liberian local firms, covering around 10 percent of the more than 7,500 firms registered with the Ministry of Commerce[97]. It found, perhaps surprisingly, 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 (BM, 2012). It appears that supply links are, however, concentrated in basic services and traded (as opposed to manufactured goods) — security services and office equipment & supplies represented by far the leading sectors for links with foreign investors.

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[96] Ministry of Foreign Affairs (2011 M. o.) *Industrial Policy for Liberia's Future*, February, 2011, Ministry of Commerce and Industry, Government of the Republic of Liberia, Monrovia.

[97] The survey focused only on firms in and around Monrovia

6.17 According to the (Ministry of Lands and Mines), both service and supply linkages in the mining sector have been very limited in recent years, particularly compared to the pre-war years in which most of the services (e.g. maintenance, plumbing, carpentry, as well as trucking) and basic inputs were provided by small Liberian firms. The perception is that many of these activities are now provided by Ghanaian companies. 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.

6.18 One recent concession in the mining sector indicated that through their mine development agreement (MDA) they committed to source locally and were successful in getting some of the most basic inputs (e.g. wooden coal trays) from the local community. But the limited availability and quality of supplies prevented them from significant local purchases. Some of the activities which are sourced locally include hiring of vehicles, telecom, internet, transport, catering, lab tests, and essentially most non tradable services. However, any requirements for expertise or technical supplies are sourced from international markets. The investor also noted that they offered payment terms of only 7 days, a significant deviation from their standard international practice, in order to accommodate difficult access to pre-financing for suppliers in Liberia.

6.19 A large agricultural concession indicated they work with 500 domestic contractors (e.g. in trucking and other services) but do not source significant goods inputs from local markets. Their experience is that for basic services, local individuals and firms are competitive. However, they face significant problems with delinquency when they extend credit to suppliers.

6.20 Finally, as discussed in Section 2 of the report, in the agricultural sector, linkages through smallholders is limited far below optimal levels. According to the industry, palm concessions would normally target only about 50 percent of their output to come from their plantations and would rely on local smallholders for the rest, but this has not been possible in Liberia, in part because no effective model of smallholder development has yet been implemented.

FDI-domestic economy linkages: policy environment

6.21 Given the situation described above, it is unsurprising that improving the linkages between foreign investors and the domestic economy is a priority for the Government of Liberia. Indeed, linkages are identified as a core component of both the recent MSME policy part of the MSME policy (Government, 2011) and the Industrial policy (Government, 2010) and feature in the programs of many donors. For the most part, the emphasis has been on supporting increased *supply chain linkages* (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* (investors hiring and training Liberians).

6.22 At present, no general policy exists obliging the use of local content or the hiring of Liberians. However, there are two significant exceptions to this: Government and concessions. For Government, a law on preferential procurement established in 2006 established obligations for the use of local content in government procurement. The objective of the law is stated as being to: "ease the conditions for Liberian and Domestic Businesses to provide goods, works or services in Government procurement." (Government, 2006). Under the law, local firms are given concessions on meeting certain bidding requirements as well as a significant "margin preference" of up to 50 percent for manufactured goods and up to 20 percent for the provision of goods and services[98].

6.23 The calculated percentages of preference not only depend on the nature of the contract, but also on the nature of the "local" business. 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.

6.24 In addition to the margin preference, in some sectors Government has specific targets for purchasing from local suppliers — for example 25 percent in furniture and metalworking. In practice, these targets apparently are not being met. It is reported that procurement officers in Government departments have been unwilling to take the risks of purchasing form local firms. It is also understood that monitoring and enforcement of the law is weak.

6.25 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. All concession agreements include a clause requiring the "Use of Liberian Services and Materials" (or something to that effect). However, the wording of most of these agreements allowed investors, should they wish, to avoid virtually any obligation to contract with local firms. For example, the relevant clause in the concession agreement with Golden Veroleum states: "Investor 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*

[98] A margin preference allows a firm to be awarded a contract even if its cost is not the lowest among bids received. For example, if a Liberian firm has a 20% preference margin, it could still be up 20% higher in price than a comparable foreign bid and win the contract. The stated intention of such policies is normally to enable local firms to compete on a more level playing field with foreign firms which may have advantages of scale economies or lower cost structures.

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). The more recent concession contracts negotiated with the mining sector seem to have tightened up on the language 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, while apparently more diligent than has been the case for the Government local procurement law, remains relatively ineffective.

6.26 For agricultural concessions, recent agreements also require the investor to provide for an outgrower, or contract farming, program. The agreements vary, but generally involve some of the concession land being established specifically for use by Liberian smallholders, with the concessionaire obligated to provide further (technical) support to the smallholders, although on cost recovery basis.

6.27 Most concession agreements, both in agriculture and mining, also attempt to support beneficiation (value addition). This is normally limited, however, 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.

6.28 Beyond supply links, concession agreements attempt to support the hiring of Liberians (e.g. by requiring a minimum percentage of management jobs being held by Liberians after a certain period) and requiring minimum investments in training for Liberian staff. Again, however, the provisions tend to be unspecific. Finally, most concession agreements require investors to contribute to industry development funds (e.g. the Mineral Development Fund, the Rubber Fund, etc.)

6.29 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 below).

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 sector of the member states. The ECOWAS Council of Ministers in May 2009 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.

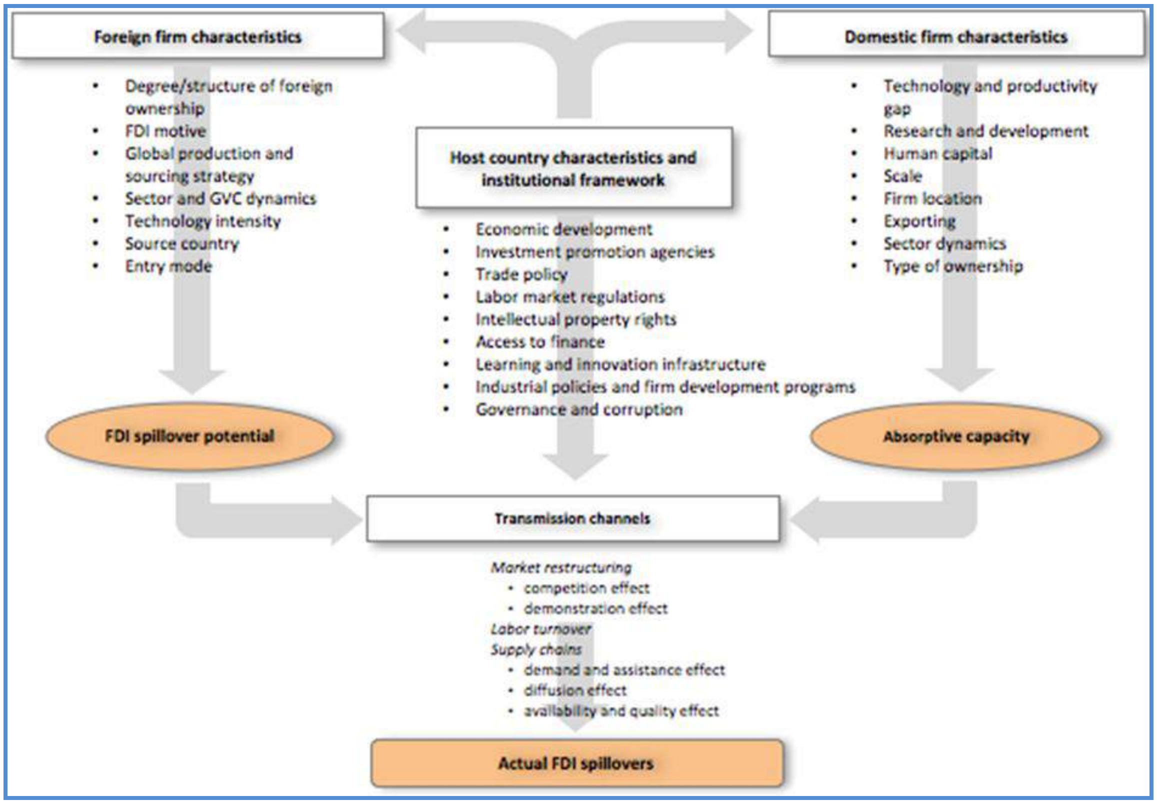
Source: World Bank (World Bank, 2012)

6.30 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.

C. Barriers to expanding linkages

6.31 What are the main barriers to increasing spillovers from foreign concessions to the Liberian economy? The realization of FDI spillovers 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) and the interaction of these two factors which is importantly determined by *host country characteristics* and the *institutional framework*. In this section we will review briefly factors i) and ii) above; the host country constraints have been discussed in detail earlier in this note and elsewhere in the DTIS —at present the institutional framework and host country characteristics act as barriers rather than facilitators of spillovers (see Figure 21: Framework for Assessing FDI spillovers, below).

Figure 21: Framework for Assessing FDI Spillovers



Source: Farole T. Staritz C. & Winkler D (2012)

FDI characteristics

6.32 Recent research World Bank, forthcoming in the mining sector found that FDI with the certain characteristics is more likely to result in greater supply chain spillovers. Most important among these was that more established, "top tier" or global mining companies rather than juniors — these typically have a longer-term view and greater financial resources and therefore are more likely to invest in local economic development. They also tend to be subject to greater scrutiny by the NGO and CBO sector, and therefore tend to focus on broader sustainability of investment, including gaining a "social licence" to operate. An exception could be where a "junior" mining company focuses its activities in specific countries — this concentration could lead to a greater commitment and interest in supporting economic development in that country. In Liberia's case it has mix of mining investors, including several top-tier global mining houses, but also a number of much smaller firms which may be less experienced and have less capacity to invest in supply local supply chain development, including providing support to help build the capacity of local suppliers.

6.33 The same study found that in the agricultural sector, resource seeking investors purchased much more locally than did market-seeking investors. Second, it found that the capital investment and expertise requirements of the agricultural inputs made a significant difference in the likelihood of investors buying inputs locally (higher technical and expertise reduce the likelihood of local purchase). Third, agricultural sectors in which there is lower risk of side-selling (in particularly where commodities must be processed in order to be marketed and where there are few local buyers) tend to have greater use of local inputs. All these factors suggest relatively high potential for local purchase through contract farming in the Liberian agricultural sector.

6.34 One trend that is increasingly common to all foreign investors, but typically from the large multinationals in mining is the use of centralized procurement in order to take advantage of strengthened supplier relationships to support security of supply, streamlined procurement operations, and bulk purchasing arrangements. This limits some of the scope of local purchasing. Yet, given the nature of what goods are 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

6.35 A recent survey carried out by the NGO Building Markets (2012) provided the most comprehensive picture yet of the nature of the domestic supply sector in Monrovia. It identified several specific characteristics of domestic firms that are likely to act as constraints to facilitating deeper supply linkages for with foreign investors. Below is a summary of some of these key constraints, making use of the results of the survey as well as of interviews carried out with the private sector in January, 2013.

