

Poverty Alleviation and Wealth Creation through Small Enterprise Development



Rationale, Policy, and Implementation
Framework for MSME Development in
Liberia: 2011 – 2016

Ministry of Commerce and Industry
Government of the Republic of Liberia
July 2011

INTRODUCTORY MESSAGE FROM THE PRESIDENT



Ellen Johnson-Sirleaf
President, Republic of Liberia
June 2011

“I am proud to present Liberia’s first national policy on micro, small and medium enterprises.”

The Liberian economy is expected to grow rapidly over the coming years, with over USD16 billion of investments in our natural resources sector alone in the last 5 years.

With less than 4 million people, the majority under the age of 25, we can, and we must create a prosperous society that grants equal opportunity to all if we are to achieve peace and security and build a better future for the next generation.

Wherever you look in Liberia, commerce and small businesses are at the heart of our country’s private sector. They make a significant, but often unaccounted for contribution to our economy: Local traders ensure that daily essentials are available, even in the most remote part of River Gee; local welding shops create jobs and provide training; market women generate economic opportunities for themselves, their families, and their local communities.

I believe that small businesses can be the vehicle to ensure that jobs, income and development are spread throughout the country, but they must be supported and strengthened, and support to them must be coordinated.

This is at the core of the MSME Policy, and with support from our local and international partners, I believe this can be realised.

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- Concerned Liberia International Business Organization (COLINBO)
- Fula Business Association (FUBA)
- International Finance Corporation (IFC)
- Indian Business Association (INBA)
- Liberia Chamber of Commerce (LCC)
- Liberia Business Association (LIBA)
- Liberia Bankers Association
- Liberia Marketing Association (LMA)
- World Lebanese Cultural Union



as well as all Government ministries and agencies and Liberia's development partners. The Ministry wishes to particularly thank IFC's Country Representative Ms. Jumoke Jagun Dokunmu and Advisory Service Co-ordinator Mr. Kobina Daniel for their support, and Ms. Leila Webster for technical advice.

The Ministry of Commerce & Industry appreciates the full involvement of its partners and stakeholders in the realization of the objectives set forth in the Policy.

Miata Beysolow
MINISTER
Ministry of Commerce and Industry

Executive Summary

This Small, Medium and Micro Enterprise (MSME) Policy was prepared by the Ministry of Commerce and Industry after extensive consultation with public sector institutions and private sector umbrella organisations and with support from the International Finance Corporation. Following Government's approval and adoption of this policy in March 2011, the Ministry of Commerce and Industry will implement the Policy from 2011-2016, beginning July 2011.

This is a stand-alone Policy but it is designed to fit easily with other Government policies including "Industry for Liberia's Future", the policy for industrial development, and those that are yet to come, namely the Trade Policy, the National Export Policy and the Private Sector Development Policy. It will also dovetail well with the various other initiatives underway.

The Rationale. There is every reason to devote public resources to strengthen small businesses in Liberia. As the main source of income for the great majority of Liberian people, perhaps 80 per cent or greater, microenterprises are the lynchpin of family welfare in Liberia. Households with successful microenterprises that generate reasonable, steady revenues are positioned to finance better health services, housing and education for their families.

Founded primarily by Liberians with the desire and potential to establish and grow their own businesses, small and medium enterprises (SMEs) are the emerging core of the domestic corporate private sector. If an enabling environment is provided for them, they will contribute substantially to national growth, job creation and exports.

The Liberian Government is firmly committed to furthering the growth of these enterprises. The objectives, strategies and programs laid out in this Policy will work together to support growth of a dynamic MSME sector. The framework contained in this Policy will bring coherence and coordination to the many ongoing and new programs for MSMEs, programs that are delivered by a host of players, private and public, domestic and international. Institutional arrangements that support effective implementation of this Policy are critical and these are outlined here.

The generic case for Government involvement in small business promotion is knowledge that growing numbers of increasingly productive MSMEs are a boon to economies everywhere. The larger their numbers, the more jobs they create. Even where jobs are marginal, incremental earnings stabilize family incomes and reduce vulnerability to dire poverty. Where MSMEs achieve respectable levels of productivity, they become notable contributors to economic growth in addition to their roles as job creators. Developing countries typically start from a broad base of low-productivity MSMEs but, with access to markets and to resources, small enterprises build their productivity and their contribution to GDP.