6.36 *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.

6.37 *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.

6.38 *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.

6.39 *Lack of access to information*: More than half of firms that reported being interested in bidding on tender indicated that they are unable to find information on them.

6.40 *Limited use of technology*: More than half of firms reported that they seldom or never used the Internet and only 4 percent of firms had a website.

6.41 *Lack of access to finance*: While microfinance exists, firms indicate that they struggle to get credit, face short terms (9-12 months), high collateral requirements, and high interest rates.

6.42 Foreign investors broadly confirm these constraints on domestic suppliers. From their perspective the biggest constraints they face 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.

6.43 Finally, as discussed in Section 2 of the report, concessions in the mining sector have recently indicated they are beginning to face challenges in meeting their obligations to hire local managers and technical staff, due a shortage of qualified personnel in the local market. This is particularly for operational activities, where vocational skills are required. At the moment there is no funding to support the development of vocational schools.

Policies and programs to support spillovers

6.44 Based on the current situation outlined above, the scope for supply chain and human capital spillovers from foreign investors is relatively limited in the short term. However, it remains critical to exploit as much as possible whatever prospects for linkages do exist. From a supply chain perspective this means in the short term focusing local services (e.g. security, transport, and catering) and some basic goods inputs (e.g. office supplies). Of more interest, and where efforts need to be made, is in building capacity for medium-term opportunities. These may include provision of food and other agricultural inputs by local communities around the mines, more advanced transport and logistics, carpentry and maintenance, recycling and waste management, construction activities, and some basic commercial services. 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.

6.45 Whatever the current capabilities and near term opportunities, there appears to be significant expectation on the ground in terms of 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 a major boost in foreign direct investment, with Arcelor Mittal on line and others coming in the next few years. Therefore, it is now a critical time to put in place a comprehensive policy to address spillovers from foreign investment. The remainder of this subsection outlines some of the policies and practices that the Government of Liberia should consider to support improved spillovers from foreign investment.

<u>Bring in the right investors in the first place</u>

6.46 The fact that the potential for spill-overs can vary significantly depending on the characteristics of foreign investors underscores the importance of having an effective strategy for investment promotion at the outset (see Section 2). In setting out the strategy and priority activities of Liberia's investment promotion program, the potential for spill-overs should be considered. Specifically, efforts can be made to attract "top tier" concessionaires, with a focus on those multinationals that have proven to have implemented effective supplier linkage and domestic human capital development programs in their investments in other developing countries. Considerations on local spill-overs should be incorporated not only into the proactive promotion efforts of the Government of Liberia, but also incorporated into the investment application process (both for concessions and for the SEZ, if it is implemented) and the granting of land concession.

<u>Recognize differences across sectors</u>

6.47 Most importantly, it is important that the mining sector and the agricultural sector not be treated in exactly the same way. The scope for deep linkages through the agricultural sector is likely to be significantly greater than in the mining sector, but in many ways putting in place basic linkage programs is simpler in the mining sector. Thus blunt measures like specific standard local content thresholds applied across sectors is likely to create a situation where meeting obligations requires little effort in some sectors while being highly unrealistic in others.

6.48 In the agricultural sector, the real prize in terms of linkages would be the development of a successful, sustainable smallholder development program. Indeed, success in this regard would be one of the most important development stories in Liberia for some time. But delivering on this goes well beyond what can be achieved by a basic linkage program or by an investment promotion agency alone. It requires significant resources and substantial technical expertise in the specific agricultural subsectors. That said, there exist many successful models of smallholder development, both internationally and in the immediate region, which could serve as models from which a Liberian program could learn useful lessons. For cocoa, both Ghana and Cote d'Ivoire have relatively successful smallholder development programs, based on a sharecropping model. Cote d'Ivoire also has been successful in the development of smallholders for rubber. Perhaps the most common broad model for smallholder development in countries with large concessions is contract farming, where a centralized large-scale commercial enterprise is responsible for marketing (and in some cases, further processing). These can include outgrowing schemes, where the large commercial enterprise agrees to buy from the smallholders and often provides working capital to the smallholder to finance inputs (or provides them upfront in-kind, with deductions from the final selling price). In Liberia's case all the concessions also engage in their own production, contract farming operates through what is sometimes known as the nucleus-plasma model — Box 4 for an example of a nucleus-plasma smallholder development program.

6.49 A World Bank project to support smallholder development was launched in 2012 and will run through 2016. This US$23 million project focuses on revitalizing tree crops for smallholders in oil palm, coffee, cocoa, and rubber, as well as capacity building of public and private institutions, in order to put them in the position to plan and implement larger scale smallholder development programs in the future.

Walk a careful balance in establishing and implementing "local content" policies

6.50 On the one hand, showing that the Government is serious about addressing local participation and bringing in some policy or legislation can be important to begin getting action and 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 Box11). In terms of policy and regulation specifically aimed at expanding local procurement, 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 labor. But this only works when the supply side is fully up to the task.

Box 11: Local content policies and the WTO

The Agreement on Trade-Related Investment Measures (TRIMs), which is part of the WTO legal regime, 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 are opposed to the elimination of TRIMs that are seen as 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). This revision would, if adopted by the WTO membership (e.g., as part of a Doha Round deal or a smaller "development package"), make some concessions to developing countries and least-developed countries (LDCs) 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) it allows 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 the preceding TRIMs, GATT, and GATS provisions, many countries have in practice resisted eliminating TRIMs; in fact there is an increasing drive toward implementing measures to support local procurement. Australia, for example, has linked access to government grants and tariff exemptions to local content, and South Africa has set local content procurement targets through the Mining Charter. More widely, a number of African countries have implemented empowerment policies, including reserving activities in certain sectors for nationals, empowerment funds, and preferred employment of targeted citizens.

Source: Derived from World Bank (2012)

6.51 Instead, it is recommended that Government work closely with concessionaires and establish a local content policy whereby investors are encouraged (indeed, obligated) to come up with their own proposals on how they will deliver spillovers to the local economy, allowing for flexibility so 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. At present, Newmont Ghana is the only mining company to have developed a local procurement plan, but both Rio Tinto in Mozambique and Goldfields in Ghana, have also commenced work on local procurement policies. 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, low-level maintenance and paint. By the end of the project in 2010, 53 local enterprises had been trained and contributed to a local procurement spend of approximately US$14 million.

6.52 Similarly in terms of local labour, 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.

<u>Define "local" carefully</u>

6.53 The Government of Liberia is already deeply embroiled in the debate over what is "local" in the context of procurement policy. Specifically the issue has focused on making a distinction between Liberian citizens and Liberia-based businesses run by individuals that may be long term residents of Liberia but are not citizens. For example, the World Bank definition for "domestic preference qualification" is based on the percentage of local ownership of the firm, while the African Development Bank defines "local firms" based on place of registration, a majority of board members being nationals, and level of shares held by nationals (see Box 12: Local content, below).

6.54 In fact, the debate can (and should) get more complex than who owns the firm, in particular addressing distinctions between the level of value addition that takes place in the host country. At present, there is no consistent definition of "local firms" internationally. Indeed, the way in which "local" is defined has a significant impact on the potential benefit which can be 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. The diagram in Figure 22: framework for measuring local procurement, below highlights a continuum for defining local firms, based on levels of local participation as well as the extent of value add in country.

6.55 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 coming years. It can also help prevent a situation where well-meaning local content efforts simply creates rent earning opportunities for a small set of middlemen, while failing to facilitate the development of a value adding 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 holders of mineral rights give preference to: materials and products made in Ghana; service agencies located in the country and owned by citizens; companies or partnerships registered under Ghanaian Company Code or Partnership Act

The regulations developed by the Minerals Commission require 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 development of capacity of suppliers). The regulations allow for annual review of the plan by the Minerals Commission. To support achieving targets, the regulations require that when bids are within 2 percent of 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.

More recently, in response to regulation developed by the Ghana Minerals Commission, the major mining companies have undertaken a collective effort through the Chamber of Mines to identify and support realisation of opportunities for local production of inputs or local service provision. In particular, they have started to support development of capabilities in manufacturing, as well as manufacturing of more technical products, (e.g. crusher liners). 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. The next steps in the support program were then to assist suppliers to address these gaps.

Figure 22: Framework for measuring local procurement

Source: Kaiser Associates Economic Development, developed as part of World Bank (2012)

D. Improving monitoring and enforcement

6.56 Whatever policies are put in place, what is clear is that without improving monitoring and enforcement significantly, impact will be limited. While revenue flows from the major concessions are generally monitored effectively through the LEITI, compliance monitoring for non-financial obligations in the concession contracts is undeveloped. The Government must raise the capacity of existing monitoring bodies like the National Bureau of Concessions; it must also devote greater resources to ensure that relevant ministries and agencies can actually carry out their monitoring mandate. In fact, lack of funding represents a major handicap in the monitoring effort at present.

6.57 Whilst revenue flows from the mining and forestry sectors are being effectively monitored by the Liberia Extractive Industries Transparency Initiative (LEITI), non-financial compliance monitoring of contracts is in its infancy. For example, the Ministry of Mines has just a few cars and almost no dedicated staff — and a budget of less than US$5 million for the entire ministry covering mines, energy, and land — making it virtually impossible to monitor projects that are spread out across rural areas in the country.

Government has a clear role to support spill-overs by addressing coordination failures

6.58 Both concessionaires and domestic suppliers recognize that the fundamental barrier to improving linkages and spillovers is the weakness of supply side, in terms of scale and scope as well as quality and cost competitiveness. In this context, there is a clear role for government (along with financial and technical support from investors) to put in place programs of support, including specific linkage programs as well as broader programs designed to build supply side capacity more broadly.

6.59 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. In the survey carried out by Building Markets (2012), concessionaires indicated that they did not know how to find quality Liberian suppliers. Similarly, Liberian firms indicated that they had no knowledge on how to access procurement opportunities with investors and felt “you have to know someone” in order to win a contract. 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 the information gap is the development of platforms (databases or a “yellow pages”) to share information about procurement opportunities and about the local firms that operate in different supply categories. In this context, there is no need for the Government of Liberia to invest significant resources, as a platform already exists — through Building Markets — to provide this solution.

6.60 The second area in which Government may play a role to support the development of linkages 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. It appears from conversations with members of government and of the private sector that these initiatives serve well certain segments of the populations, particularly micro- and small businesses, but that more advanced and more technical assistance would be needed to work with some of the companies that would supply to concessionaires. It is also not known how many of these programs work outside of Monrovia. 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 (see Box 13 below).

6.61 Finally, specific linkage programs can be developed. Here, Government may be a facilitator, but normally the programs are developed and delivered by the large concessions, independently or sometimes coordinated on a sectoral basis. It is understood that NIC already has plans or is implementing at least one linkage program along with a concession in the mining sector. In addition, the IFC has been in discussions on the development of linkages in the mining sector drawing on substantial experience of their programs elsewhere in Africa.

Box 13: Examples of Supply Side Support for linkages in West Africa

Ghana:

Information-sharing through the Chamber of Mines:

- Mining suppliers forum / open day, second forum planned for October 2011

Information-sharing on opportunities by mining companies:

Fuel distribution opportunity

Potential investment in cyanide production

Openness to receiving suppliers and responsiveness to enquiries

Requests for quotations sent to local companies for particular products

Development of approved supplier lists

Technical input and product testing, e.g.:

Grinding balls production at Takoradi and Tema

Steel crusher liners produced at Tema

Financial support (including pre-financing, support for acquiring equipment):

- Establishment of a staff transport company
- 'Mobilisation' payments to local contractors to support delivery on larger contracts
- Investment in lime processing facility at Takoradi

Development of upstream activities internally, e.g. plantation for wood supplies

Senegal:

Information-sharing on opportunities:

- Approaching existing manufacturers and service providers (e.g. plastics, laboratory services, metal work companies) and providing information on products required which require similar production processes / expertise
- Searching for local suppliers in yellow pages and by word-of-mouth
- Openness to receiving suppliers and responsiveness to enquiries
- Requests for quotations sent to local companies

Technical support:

Training in health and safety, or environmental standards

Financial support:

Pre-financing orders

Preferential treatment:

Accepting prices from local suppliers that are slightly higher than prices from overseas vendors

Source: World Bank (2012)

Establish systematic and coordinated dialogue with the private sector

6.62 In order to put in place an effective local content policy, to develop effective linkage programs, and to improve the monitoring and compliance of concession agreements, an important priority is for Government to improve its dialogue with the concessions and with the private sector more broadly. In the context of concessions, to date interaction remains mainly on a one-on-one basis, in part because all the concessions have individual contractual relationships with government. But as the mining sector begins to move from exploration into widespread production, and as palm oil and other new crops begin to play a more important role in the agricultural sector, now is the time to initiate more systematic and coordinated interaction with the private sector, at least on a sector-by-sector basis.

6.63 Experience in Ghana and elsewhere shows that Government's stated plans to introduce potentially binding local content legislation turned out to be a valuable catalyst that got the foreign investors in the mining sector to realize they needed to come together with a common voice — this helped establish the Chamber of Mines, which is now the main body representing industry to Government. It should not have to come to that, but whatever the means, the Government of Liberia will certainly be more successful in achieving their goals of FDI spill-overs if they can interact with foreign investors in a (sectoral) so that the collective needs of industry with regard to skills requirements, access to inputs, land, and other issues can be communicated with a single voice to Government.

Coordinate initiatives and leverage the potential of concessions

6.64 Finally, given the many significant challenges Liberia faces and the limited capacity of Government, it is critical that efforts to facilitate spill-overs take into account two principles: effective coordination of existing activities; and leveraging on-going investments for the biggest impact. In the arena of linkages alone, there are many initiatives on-going in Liberia, across different government departments and across donors. Thus, there should be little need for Government to start major new projects. Instead, it should focus on ensuring effective coordination among the initiatives. It should also take advantage of what assets and tools already exist to support these efforts. For example, as noted previously, the Building Markets database and their other procurement related services offer a strong existing base to facilitate improved information flows as well as to target suppliers for support interventions.

6.65 Finally, the biggest investments being made by many of the concessions are in the area of infrastructure, particularly transport and energy. These also happen to be among the most important investment climate barriers to doing business in Liberia. Mining companies alone are investing many multiples of the Government's annual infrastructure investment budgets each year. And the large majority of Liberia's infrastructure will ultimately sit within or adjacent to concessions. Yet, coordination of infrastructure and other investments by concessions remains relatively limited. What is required is a more strategic approach to thinking about how these investments can be leveraged for the good of the country. Beyond this, however, it will also require (as discussed above) coordinated dialogue with concessionaires as a group (in this case across sectors) rather than individually. Achieving spill overs from concessions is not simply about local content, but rather about leveraging these concessions in comprehensive, coordinated, and systematic way to support the development of the country — including supplies, but also roads, energy, and the development of skills and technical capacity.

Current Investment Policy and Incentives

6.66 The Government of Liberia has made significant progress in putting in place a more efficient legal and policy framework to facilitate investment, but some inefficiencies and distortions remain. With the assistance of the IMF and the IFC respectively, the government introduced a revised Revenue Code[99] in 2009 and a new Investment Code[100] in 2010. Most importantly, within the Investment Code, investor protection was strengthened significantly through guarantees against unfair expropriation, protection of intellectual property, provision of access to international dispute resolution mechanisms. In addition, investors were ensured of the right to repatriate capital and profits.

6.67 A second major reform of the new legislation was to consolidate all incentives under the Revenue Code, rather than being dealt with under the Investment Code as was the case previously. Moreover, for standard incentives, the nature and level of incentives and the eligibility requirements are now set out clearly, improving both predictability and transparency. Another good practice under the new policy is that, rather than offering tax holidays, the incentives provide tax deductions and duty exemptions based on actual investments. Finally, they are offered for a fixed period (5 years for small investments; up to 15 for larger investments). To be eligible for incentives, investments must meet a minimum size threshold of US$1 million for foreign investors and US$1 million for domestic investors (US$500,000 for full Liberian investments). This sets a relatively level playing field between domestic and foreign investors, although most domestic investments will still fall below the threshold to receive incentives.

6.68 However, incentives are restricted to a specific set of sectors which, while broad[101], do not necessarily cover all sectors for which investment is needed. A simpler approach may have been to establish a negative list of investments that are ineligible for receiving incentives. In addition, the new Investment Act retains a set of 28 sectors that are reserved for Liberians, 16 of which are fully reserved and another 12 of which set minimum thresholds for foreign investment — most of these sectors are not internationally traded..

[99] Amendments to the Revenue Code of Liberia Act of 2000

[100] The Investment Act of 2010 Repealing and Replacing the Investment Incentives Act of 1973

[101] Eligible sectors include: tourism (carried out through tourist resorts, hotels, and cultural sites), manufacturing (with at least 60% local content), energy, hospitals and medical clinics, housing, transportation, information technology, banking, poultry, horticulture, sea products (for export), agricultural and food crop cultivation and processing including cocoa and coffee, and small and medium scale rubber and oil palm cultivation and processing. Note that investment incentives for mining are covered under a separate law.

6.69 Both eligibility and the level of incentives offered is based on a somewhat complex set of factors, including 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. Perhaps more importantly, it also opens up the possibility that the granting of incentives will at least perceived to have some discretionary element, particularly as 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 on 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 2). While they are unlikely to be problematic in the near term (particularly on promoting local content in extractive sectors), they may need to be amended in the future.

6.70 The biggest concern about the investment regime, however, 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. Loss of transparency is also a concern, although as Liberia is compliant with the Extractive Industries Transparency Initiative (EITI), details of negotiated incentives agreements are available publically, at least for the concession[102] 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 go well beyond the large concessions.

[102] A concession is normally defined as a contract whereby the government assigns (usually exclusive) access of a public asset to a private party, under specific terms for a specific period. In the case of Liberia, where historically the economy has been driven by the exploitation of natural resources, concessions have been the main form of foreign investment. As a result, all foreign investments are often referred to as concessions. However, in this report, we use the term with its specific meaning.

Box 14: 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 is 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, there exist some fiscal incentives 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 way to comply with WTO provisions would to remove subsidies completely. Of course, as 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 while linking the subsidies to targeted policy objectives.

As a least developed country, however, Liberia remains exempt from the 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)

6.71 The somewhat unpredictable nature of incentives under the negotiated regime is apparent in the large-scale concession contracts, which account for the large majority of existing foreign investment. The general structure and broad terms of these concession agreements is similar. According to the recent IMF Article IV note for Liberia, the tax code for natural resource sectors is adequate. However, the IMF notes that ad hoc terms remain in many concession agreements, resulting in foreign investors facing significantly different fiscal environments in practice. To be fair, many of the concession agreements negotiated some years in the past, and more recent agreements tend to be more standardized and follow good international practice. Therefore, much of the concerns about 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.

Other instruments for supporting investments

6.72 Beyond investment incentives, Liberia has some of the basic instruments to promote investment, but is thin in terms of the variety and scale of non-fiscal instruments, and in the resources available to develop them. Given the significant country risk and the concerns about investor protection, Liberia's membership in Multilateral Investment Guarantee Agency (MIGA) and the International Center for the Settlement of Investment Disputes (ICSID) are important assets. In the National Investment Commission (NIC), Liberia also has a relatively strong institution leading investment promotion effort. NIC operates as an autonomous agency reporting directly to the President, and its Chairman has official Cabinet rank — this gives the NIC effective coordinating powers in Government. The NIC also chairs the Inter-Ministerial Concessions Committee, which ensures a tight link between concessions and investment promotion, as well as the Liberia Business Reform Committee, which helps ensure it can carry out effectively its policy advocacy role on behalf of investors.

6.73 On the other hand, given its huge mandate, NIC has relatively limited resources with which to work. Partly as a result of this, many of the typical instruments available to support investment promotion, including image-building activities, pre-investment services (including 'one-stop' facilitation), and after care can only be carried out in a limited way.

6.74 The NIC also has management authority over the 450 hectare Monrovia Industrial Park in Gardnersville and a 32 hectare free zone at the Freeport of Liberia. The industrial park, which offers firms based there basic infrastructure but no special treatment in law, was occupied by squatters during and after the war and has therefore been largely unusable for investors. The free zone was established under the no-longer-functioning Liberia Industrial Free Zone Authority (LIFZA) in 1975 in order to attract foreign investment, particularly in manufacturing. It offers firms establishing within the free zone waivers on import duties as well as on corporate taxes. The free zone has a capacity to support up to 70 firms but is currently occupied by UNMIL. NIC is developing plans to establish special economic zones (SEZs) and a draft SEZ Law (which would also repeal the existing LIFZA Act) is under preparation, with support from the IFC.

6.75 The intention is to revitalize the free-zone at the Freeport of Liberia as an SEZ, with the potential for development of further SEZs in the future at strategic points, including inland locations along key development corridors. This is viewed as an important component of NIC's strategy to develop the key "building blocks" to support investment in value adding activities. The SEZs in particular would overcome constraints to land and facility access and offer quality industrial infrastructure, including reliable energy in a "plug and play" environment. Outside of Monrovia, futures SEZs are envisaged to go beyond the basic industrial infrastructure and also encompass investment in social infrastructure to support agglomeration.

6.76 The original 2009 feasibility study for the development of SEZs (sponsored by the IFC) projected that 151 firms could be expected to locate in a SEZ of approximately 148 hectares in size over a 10-year period, with demand coming from both domestic and international firms international Finance Corporation (2009 I. F.)