The specific case for supporting MSMEs in Liberia includes: (i) the very large informal sector and the small size and fragility of the formal sector; (ii) a history of a highly fragmented, largely informal economy; (iii) the low status of business in Liberia; (iv) absence of readily available business information; (v) need to shore up public-private partnership; and (vi) the ad hoc, fragmented support for MSMEs in place currently.

The Policy. This Policy was developed with two primary considerations in mind. The first was that the Policy must adhere to best practices for national small enterprise policies. The second was that this Policy must be highly tailored to the actual business environment in Liberia, which is, as described above, one that embodies a singular history and culture.

The overarching goal of this Policy is to reduce poverty by increasing economic growth and decreasing income inequality so that all share in a growing economy. In pursuit of growth and more equitable income distribution, the objectives of this Policy are:

- Increase the flow of capital to MSMEs;
- Enhance the skills of small business owner/managers;
- Build the productivity of MSMEs;
- Increase underserved groups' access to economic opportunities; and
- Broaden underserved groups' access to resources needed to respond to economic opportunities.

In keeping with international norms, MSMEs are defined in terms of full time, non-family employment. The main purpose of adopting set definitions is to ensure that discussions as well as policies related to MSMEs start from a shared understanding of enterprise sizes and accompanying characteristics.

Type of Enterprise	Number of Full Time, Non-Family Employees
Microenterprises	0 – 3
Small Enterprises	4 – 20
Medium enterprises	21 – 50
Large enterprises	50 <

The Policy focuses on the four elements of the investment climate that are of primary importance to MSMEs everywhere: (i) the legal/regulatory framework; (ii) access to finance; (iii) access to markets; and (iv) skills and knowledge. The table below lists the main objectives of each element for microenterprises and for small and medium enterprises (see Annex I for more details of strategies and possible programs).

	Legal & Regulatory Reforms	Access to Markets	Access to Finance	Building Skills and Knowledge
Microenterprises	Reduce Informality	Build Linkages & Value Chains	Rapidly Expand Microfinance	Build Entrepreneurship
SMEs	Improve the Legal & Regulatory Framework	Build Linkages & Increase Exposure to Markets	Increase Access to Financial Services	Build Business Skills & Knowledge

Three themes of great importance cut across all the Policy elements and merit special attention. These are:

- Building public awareness of the importance of business and furthering a shift in culture such that business becomes a desirable career route, particularly for young people.
- Increasing business-related information flows of all kinds, from Government, particularly as regards the rules that affect business, but also between businesses.
- Maintaining a productive partnership between Government and business that can further the larger agenda of private sector development and accelerate implementation of this Policy.

Implementation. The elements of this Policy cut across the full spectrum of business support services and as such, a broad range of service providers, from Government offices to private sector not-for-profits and for-profits to foreign donors will implement them.

The Ministry of Commerce and Industry through its MSME Division will take the lead on implementation of the Policy. Because so many public and private offices provide business services, implementation of this Policy is mainly about helping the host of service providers that directly serve MSMEs to improve and expand their service offerings. This will be a matter of convening providers of similar services to share information and forge partnerships, sponsoring expertise from abroad to work with providers, documenting problems and lobbying Government for improvement, mapping various services to pinpoint gaps and synergies and so forth. It will also involve taking up the large job of gathering business information and making it available to the public, taking care to target information channels that are appropriate for MSMEs

Implementation of this Policy will depend heavily on input from the private sector. The MSME Division will schedule regular consultations with private sector associations and others to elicit views on all aspects of Policy implementation, including requesting inputs on priorities and approaches.

The objectives and strategies set out for each Policy element are large in scope and full achievement will take at least the period of this Policy. Each year, the MSME Division will undertake a highly inclusive planning process that will yield a picture of progress made and the next steps to be taken in the coming year toward meeting the main objective of each Policy element. After analyzing programming options and their implications, an annual plan will be drawn up and progress will be measured against the plan. In this way, Policy objectives will be met over the period of the Policy.

There is no expectation of self-financing of the MSME Division. Government will cover the Division's fixed operating costs with the option of variable costs tied to specific initiatives cov-

ered by donors. There are no user fees associated with information services for the public.