Existing constraints to investment

6.77 The Government of Liberia aims not only to attract further investment in the traditional sectors of mining and rubber, but importantly to attract new investments that can offer a platform for the development of a more diversified and value-adding export sector. Work is ongoing between the NIC and the IFC to develop a strategy for achieving this. An initial set of potential priority sectors has been identified[103], including: i) tree crops (further development of rubber and palm oil, as well as cocoa; ii) food and beverage processing (including, pineapple and mango); and iii) fisheries; as well as potentially transport (sea and ground trucking) and energy. At the moment, however, attracting new investments will face difficulties given the significant barriers to the investment climate that exist in Liberia. Critically, these barriers not only hinder the possibility of attracting investment in more diversified sectors but also prevent existing investments from delivering fully on their potential. Indeed, output from existing investments, particularly in rubber and palm oil, remain far below potential as a result of some of these constraints.

6.78 Data from the World Bank's "Investing Across Borders" index lends strong support to the first three of these constraints, in the context of regional and global comparisons. Looking specifically at investment policy, Table 9 below suggests that while investment policy and procedures are attractive for investors, the problems exist with access to land and the ineffectiveness of the courts system in protecting investors.

[103] This is based on analysis taking into account the potential for each sector in terms of: impact (jobs and exports); opportunities (market and investor prospects); capabilities (natural endowments and other capabilities); and readiness (ease of removing barriers and cohesion of sectoral actors). See: International Finance Corporation (2012) for further details.

Table 11: Liberia's ranking in investing across Borders indicators: on global and regional scale

Constraints	Impact on sectors	
	Existing main sectors	Future sectors
Access and tenure of land	√√	√√
Rule of law and protection of investors	√√	√
Infrastructure	√√	√√
Government capacity to deliver	√√	√
Labor force skills	√	√√

Note: √ - significant constraint; √√ highly significant constraint

Source: Based on interviews with existing investors and, for future sectors, on International Finance Corporation (2012)

<u>Introduction: best practice in investment policy and diversification</u>

6.79 How have other countries facing broadly similar circumstance to Liberia managed to achieve successful diversification? A review of African countries with similar characteristics to Liberia (e.g. relatively small; landlocked or with some other difficult economic geography; focused on natural resources; and having faced significant social and political conflicts not long before their period of diversification) that have succeeded in diversifying in recent decades identifies a number of common characteristics, including:

6.80 *Strong attention to deeper, structural policies beyond investment and export promotion*: Successful diversifiers focused on maintaining a stable macro context to support private sector investment, ensured substantial and sustained investment in education and other social sectors, continually upgraded institutions in order to build the capacity for ongoing adaptation rather than simply crisis response.

6.81 *Reforms targeted at providing the most attractive investment climate in the neighborhood*: Given the importance of investment (FDI and domestic) in catalyzing diversification, aggressive attention to business environment reforms appears to be critical success (e.g. Rwanda).

6.82 *Leveraging trade agreements and actively exploiting trade preferences*: In most of the examples, governments were successful in developing and taking advantage of trade preferences, particularly in regional markets.

6.83 *Targeted investment promotion*: Strategies for investment promotion vary from the "anchor" investor strategies to approaches that target smaller scale investments and joint. But in all cases, the efforts appear to be targeted and linked directly with trade and industrial strategies.

6.84 *Partnership with the domestic private sector*: Countries that achieve successful diversification do not rely exclusively on the government to establish the framework. While in all cases, government did intervene with direct sector support, it did so in response to market signals communicated by the private sector. In the examples presented, government worked in cooperation with the private sector, which provided critical input on the requirements for investment and led many reform initiatives.

6.85 *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.

E. Conclusions and Recommendations

6.86 What do these findings suggest for Liberia, given the investment patterns and constraints discussed in this section? Following are a few main conclusions:

Focus on addressing constraints rather than negotiating incentives

6.87 When considering investment policy it is important to realize that the effectiveness of incentives and other instruments is associated directly with the 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 James S. (2010). 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 Farole T. (Farole T., 2011). 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.

6.88 Of course, Liberia remains a relatively high risk environment for international investors. And in this context there is a case for offering some incentives to offset risk, particularly in the non-resource sectors (in sectors like mining, for example, there will always be complex tax arrangements that are out in place linking exploration and production phases of investment). In this case, 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 (beyond US$10m) with the exception of the large concessions, with some flexibility for the very large concessions[104].

6.89 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 that are available for the investment generation mandate are used as efficiently as possible. This will require not only effective targeted 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 (e.g. SEZs; linkages) and policy areas (e.g. business reform) 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.

<u>Improve monitoring and delivery on existing concessions</u>

6.90 As discussed in this section, 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 government are meeting their obligations, and to take action where it will support improved outcomes.

<u>Promote SEZs (or industrial parks) as an instrument in a wider program of infrastructure support</u>

6.91 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 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. For that, though, there would not necessarily need to be a Special Economic Zone with the accompanying regulatory framework and the need for establishing a separate regulatory authority — instead, a simple industrial

[104] It is worth noting in this regard that while the threshold for negotiated incentives is only US$10m, according to the NIC's list of concessions negotiated between 2006 and 2010, the smallest investment level in agricultural and mining was US$65 million, with the average close to US$1 billion

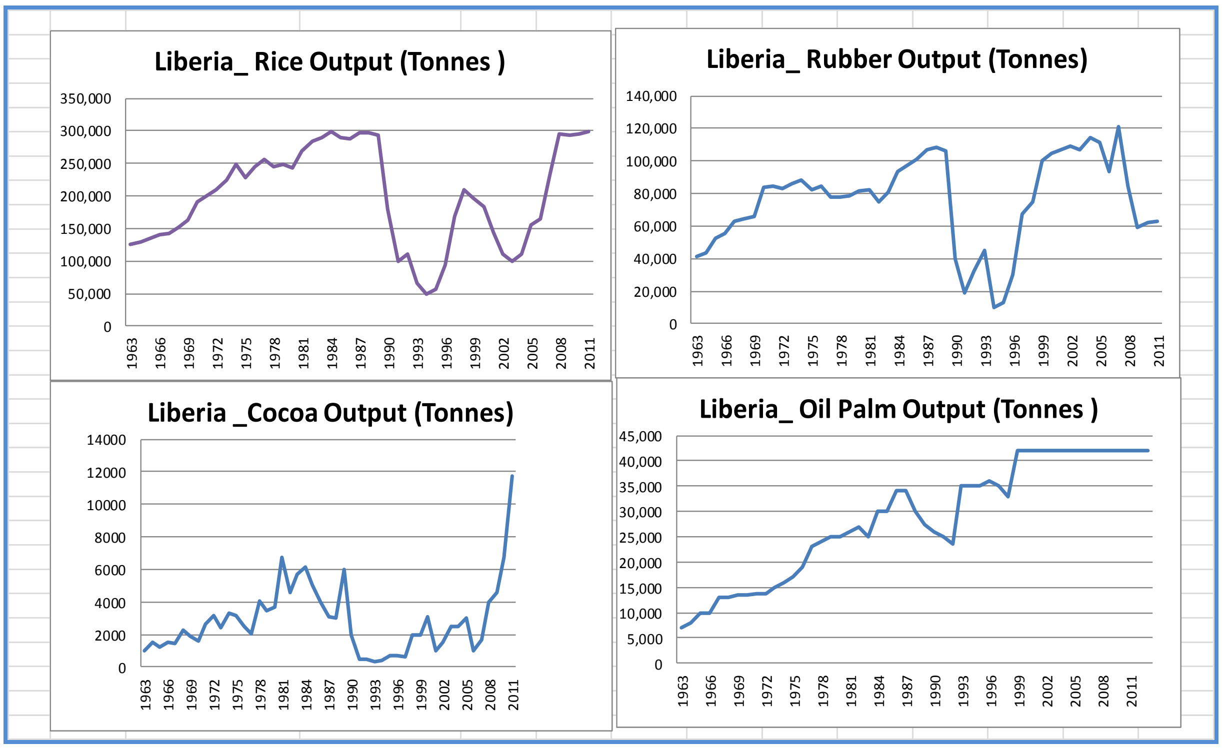
park should be sufficient. In the longer term, however, the SEZ environment may be a useful instrument for supporting investment and agglomeration.

6.92 If Government goes forward with SEZs in the short term, it is recommended that they be considered as one instrument in a wider set of coordinated interventions to address the investment climate, focusing specifically on land and infrastructure. Ideally, SEZs or industrial parks could be developed within existing corridor initiatives, allowing them to link with investments in backbone energy and road infrastructure.

7 DEVELOPMENT OF AGRICULTURE VALUE CHAINS

7.1 This section reviews the performance of key value chains that are potential sources of export diversification or import substitution. The report reviews the performance of four key value chains- rice rubber, cocoa and oil palm. As shown in Figure 23 below, output growth of these value chains fell short, general fell of forecast growth, despite favorable commodity prices during the period 2007-2011 (See Figure 23) .The report reviews the strengths and weakness for the afore-mentioned agriculture value chains in terms of factor inputs, productivity, processing and market access . It also identifies market failures and government failures, as well as, the institutional support gaps needed to be addressed in order to accelerate the contribution of these value chains to export diversification and inclusive growth.

Figure 23; Performance of Key Agriculture Value Chains



Source ; FAOSTAT

A. The Rice Sub-sector

7.2 Rice is the main staple food of Liberians and most farm households are involved in the production of rice. Shifting or slash and burn cultivation is the dominant rice farming system in the country. Over 90 percent of the rice is produced through shifting cultivation on the uplands (Liberia's Agricultural Survey 2011). The country only produced about 50 percent of its consumption and the production and productivity is rather retrogressing than growing in spite of its growing population. Table 2 presents rice production, acreages and yields. An estimated 290,650 tons of paddy were produced in 2011, which is about 97.3 percent of its pre-war (1988) level when production was estimated at 298,630 metric tons, with relatively lower population. Table 13 indicates little change in the output of rice nationally.

Table 12: Trends of Rice Production, Acreages and Yields

Description	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
Yields	Kg/Ha	1.270	1.253	1.183	1.179	1.217
Farms	Numbers	161,030	231,650	245,840	241,310	242,800
Estimated Acreage Cultivated per Farm Families (FF)	Ha/FF	1.46	0.96	1.00	1.04	0.98

Source: Adopted from Rice production Survey (RPS, 2011)

7.3 The evidence of high level of farmers' participation and the low levels production and productivity of farmers in recent time, points to limited technical change and low levels linkages along the rice value chain.

7.4 The Liberian rice market is dualistic: it comprises both imported and locally produced rice. The end market for domestically produced rice, known as "country rice", is mainly in rural areas and some urban towns outside of Monrovia. However, it is also found in markets surrounding Monrovia for the few urban consumers who seek the porridge quality of the rice. Imported rice is found throughout the country in larger markets.

7.5 The market of imported rice is fairly well organized with Government monitoring stock and pricing. Rice is one of three strategic commodities that the Government monitors carefully (the other two being petroleum and cement) in the domestic market, and the Government recognizes the need for public confidence in the supply of rice in the country, be that through imports or domestic production. While the Government does not maintain publicly owned warehouses specifically for rice, the Ministry of Commerce monitors the supply of rice in private warehouses on a weekly basis, ensuring that national reserves do not fall below a 6-month supply of 2.1 million bags (105,000 MT), based on the estimated monthly import demand of 350,000 bags (17,500 MT) for Liberia. The Government influences the flow of rice imports, to maintain the reserves in Liberia, through the granting of licenses for rice imports. In a country in which rice imports currently represent about two thirds of estimated national consumption, prices in Liberian markets reflect worldwide price levels and trend.

7.6 The flow of commodities like rice is also hampered by poor road infrastructure and its consequences on the final market. As reported in the 2010 Liberia's price monitor of September 2010, the cost added to a bag of 'butter' rice between Monrovia and Gbarnga is approximately 0.7 LD/Km, between Gbarnga and Voinjama it is 1.0 LD/Km and between Voinjama and Foya it becomes 4.7 LD/Km. Similarly, this added cost is only 0.8 LD/Km between Gbarnga and Zwedru, but becomes 3.2 LD/Km between Zwedru and Pleebo. While there may be other factors affecting prices in these markets, the analysis points to the likely effect of the extremely poor road conditions that characterize these areas during the raining season that undoubtedly increases the cost of transport of commodities.

7.7 The price of imported rice has been substantially lower in Monrovia compared to rural markets. As the main entry port for imported commodities, price in Monrovia usually mirrors the global price changes while the 2012 April edition of the Commodity price monitor, shows that the hitherto huge price differentials between interior markets and the entry port have been moderated by the ongoing improvements in road conditions. This price reduction as a consequence of improvement in transportation underscores how the investment in road infrastructure will have on commodities' competitiveness.

7.8 Rubber, Cocoa/coffee and Oil Palm are traditionally the key cash crops in Liberia, and there is potential for the country to build upon its long experience in their cultivation, strong world prices, and keen interest from private investors. In general, the tree crop sector, in particular rubber, oil palm and cocoa offer great opportunity to boost growth but the challenge is to ensure inclusion of the small scale farmer.

7.9 All of three tree crops are experiencing declining production in Liberia (Table1 4). Cocoa experienced a reduction in output from 26,692 MT to 8,082 MT. This was as a result of the stability in Ivory Coast, which artificially boosted output in Liberia as a consequence of the civil conflict in that country.

Table 13: Liberia's Production of Selected Agricultural Commodities (2010-2012)

Commodity	**Unit**	**2010**	**2011**	**2012**
Rubber	MT	62,576	88,318	56,350
Cocoa Bean	MT	7,117	26,692	8,082
Palm Oil	MT	N/A	N/A	N/A

Source: Central Bank of Liberia (CBL)

7.10 Access to a wide range of inputs typically used in an agricultural commodities production setting, such as tools, equipment, certified seeds, machinery, agro-chemicals/fertilizers and information is extremely limited in the domestic market. This is particularly worrisome for smallholder farmers. Most smallholder farmers do not have the opportunity to purchase them, due to lack of availability, nor can they afford them. Of the 792 households surveyed in 2007 (IITA/STCP/UTK Survey 2007), only two people indicated that they had used any type of agro-chemical or improved seed variety.

7.11 Chemicals and fertilizers are extremely scarce and some cooperative farmers reported having to buy fertilizer at US$65 - 75 compared to $25-35 in Ghana, if available in country. Blending of fertilizers is a major constraint even in the ECOWAS sub-region. As a consequence farmers in the sub-region are forced to use standard blends of fertilizer (NPK: 15:15:15 or 20:20:20 or Urea) irrespective of the type of crop because they are the only ones that are readily available on the limited market.

7.12 Access to improved varieties seed rice in Liberia is another major challenge because of the weakness of the private input market channels. Generally, the seed system is weak, characterized by inadequate supply of improved seeds, a reliance on old varieties, poor quality foundation seeds, and a general lack of developed private sector participation in most components (Government 2012: Seed Policy). Table 15 shows a wide range of players in the production, distribution and training of farmers in the delivery and production of improved seeds rice. These among other agencies includes Ministries, Department and agencies (MDA), Donors, International research Institutes, Private Sector and NGOs.

Table 14: Actors in Inputs Supplies in Liberia

Actor/Stakeholders	Type of Organization	Actors' Activities
Seed Task Force, Ministry of Agriculture	Public/Government	Foundation seed Distribution & sales
Donors/Development Agency (AfDB, Chinese Technical Cooperation, EU, FAO, JICA, SIDA, USAID, etc.)	Bi/Multi-Lateral Donors	Finance and Support Certified Seed production, training of Cooperatives and Farmers' Field Schools and other technical assistance
International Research Institute Africa Rice IITA West African Rice Research Institute	International Research & Development (R&D) of Seed Rice	Formal R&D breeder seeds
National Research Institute • CARI	Public/Research	• Foundation seed production • Certified seed production • Support and training
NGOs • BRAC • CRS	NGO	Certified seed production Support and training

Seed Companies • ARJAY FARM • GREEN STAR	Private/Business	• Foundation seed • Certified seed • Support & training • Processing & packaging • Distribution & sales
Inputs Suppliers GREEN FARM MIAGRO WIENCO	Private/Business	Agrochemicals & tools Certified seed Wholesale distribution Retail distribution
Contract/Community Seed farmers	Private	Certified seed production Processing & packaging
Agro dealers	Private	Retailing

Source: IITA Survey (IITA Survey, 2008)

7.13 In the public sector, MOA jointly with CARI and NGOs are currently leading the distribution of improved seeds adapted for the Liberian agro-climatic conditions. The intervention by Government in the supply of inputs such as seeds, fertilizers and machineries in the short term for post-war country is necessary but moving forward Government should have an exit strategy to involve the private sector either in a framework of public-private-partnership or to create the enabling environment to promote private sector participation in rice input supply and production.

7.14 The bulk of rice seeds multiplication is currently informal and dominated by smallholder farmers. The involvement of the private sector in the rice seeds multiplication and marketing in Liberia is still very limited to a few stakeholders such as Arjay Farm and Green Star, etc. These firms are driven by demand for seed distribution contracts from public sector or donor supported projects. The few private firms in the input supply are involved in the delivery of most inputs (fertilizers, machinery etc.) mainly through time-based procurement contracts and not on regular on the shelf market. For example the supply of tractors, power tillers; fertilizers, etc. are usually brought in country through some public or donor procurement contracts.

7.15 The government of Liberia's Rice Development Strategy LRDS (LRDS, 2009), outlines the strategic objectives and interventions planned by the government for the next 10 years to improve rice production and productivity. The primary focus of the Ministry of Agriculture is to build a national certified seed production system, replicating improved and hybrid seed varieties in the sub-Saharan Africa or the sub-region. The Seed Bank Program is currently led by the Ministry of Agriculture through the Central Agriculture Research Institute (CARI) with no current plans to include the private sector in the process. CARI plays a supervisory role to ensure that standards set by regional bodies are adhered to by private sector actors involved in seed multiplication. However, there is need for the Government to create the enabling environment to foster private sector participation the input such as rice production and milling/processing.

7.16 Rice productivity can be improved to threefold in Liberia, if high yield varieties and good management practices including the use of efficient and appropriate technologies to enhance production efficiencies are provided at an affordable cost to the farmers. The KMV project and others who are involved in the dissemination of the high yielding NERICA rice varieties claim that yields will improve even further beyond the reported 2.8 tons per ha in inland valley swamps (IVS) once farmers get used to the new variety and once input levels, such as the amount of fertilizers used and better irrigation systems, are put in place. Indeed, KMV project managers report that they expect yields for NERICA swamp rice is as high as 5.0 MT per hectare. In addition inter and intra firm coordination and collaboration will boost the value chain performance in these sub-sector.

7.17 Rice production is dominated by small-scale farmers. On average, the area of rice cultivated in 2011 was estimated at 238,780 hectares with an average farm size of 1.0 hectare. The bulk of the rice produced is on the upland ecologies (90 percent), which limit mechanization of rice production, in addition to attendant environment cost of this slash and burn technique. Analysis of data gathered for the present study showed that the 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.

7.18 The LRDS strategy planned to increase cultivation of rehabilitated/developed inland valley swamp (IVS) and other lowland ecologies is therefore in the right direction. The ultimate aim of the LRDS is to increase domestic production through improved productivity of existing upland rice and expanding the area of production for irrigated and lowland rice, with the aim of doubling the crop harvest of lowland rice in a single 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 a growth of about 65 percent in the next 5 years.

7.19 To achieve these results, the main emphasis for upland rice will include the use of certified seeds, fertilizer, and the reduction of pre- and post-harvest losses through Good Agricultural Practices (GAP) by improving the 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 though extension services, water management, and GAP and to grow rice twice or more a year.

7.20 Producers must find themselves in an environment that encourages adoption of new seed and modern input packages. The organization of farmers through cooperatives and FBOs is important in this respect, as this improves the farmers' collective bargaining position through economies of scale, but also reduces the transaction cost of product aggregation, thereby improving value-chain performance. In other countries, crop consolidation programs are designed to achieve higher output through consolidation of farm plots and growing of similar commodities over large areas of land. Yields of paddy rice can quadruple if the system is appropriately developed and applied.

7.21 The small acreage and low productivity of the small scale farmers put them in a vicious cycle of subsistence 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 and WFP purchase for progress (P4P) project.

7.22 As a result of poor post-harvest management and accumulation of stones during drying, local processed rice is not well appreciated in the Monrovia market where imported rice is widely available. The Government 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 demand for imported rice. Government is currently engaged in paddy rice processing and supplying to certified distributors in Monrovia and reportedly the demand is 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.

7.23 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.

B. Cocoa Value Chain

7.24 The Liberian cocoa belt is concentrated in the north and north east - mainly in the Bong, Nimba and Lofa counties, which make up for over 90 percent of the production and over 80 percent of the total employment generated by the sector. The cocoa sub-sector is made up of over 29,000 small holders with aging (30-40 year old) cocoa plots. Farm sizes under cocoa are generally small (1.7 Ha), and, according to the 2012 Liberia Cocoa Marketing Strategy, cocoa yields are about 200 kg/ha dry cocoa. This is relatively low compared to neighboring Ivory Coast and Ghana. An important development in the Liberian cocoa sector is the establishment of the first large scale commercial cocoa plantation in the country: the Liberia Cocoa Corporation (LCC).

7.25 The basic hand tools for the up-keep and harvesting of existing smallholder plantation are by and large adequately accessible in the local market, but fertilizer, phytosanitary chemicals and machinery are not. The current market structure of input is ill-equipped to address this demand. Farmers produce and carry out on-farm processing by breaking the pods and then fermenting and drying the beans. The dry fermented cocoa is sold to a number of actors including village-level collectors, traders and local agents who may travel to the farms and transport the beans to a larger gathering point or the beans are transported by farmers to larger buying centers where they fetch better prices. Traders either sell to city agents who transport and sell to wholesalers or work on commission for them. Wholesalers in turn sell to exporters or export the commodity themselves.