This Policy is an ambitious one and as such, it carries implementation risks. Government struggles to stretch limited resources, and this Policy is yet another draw on those resources. The number and capacity of service providers for MSMEs is also limited, and the reliance of this Policy on their performance carries the risk that they will be unable to improve and expand their service to the extent needed to reach Policy objectives. Related to this is the risk that some of the many players involved with MSMEs (Govt. and private sector) will be unable or unwilling to cooperate sufficiently to make good progress. There is the risk that low civil service salaries will make it impossible to attract the level of talent needed to implement this Policy on a high performance basis and that other supplemental means of compensating staff will not be found. And last, there is the risk that red tape of various sorts will prevent this Division from becoming the effective advocate for MSMEs that it will need to be.





Introduction

This Small, Medium and Micro Enterprise (MSME) Policy was prepared by the Ministry of Commerce and Industry with support from the International Finance Corporation, which provided funds for engagement by the Ministry of an international technical expert.

Policy positions taken in this document were reached only after extensive consultation with public sector institutions and private sector umbrella organisations such as the Liberia Business Association (LIBA), the Chamber of Commerce, the Liberia Women Chamber of Commerce, the Fula Business Association, Concerned Liberian International Business Organisation (COLINBO), the Lebanese Cultural Union, the Association of Indian Businessmen in Liberia and the Bankers' Association.

Background of MSME Policy Formulation

In 2007, the Government of Liberia (GoL) sought support from development partners on how best to promote MSMEs. IFC responded by providing financial resources to hire a consultant to assist the Government develop a framework to support MSMEs.

The consultant produced a four-part report that laid out the core challenges to MSME development in Liberia and made the case for why it is important to support these small enterprises. The report describes the context for an MSME policy, including those details of the macroeconomic setting that influence policy formulation, and it presents a series of policy options. It concludes by reviewing possible implementation approaches and exploring possible roles for Government and the private sector.

The report was well received by the Government,

but action on it was delayed because of a dearth of resources and the absence of clarity on which institution—the Ministry of Commerce and Industry or the National Investment Commission would take the lead on SME development. The President resolved the matter in favour of the Ministry of Commerce and Industry, and Government indicated its interest in moving forward on formulation and approval of an MSME Policy.

Fit with Ongoing Policy Initiatives

This MSME Policy and its Implementation Framework fit well with Government's commitment to rapid, inclusive and sustainable economic growth and to the role of a strong private sector in that growth. The Poverty Reduction Strategy recognizes Government's role in creating a positive investment climate for business, and it assigns responsibility for generating growth to the private sector—from roadside stands to the fledgling corporate sector to foreign investors.

It calls upon the private sector to reinvigorate the wealth of Liberia's agriculture and to build manufacturing and services companies that will increase Liberia's GDP and employ its citizens.

This Policy document takes note of a number of policy initiatives that touch upon private sector development and is consistent with those initiatives without addressing them in any detail. These include the PRS and its successor, Vision 2030, the industrial policy ("Industry for Liberia's Future"), as well as those that are yet to come including the Trade Policy, the National Export Strategy and the Private Sector Development Strategy. It will also dovetail well with the various other initiatives underway such as the Growth Corridor initiative led by the Ministry of Planning and Economic Affairs and the Youth Employment and Skills initiative led by the Ministry of Youth and Sports.

Organization of this Policy Document

This document has three Sections. The first Section lays out the case for supporting Liberian MSMEs, with particular emphasis on the unique context of small enterprises in Liberia. The second Section contains the Policy itself, segmented for microenterprises and SMEs. Each element of the Policy has a policy objective, policy statement, and set of strategies. The third Section provides a broad framework for Policy implementation, focusing mainly on the roles of the Government, the Ministry of Commerce and Industry, and the MSME Division within the Ministry. Annex 1 presents the component parts of the Policy in graphic form and shows how existing MSME support programs fit into the broad elements of the Policy. Annex 2 contains an outline of the resources that will be required by the MSME Division of the Ministry of Commerce and Industry.