7.26 Fermented / dried beans reach exporters either from traders or via intermediary traders for export. 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 the unreliability of local supply, the challenge of aggregating supply so as to ship viable volumes.

7.27 There has been movement in recent years to add more basic processing (grinding) capacity in producer countries – most notably in Ghana and Côte d'Ivoire. Mostly, the processing of cocoa beans is carried out in the end-markets where the consumers are concentrated. The present study found that assembly cross margins and profits are much higher (given the volumes handled) than at the farm-gate since most assembly are license agents and works directly with wholesalers and exporter may have hindsight on the cocoa market prices and thus can bargain better. Also, 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 was 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 where they are obliged to sell their beans to only those specific agents who lent them funds, even if that agent offers prices that are below the going the market rates.

7.28 This situation is not optimal and has consequences of the long term sustainability of this sub-sector. Potential solutions include the provision of marketing information to farmers and support to cooperative ventures to increase volume and bargaining power of farmers. In addition measures already suggested at the farm-level are to support farmers cooperatives to access improved seed varieties and establish nurseries for the replacement of aged trees, favorable pricing, farm credit etc.

7.29 The cocoa sub-sector in Liberia is confronted by: (a) a very small production base which prevents economies of scale and competition within the value chain; (b) stiff competition for labor from rubber plantations and mining; (c) low quality produce; (d) lack of access to planting material and advisory services; and (e) high transaction costs and extremely low farm-gate prices due to high transportation costs, resulting from poor roads and scattered production.

7.30 The Liberian cocoa sub-sector has significant potentials to increase productivity and efficiency in the short and medium term (12 months to 3 years) and its competitiveness in the medium term (3-5 years). There are three opportunities in the short term. The first is to increase the quality of Liberian cocoa entering the global market through improved coordination among industry players, improved information flows using value chain participants, and other service providers. The second opportunity is to begin investing in expanding Liberia's cocoa base with improved genetic stock (clonal seeds) through cooperatives. The third short-term opportunity is to improve the efficiency of the cocoa industry through increased participation by and coordination of cocoa value chain participants.

7.31 Medium-term activities include increasing the quality and consistency of the Liberian cocoa to international standards, via technical assistance and improved access to capital, continued expansion of Liberian cocoa stock, and continued efficiency gains through improved processing, post-harvest handling and transport. The most important long-term opportunity for cocoa and other commodities is the upgrading of the transportation infrastructure including tertiary, secondary/truck and feeder roads in order to significantly reduce the transport costs of moving cocoa from production centers to exporters.

C. Palm Oil Value Chain

7.32 The end market of the Liberian palm oil is for now predominantly domestic. 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. In the near future exports should rise rapidly as the new investments come on stream. It remains to be seen how the existing domestic value chain will cope with this new supply as it seems that there will be plentiful low price oil available in country too, albeit of a type that is not typical. The opportunity for change is immediate and interventions to assure sustainability, inclusiveness and spatial equity have to be affected now – even in the face of uncertain scenarios. The failure to act and direct the sector towards a sustainable, inclusive future will cause long term effects to the growth and development agenda set by Government.

7.33 The established oil palm plantations cover about 60,000 Ha of which most are over 30 years of age and are in need of immediate replanting. An estimated 40,000 Ha of Government/private Oil Palm plantations were at some time under village or Cooperative management, but they lacked the capacity to professionally manage them in a cost-effective economic manner and there were no appropriate processing mills. The prolonged war resulted in the deterioration of the oil palm plantations and the total destruction of their industrial installations in the Government plantations. The majority of the production in the post-war years has been concentrated in the small holder sector. Production from smallholders in general ranges from 200 kilograms to 2 tons per hectare, which is far lower than the global average of 3.6 to 3.8 tons per hectare of palm oil. Imports of palm oil are growing, and statistics from the FAO show an increase from 13,600 tons in 2008 to 19,000 tons in 2010. Presently, the Liberian palm oil production is estimated at around 42,000 tons disposed of mainly in the domestic market.

7.34 The oil palm sector has recently received the highest committed amount of foreign investment in the post war years totaling over 6 Billion USD from just the four biggest players – Sime Darby (USD 3.1 Billion till 2025), Golden Veroleum (USD 2 Billion till 2017), Equatorial Palm Oil (USD 800 Million till 2017) and SIFCA – Maryland Oil Palm Plantations (USD 20 million till 2015). The IFC estimates that these four concessions might create up to 81,000 direct jobs and many thousands more are likely to be created through an out-grower scheme. As yet the new investments in large scale oil palm production have yet to come on stream and there is no impact on either the domestic and or the export markets of CPO and refined palm oils.

7.35 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 (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.

7.36 The Government/USAID is financing a smallholder Oil Palm Support (SHOPS) project. The Activities under the SHOPS project target small-holder oil palm farmers and processors in Bong, Nimba, Lofa and Grand Bassa counties. By facilitating a small enterprise and market-driven approach, Liberian agricultural input supply and manufacturing businesses are able to produce and sell oil palm production inputs and processing equipment directly to the Liberian farmers and processors. As a result, a number of nursery operators, producer and marketing cooperatives, and manufactures were supported.

7.37 Rural processing of palm is entirely manual, and carried out by pounding the palm fruits in a pit with long sticks. The process is inefficient in yield, time consuming and laborious. Locally produced "Freedom Mills" use a screw press operated by two men to achieve a more efficient oil yield from much less labor and in less time. For the short to medium term, these mills are appropriate and low cost and far superior to the hand pounding method. However, there is a need for further improvement in aesthetic, hygiene and technical quality to meet desired global standards for food production equipment cannot be over emphasis.

D. Rubber Value Chain

7.38 In 2010, Liberia celebrated the 'Rubber Century'. The first plantation was established in 1910, by the Mount Barclay Rubber Plantation Company, yet, after 100 years, the country still produces Natural Rubber (NR) for export with no downstream industries for value addition of the natural rubber and the majority of the farmers are smallholders themselves. Liberia's Rubber plantation estates employ about 49,290 households (17.3 percent of the total farm family). Nimba, Bong, Grand Bassa, Margibi, Maryland – account for the bulk of rubber produce in Liberia and close to 80 percent of total employment in the sector. According to the Rubber Export Strategy (2012) estimates of the area under rubber range from 250,000 - 600,000 Ha, with average age of 80 percent of the rubber producing trees in Liberia ranges between 35 and 40 compared to economic life of these trees of 25 – 27 years.

7.39 There are two main problems with the rubber sector. First, the stock of trees is aging and only now companies are starting to replant new trees, which take around 7 years to be ready for rubber extraction. Second, even though the concessionaires have large territories for exploitation they are usually constrained by small settlements that prevent them to expand. As a result, around only about 25 percent of the available concessional lands are used for production. Rubber production comprises of big concessionaires (1/3 of production), medium firms that sell their production to concessionaires (1/3), and small producers (1/3). The production of rubber for small and large scale in Liberia is presented below: The results show that the yield per hectare of large farm holdings (3.7 MT) is 32 percent higher than that of small plantations (2.8 MT). The study found that the rubber sector is however very profitable for both small and large scale producers.

7.40 In general, the Liberia Rubber Sector has for long been stuck in a low investment (in value added productive capacity), low productivity, high cost, low profitability trap (LRS, 2012). The sector and the concessions that form the main engines of this sector – need therefore to break this cycle.

Government together with like-minded concessions needs to add capacity for value added activity, thus significantly increasing the profitability / unit produced and eventually freeing cash flows for more equitable distribution and reinvestment. Overall, the sector of rubber is hitting decreasing returns. What is clear is that there is significant room for improvement, and there is much growth and opportunity left in the sector. Liberia must seize this opportunity to reinvigorate a sector that provides income and employment to thousands of Liberians.

Sanitary and Phytosynitary Standards Laboratory

7.41 Although Liberia recently applied for WTO membership, when that happens, it would become ECOWAS newest member in that global trade community. Currently, all other member states of the community are members of the WTO. Becoming member of WTO would require Liberia to honor the SPS agreements, which are binding, in order to trade effectively in the global system with members. Sanitary and phytosanitary regulations constitutes a basic requirement for countries seeking increased market access for their agricultural products in global trade.

7.42 In spite of UNIDO's financing of a USD1 million, modern National Standards Laboratory in 2011, Liberia still struggle to effectively monitor standards, due in part to low technical capacity. The lab focuses on testing, measurement, and calibration of products to ensure originality and safety of their substances. The Ministry of Commerce and Industry, which regulate the Laboratory, require that product carry labels showing net weight, manufacture and expiration dates, ingredients, and origin. Therefore, Liberia might need to optimize and strengthen its SPS compliance with importing country SPS regulations.

7.43 This is good for Liberia's currently incredible trade preferences in AGOA and the EU, which makes improving the country's SPS institutions in order to fully benefit from trade with members in the global system.

7.44 Liberia's agriculture sector contributed nearly 76.9 percent of the GDP, before the civil war and accounted for 70 percent of the country's workforce. Rubber, coffee, cocoa and palm oil dominated Liberia's export trade.

7.45 Fishing was well established with local markets in mackerel and other fish, and export markets in fresh lobster and shrimps, supplied by artisanal fisheries, as well as imports of fresh frozen fish. Recent data are non-extent as the industry is struggling to rebound.

E. Conclusion

7.46 In terms of the cash crops, rubber, cocoa/coffee and oil palm are the key cash crops on which Liberia might build based on its long experience in production, strong world prices and the presence of the private investors. In general, the tree crop sector offers the greatest opportunity to boost growth and the direct participation by the poor in these commodities' value chains.

7.47 Current levels of rice production and productivity are lagging behind the levels achieved before the conflict. Furthermore, there is evidence of low levels of both productivity and total output, implying that there has been limited technical change and low levels of linkages along the rice value chain. Rice production and productivity is directly influenced among other factors by the access to good quality inputs such as certified improved varieties seed, mechanized support, agrochemicals, technical assistant (extension services, training and R&D) and access to market to sustain and increase production.

7.48 Access to a wide range of inputs is extremely limited in the domestic market. In order for rice to be competitive, access to inputs needs to be improved. There is need for the Government to create the enabling environment to foster private sector participation the input market system, including the milling/processing. The opportunity exists to not only increase rice cultivable areas but also to increase production per unit area, in order to catch up with the potential yield presented by the existing technologies.

7.49 Also intra and inter firm coordination and collaboration through the facilitation of farmers' fields schools, Farmer-based organizations/cooperatives needs to be strengthened and support provided to improve commercialization through high quality rice milling and branding of locally produced rice in order to meet the quality standards of the internationally traded rice. To achieve this, there is need to promote sustainable rice production technologies in all the rice ecologies, use of semi-mechanization through the introduction of power tillers in low lying areas, use of appropriate water management technologies as well as good agricultural practices that enable sustainable rice intensification (SRI). Liberia has the right ecologies, both in the upland and lowland in order to support the scaling-up of rice production.

7.50 The Government has expressed an interest in promoting cassava and, under the aegis of MOA and MOCI, has introduced a sector strategy with a vision "to establish a viable cassava sector as a major agricultural and economic driver in achieving objectives of Liberia's economic agenda and poverty reduction." The broad agro-ecological adaptability of cassava and its ability to produce reasonable yields, where most crops cannot, makes it strong sector for food security at the household level and an important source of dietary energy, as found in many countries in SSA. Cassavas also experience a stable international demand mostly from East Asia, and particularly China, who now accounts for almost 60 percent of global demand. Developing cassava as a commercially viable crop entails, among other factors, strong institutions and coordination of PPP mechanisms, development and strengthening access to inputs and R&D to insure adequate sustainable production and processing along the value chain, empowering small holder farmer organizations and foster an entrepreneurship mindset, improving access to finance along the value chain, and improving access to technology for processing to achieve quality, consistency and quantity.

7.51 The stock of trees within tree crop sector are aged and although companies have started to replant, without a proper staggering plan for the rehabilitation of the plantation, production may be affected in the next 5 to 7 years (respectively) as the young trees get established before reaching the production stages. Under the smallholder systems, massive rehabilitation of the plantations require public or private sector support, given the high cost required as well as the implications on livelihoods of the smallholder farmers. On both the smallholder as well as large-scale farmers, the rehabilitation may require appropriate planning in order to avoid a production slump which significantly affect overall agricultural sector performance. Further, even though the country has enough land for agricultural expansion, there are risks and uncertainties regarding the management of concessions. Many concessions are affected by the uncertainty regarding the rights they have on the land and are usually constrained by the communities who often claim ownership of the land under the concessions. As a result, only about 25 percent of the available concessional lands are used for production.

7.52 Given the presence of large-scale producers in rubber and palm oil, the country should endeavor to provide the incentives for value-chain extension and greater integration. For example, while the country enjoys comparative advantage in producing natural rubber for export, the country should exploit its potential to produce and export natural rubber into intermediate and final products including many products used in the transportation, industrial, hygiene and medical sectors as well as industrial production of hygiene and medical products. However, moving up the value chain ladder requires a combination of know-how and skill upgrading to complement ongoing capital consolidation. Although technology know-how may not be insurmountable and could be attracted through FDI, improvements to fundamental business enabling environment issues, energy, and trade logistics loom large in moving up the value chain ladder. Furthermore, a great deal of value-chain integration and the incentive to attract the other players are needed to establish a viable rubber industry.

7.53 Similarly, in palm oil, Government should continue to support the two prong approach by supporting smallholder farmers' capability in production and processing while moving forward towards the privatization of government owned oil palm plantations and concession agreements to foster out-grower arrangements which will benefit the smallholder farmers both in terms of livelihoods improvement as well as capacity building of the farming skills required to produce and supply to organized value-chains.

Liberia can also improve upon its competitiveness in cocoa by paying focused attention towards improving the farming systems – through rehabilitation of the plantations and focusing attention on quality.

7.54 The government of Liberia considers agricultural growth as critical to not only reduces poverty and solving the roots causes of the conflict but to also bring about inclusive and sustainable economic growth. In this light, the government has formulated a number of policies to boost agricultural growth and to also improve the agricultural sector's competitiveness. These agricultural sector policies/strategies, includes among others, the Food and Agriculture Policy and Strategy (FAPS), Liberia Agricultural Sector Investment Policy (LASIP), National Rice development strategy, etc. The key objective of the FAPS is to Enhance Agricultural Productivity, Competitiveness, and Linkages to markets. This objective is directly linked to the first Diagnostic Trade Integration Study (DTIS) agricultural objectives that sought to improve Liberia's trade corridor and competitiveness in food and cash crops.

7.55 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.

7.56 The enabling environment to do business is still constrained by weak infrastructure and regulatory framework. Poor roads limit the ability of farmers to get their goods to markets and thereby constrain some of Liberia's most promising sectors – agriculture (food, livestock and tree crops) and forestry). Access to public utilities such as electricity and water supply is a major challenge in both urban and rural areas. Most private firms especially huge plantation estates are forced to create their own access roads, generate their own electricity and water supplies. The lack of access to improved infrastructures and public service certainly impedes growth by escalating the cost of doing agribusiness in Liberia and thereby stifle its competitiveness.

8 TRADE POLICY COORDINATION AND IMPLEMENTATION

8.1 Liberia's de facto 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. 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. This section recommends that the government continues to receive substantial donor support to address urgent reforms needed to properly integrate into the world economy.

A. Trade Policy Formulation Processes

8.2 Despite several stalled-attempts, Liberia is yet to formally codify its trade policy in a single unified document. A draft trade policy was written in 2009 with support from ECOWAS, WAMI and the EIF, however the final report was never approved by the ministry of Commerce. 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.

8.3 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. Broadly speaking, the ministry of Commerce has the mandate to lead trade policy formulation. In practice, the ministry of Finance and ministry of State have been primary players in decisions on trade policy.

8.4 Liberia's most active trade policy has been conducted by the ministry of State through 12 month executive order tariff waivers. These waivers allow the government to implement temporary changes in tariffs without the cumbersome processes of taking legislation through the legislature. As discussed in the trade integration section of this report, these waivers have been granted on over 430 out of 5,000 tariff lines between 2006-2012 and on Liberia's most essential imports. While it is generally accepted that these waivers have, thus far, been based on sound economic grounds, they create the opportunity for rent seeking and investor uncertainty[105]. Furthermore, they do not fall under a formalised trade policy strategy, but are instead imposed on an ad hoc basis without accompanying analysis.

8.5 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 on revenue grounds, with consultations to other Ministries. However, this again did not fall under any overarching trade policy strategy.

8.6 Trade negotiations have been led by the ministry of Commerce with support from the ministry of Finance, ministry of Planning and ministry of Foreign Affairs. However, it is frequently unclear where the mandates of each ministry overlap. For instance, while the ministry of Commerce is leading negotiations on the WTO accession, the role of negotiating the ECOWAS CET has been led by the ministry of Finance.

[105] As concluded in the trade integration section of this report and in the report by de Melo and Mancellari (2013)

8.7 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, see Box 16.

Box 15: Pakistan's Trade Policy Making Cycle

Pakistan's Trade Policy is a formal document issued annually. The process begins with a letter from the Ministry of Commerce (MoC) formally inviting proposals and comments for the formulation of the next Trade Policy which is widely circulated to selected government agencies and to most business and industry associations.

There are six key groups of stakeholders who are part of the MoC's consultative process, the first four of which are formally consulted during the Trade Policy formulation cycle:

The Chambers of Commerce and Industry;

Business associations and manufacturer's associations;

Specialized government ministries agencies;

Pakistan's missions abroad, Pakistan's regional provinces, and international donors;

Academics; and

NGOs

In order to progress from drafting to validation, there are four key phases of consultation in the Trade Policy formulation.

Inter-ministerial consultation mechanism. This includes formal proposals from all of the major trade-related ministries.

Large annual stakeholders meeting. This is held annually in April and is designed as a tool to discuss private sector proposals in a public forum.

Internal consultative meetings at the MoC. Various private sector stakeholders approach the MoC throughout the year to express their trade concerns and interests.

Decision-making after consultation. After extensive consultations the final decisions rest with the MoC. In June, a draft is circulated to the Prime Minister before the final report is presented to Cabinet in July, before becoming legally binding.

The consequence of formalizing each step of the consultative process is a broad participatory trade policy which receives input at each stage of the writing process from all major stakeholders.

Source: Adapted from Fahrland, K (2013), Memo on Trade Policy, Government of Liberia and Deloitte Consulting

B. Capacity and Mandate of Trade Support Institutions

8.8 The 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[106]". This broad mandate establishes the ministry as the primary trade-support institution in Liberia.

8.9 The 2008 DTIS recognized that the MoCI suffered from "serious capacity problems" and a "focus on price controls over imported goods which made little sense". 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[107]."

8.10 Since the 2008 DTIS indictment, the MoCI has undertaken a substantial reform agenda in each of its main functional areas. This change has 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.

(i) Enforcement and Regulation

8.11 There have been strong efforts to reduce the focus on the enforcement and regulation functions of the ministry and to limit these functions to targeted and high risk sectors. These reforms have focused on liberalising price controls, reducing the damaging effects of the inspectorate and reducing the number of goods requiring licences to import and export.

8.12 Since 2008, the 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 is yet to be ratified. Until this ratification takes place and a properly funded competition body is established, there is significant space for the operation of price collusion and cartels in Liberia's small and uncompetitive import market. The ministry is frequently under pressure from the Government and the media to control the price of goods on the market. The ministry requires greater assistance to explain to the public the underlying causes of price fluctuations (most of which are outside the government's control), and to come up with a comprehensive strategy for effective price monitoring and encouraging competition.

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106 An Act to Amend the Executive Law With Respect to the Ministry of Commerce and Industry and Transportation, January 19, 1972, S 651

107 DTIS (2008), p.112-113

8.13 With assistance from the IFC, the ministry has reformed the inspectorate division to focus on high risk sectors. The inspectorate has been trained and is now equipped with a checklist of activities. Inspections are undertaken quarterly and businesses are informed through media publicity prior to inspections. Businesses have been given a new 'Business Bill of Rights' which allows the business entity to appeal against penalties through a professional ministerial appeals panel. This project has been widely praised by donors for its impact in reducing the burden of bureaucratic processes on businesses. However, while this has improved the MoCI's investment climate impact, these changes need to be implemented and institutionalised across all other remaining ministerial inspectorates to prevent these effects resulting simply in a movement of rent-seeking activity from MoCI inspectors to other ministry inspectors.

8.14 The ministry has reduced the number of goods requiring import permits from 32 in 2010 to 17 essential and sensitive products in 2013. The ministry has also reduced the number of goods requiring export permits from all goods in 2010 to just four in 2013[108]. At the same time, the ministry has expedited procedures for processing permits through a new IPD/EPD processing centre on the ground floor. Despite these improvements, the IPD/EPD process is still largely replicating the functions of the customs bureau and should be gradually scaled out. The issuance of import permits is still non-transparent, inconsistent with WTO regulations and not written into Liberian law. The draft foreign trade law will legalise the issuance of permits and licences, but is yet to be reviewed and passed through the legislature[109]. Importantly, this new law must be consistent with WTO licencing agreements.

8.15 The Intellectual Property Office and Copyright Office are currently separate entities under the ministry of Commerce. The ministry has plans 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.

8.16 Finally, the Liberian Business Registry is a joint venture between the Ministries of Commerce, Finance 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 to start a business in Sub-Saharan Africa[110]. The LBR still needs support to upgrade its IT infrastructure to create better data collection, data back-up and year round internet connectivity. The LBR model should also be expanded to other areas of the country to gradually move more businesses out of the informal, and into the formal, sector.

(ii) Standards

8.17 The MoCI has established the National Standards Laboratory, which oversees Liberia's national quality infrastructure. The main role of the NSL is to provide testing and calibration services to monitor

[108] 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

[109] The draft foreign trade law and competition law have been drafted with support from the International Senior Lawyers Association.

[110] World Bank Doing Business' Ease of Starting a Business Indicator (2014)

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. The 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 the ministry to make an impact on standard testing and enforcement. The lab has no functioning business plan and needs technical assistance before it can become self-sufficient.

8.18 The MoCI has failed to establish a Liberia Standards Bureau as suggested in the original DTIS. The current standards division in the MoCI has very low capacity and limited equipment. This leads to frequent discussions in the media of the state of sub-standard goods on the market and the MoCI's lack of capacity to effect any change.

(iii) Trade policy formulation and analysis

8.19 The ministry has established a Single Project Implementation Unit which is designed to stand as a centre of excellence within the ministry to deliver key projects. This unit houses two major projects (the EIF NIU and the WTO Unit) and intends to incorporate at least one more in 2013 (AfDB PATSIL).

8.20 The Enhanced Integrated Framework National Implementation Unit (EIF NIU) was established in 2009 to inject capacity into MoCI and strengthen its policy coordinating role. The EIF is a multi-donor program that provides support to Least Developed Countries (LDCs) to become more active players in the global trading system. The support is geared towards tackling supply-side constraints to trade with the wider objective of promoting sustainable economic growth and development and thereby to reduce poverty. 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, including regional and global trade integration; mainstreaming of trade into Liberia's development strategies; coordinating the implementation and update of the DTIS Action Matrix; and improving aid-for-trade coordination. However, the unit has had difficulties with staff retention, and with project implementation given that the unit was initially housed outside of the MoCI. The national steering committee has failed to attract senior ministerial members and has therefore struggled to maintain a strong influence on policy direction. More recently the unit has moved into MoCI and is now applying for Phase II funding.

8.21 The WTO Unit has been established in the ministry of Commerce in order to coordinate Liberia's attempts to accede to the WTO. The unit is currently comprised of 3 seconded MoCI staff and two Swedish 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.

8.22 The African Development Bank's Programme of Assistance to Trade Support Institutions in Liberia (PATSIL) will focus on technical assistance to the MoCI, Liberia National Port Authority and the Liberia

Chamber of Commerce. The project includes funding for four long term technical advisors to support the MoCI in trade policy, MSMEs, standards, and financial management[111].

8.23 Alongside raising capacity, the ministry is poised to publish new policy documents to inform the new 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 mainstream the trade agenda. Both of these documents build on the conclusions of the DTIS and will require substantial funding for full implementation to take place.

8.24 Finally, the ministry published a Micro, Small and Medium Sized Enterprise (MSME) policy in 2011, which established the MSME unit. As the private-sector development lead under the AfT, it is important that the ministry takes back this mandate from other institutions. The ministry has begun plans to create a Bureau of Small Business Services which will replace the MSME unit to have an expanded mandate to help local businesses access government and private procurement. This is planned to include new legislation to mandate government to set aside 25 percent of government procurement for locally owned businesses. This is an ambitious target and will require substantial support to raise the capacity of local suppliers.

(iv) Human resources and administration

8.25 The USAID/MCC funded and Deloitte implemented Liberia Trade Policy and Customs' Human Resources support project concluded in 2013. This project helped the MoCI to write an induction manual, including signing a staff code of conduct which was compulsory for all ministry staff. A training plan was drafted based on a training needs assessment which is now housed in the HR department. All directors now have updated ToRs, and there is a newly completed HR directory. However, low capacity of staff remains an issue, with less than 65 percent of staff with a high school diploma or less, and very few with technical training or capacity. A recent UNDP capacity assessment stated that "recruitment of technocrats is highly needed", that the "finance department is inadequately staffed", and that the ministry cannot meet its mandate due to a "lack of budget from the Government"[112].

(v) Other trade-support institutions

8.26 Other trade-support institutions play an important role in trade policy, and many of these have undergone changes since the last DTIS.

8.27 The Ministry of Finance (MoF) is set to undergo substantial institutional change in the near future. The MoF is set to merge with the Ministry of Planning and Economic Development to create a new Ministry of Finance and Planning. Meanwhile, the Revenue Department of the MoF will separate to form 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.

[111] PATSIL Aide Memoire, 2013.
[112] UNDP, October 2012, Capacity Assessment of National Implementing Partners of UNDP Funded Projects.

8.28 The merger of the Ministries of Planning and Finance should enhance capacity for planning and implementation of the country's key development strategies. The separation of the Revenue Authority will create a new focus on revenue collection and should be encouraged to implement new trade facilitation measures. As the new set of ministerial structures is developed it is important that the current trade policy procedures are properly organised between each institution. Importantly, it must be decided who will lead ECOWAS negotiations and the intended implementation of the ECOWAS ETLS and CET. The ministry of Commerce may be best placed to lead in this capacity.

8.29 It is important that the Customs Bureau, which will be housed within the new LRA, be supported in undertaking the reforms necessary to support trade. A draft Customs Code will bring customs procedures more in line with WTO best practice. Once the Customs Code is passed by the Legislature it is important that the Bureau receives support to implement and publicise the changes. Further automation through the ASYCUDA system as suggested in the trade logistics section of this report is also required.

8.30 The National Investment Commission plays the chief role into attracting investment in Liberia. They have achieved this mandate primarily through negotiating investment incentives with large foreign direct investors. The agency has begun to target specific high-impact investments in the tree crops, fruit and vegetable processing, transportation and fisheries sectors with support from the IFC[113]. The agency has also drafted a new Special Economic Zones (SEZ) law to alleviate the business constraints of firms operating within the zone. As previously mentioned in the investment competitiveness section of this report, the NIC has been successful in hiring capable staff. As a result the agency is under threat of "mission creep" as it begins to take on a broader mandate beyond investment promotion. It is important that such a change of mandate should not damage the agency's primary function or overlap with the functions of other trade-support institutions.

8.31 The Liberia Chamber of Commerce (LCC) and the Liberian Business Association (LBA) are Liberia's largest private-sector organisations. They currently have an active voice in positively 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

8.32 The original DTIS observed that Liberia's "trade policy suffers from a fragmented policy-making process because a wide array of ministries develop policies that affect international trade". Since 2012, Liberia has established three forums for creating regular dialogue between all major trade-support institutions. These are 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 these forums do not extend to the highest levels of government.

[113] NIC and Dalberg Consulting, 2013, Sector Prioritization Scan

8.33 The LBBF was officially launched in 2007 in order to establish an effective public-private dialogue and to advocate investment climate improvements to identify and drive reforms. The forum includes multiple working groups and is led by the private sector. Technical assistance to the LBBF has been provided by the IFC. The Forum has helped to broker some substantial success stories including reducing the number of days to start a business from 99 to 2 and in encouraging numerous customs reforms. More recently the LBBF has met less frequently and, at the time of writing, is no longer active.

8.34 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 action plan progress reporting. The forum is composed of three tiers. The first tier is composed of the Ministers of Commerce & Industry, Finance and Justice, who sponsor and drive forward the trade facilitation strategy, monitor progress, and report to Cabinet. The second tier is the technical body which is comprised of representatives from a number of organizations inside and outside government including the MoF, MoCI, MoT, MoJ, NIC, LCC, BIVAC, APM Terminals, and associations of importers, shipping lines, and customs brokers. This body meets once a month and is chaired by the Deputy Minister of Commerce. The third tier is the technical secretariat. In practice, the second tier is currently the only active meeting taking place. This has led to complaints within the forum that action points are not always been acted upon and that it is important that messages get passed up to Ministerial meetings.

8.35 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 besides just the WTO. However, like the TFF, the group have expressed concern that work conducted on a technical level is not adequately passed up to the Ministerial level. Indeed, the WTO accession is still to be formally discussed at a Cabinet level despite repeated requests from the WTO TWG for this to take place.

8.36 At a senior level the Economic Management Team (EMT) is a 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 the economy. 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

8.37 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 institutions occupying overlapping mandates. This has led to the following recommendations:

8.38 The ministry of Commerce 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 inform consumers of where the ministry can intervene in prices and where external changes cannot be addressed by domestic policies.

8.39 Liberia should ratify and implement the draft competition law. This will require reforms to the ministry of Commerce and Industry, including establishing a new competition body. This will require adequate funding from government and substantial donor support.

8.40 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 regulations and to automate processes under the ASYCUDA web-based system.

8.41 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.

8.42 The Liberian Business Registry should be provided with adequate funding to increase its services beyond the Montserrado area and to upgrade current I.T infrastructure to modern standards.

8.43 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. Technical assistance should be sought from appropriate providers such as the United Nations Industrial Development Organization, 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 office have the necessary human resources, equipment, and supplies. This should be accompanied by support to the National Standard's Lab to write an implement a business plan and work towards ISO accreditation.

8.44 EIF Integrated Framework should be re-established within the physical location of 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. This will require hiring new staff.

8.45 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. This will require support from the government or donors to pay internationally competitive salaries.

8.46 The MoCI should continue institutional support to SMEs through the Bureau of Small Business Services. This will require government backing and institutional reforms.

8.47 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 necessarily require stepped-up technical assistance from the World Customs Organization and other members of the donor community, working to build the capacity of the customs service in order to determine origin and valuation, perform risk-based screening, and conduct inspections. It will need further assistance in personnel training, the acquisition of equipment (e.g., scanners), the building of new facilities, and access to software and data bases.

8.48 The government should focus on implementing the national trade policy and national export strategy. Importantly, each ministry must stick to their mandate as depicted in these policies to maintain a coherent trade policy across institutions. This will require assistance from donors.

8.49 Finally, it is crucial that communication among key trade policy actors is improved. This is already partially taking place through the Trade Facilitation Forum Second Tier meetings and WTO technical working group meetings. However, it is important that recommendations from these meetings are followed up at the technical and ministerial levels. Ideally, the government should re-start the first and third tier TFF meetings and/or encourage greater dialogue between the EMT/Cabinet and the TFF second tier.

9 CONCLUSIONS AND RECOMMENDATIONS

9.1 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.

A. Effective Integration into the Global Economy

9.2 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.

9.3 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 polices 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.

9.4 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 .

9.5 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.

9.6 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.

9.7 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

9.8 Liberia has determined that export trade diversification can be a solution to poverty reduction. It will facilitate exchange of ideas and technologies, and will enable Liberia benefit from its comparative advantage, increase economies of scale, promote competition and innovation and achieve increased employment and economic growth. Going forward, the country is in a good position for international trade by providing more opportunities for building strong linkages between the domestic private sector and concessionaires and modernizing trade facilitation.

9.9 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.

9.10 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.

9.11 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.

9.12 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.

9.13 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

9.14 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.

9.15 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.

9.16 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.

9.17 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.

9.18 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.

9.19 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.

9.20 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.

9.21 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.

9.22 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

9.23 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

9.24 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.

9.25 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).

9.26 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.

9.27 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.

9.28 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 countries (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.

9.29 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.

9.30 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."

9.31 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.

9.32 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 cam 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.

9.33 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.

9.34 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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