The MSME policy is the foundation and basis of success for every economic development initiative going forward. It boosts the readiness of Liberian businesses for economic participation, a requirement for achieving inclusive growth and poverty reduction. As the National Investment Commission (NIC) continues to create opportunities for market access and innovation through local economic integration, business linkages, and facilitation of technology and knowledge transfer, its work is strengthened by this policy's timely elements and practical implementation. – Natty B. Davis, Chairman, NIC



Supporting the Growth of MSMEs: The Rationale

There is every reason to devote public resources to strengthen small businesses in Liberia. As the main source of income for the great majority of Liberian people, perhaps 80 percent or greater, microenterprises are the lynchpin of family welfare in Liberia. Households with successful microenterprises that generate reasonable, steady revenues are positioned to finance better health services, housing and education for their families. Those with marginal microenterprises that generate minimal, unstable revenues manage only to keep from falling into dire poverty.

Founded primarily by Liberians with the desire and potential to establish and grow their own businesses, small and medium enterprises (SMEs) are the emerging core of the domestic corporate private sector. If an enabling environment is provided for them, they will be the engine of Liberia's future economic growth as they will contribute substantially to national growth, job creation and exports. If not, they will stagnate with low margins and insignificant employment creation.

Liberia today contains the seeds of both possible outcomes. Its large number of microenterprises will access the resources they need to strengthen and move into higher value goods and services and expanded markets—and move their families up in the process or these many family enterprises will settle into a pattern of low productivity and low margin business. Similarly, Liberia's tiny domestic corporate sector will gain access to critical resources, build business skills and knowledge and grow to meet the new demands of larger markets or these young companies will remain few in number and small in size.

The Liberian Government is firmly committed to furthering the positive outcome. The policy objectives, and strategies laid out in this Policy will work together to support growth of a dynamic MSME sector. The framework contained in this Policy is intended to bring coherence and coordination to the many ongoing and new programs for MSMEs, programs that are delivered by a host of players, private and public, domestic and international. Institutional arrangements that support effective implementation of this Policy are critical and these are outlined here.

A. The General Case for Supporting MSMEs.

Growing numbers of increasingly productive MSMEs are a boon to economies everywhere. The larger their numbers, the more jobs they create. Even where jobs are marginal, incremental earnings stabilize family incomes and reduce vulnerability to dire poverty. Where MSMEs achieve respectable levels of productivity, they become notable contributors to economic growth in addition to their roles as job creators. Developing countries typically start from a broad base of low-productivity MSMEs but, with access to markets and to resources, along with the steady pressures of competition, small enterprises build their productivity and their contribution to GDP. India for example, has nearly three million SMEs, accounting for almost 50% of industrial output and 42% of India's total exports. Malaysia's SMEs contribute close to 40% of total national economic output. Closer to home, in Ghana, a 2006 survey estimated that 70% of all industrial establishments and 85% of manufacturing employment were SMEs.

B. The Specific Case for Supporting MSMEs in Liberia

The Economy: The current economic picture in Liberia is simple to describe, if complex in its origins. Most Liberians are poor. The European Commission estimates that 76 percent of the population lives below the poverty line of US\$1 a day, and 52 percent lives in extreme poverty of under US\$0.50 a day. Per capita GDP, based on purchasing power parity, was an estimated US \$378 in 2009, and unemployment levels remain very high.

Political stability, a capable and trusted government, and initial repairs of infrastructure have boosted GDP from 2.6 percent in 2004 to an expected 5.5 percent in 2010 and 11 percent in 2011. In 2007, fully 90 percent of exports were rubber, but lifting the timber ban will stimulate significant exports of timber as will recent significant investment in iron ore mining. Government also expects substantial contributions from tree crops (rubber, oil palm, cocoa and coffee) as these plantations are rehabilitated. Long-term growth will come

from mining, forestry and agriculture concessions, but service industries such as hotels, restaurants, trade and financial services, and downstream processing of raw materials can contribute significantly to reducing unemployment levels and spurring growth.

The domestic private sector is small and fragile. Roughly 80 percent of Liberian employment is in the informal sector, and over half of those who work in the formal sector are public sector employees, leaving only about 50,000 people employed in formal enterprises. These private companies are very few in number and even smaller in size. The Ministry of Commerce and Industry registry lists 7,062 enterprises (including NGOs) that registered for the first time or undertook annual "re-registration" in 2009, the last full year for which data are available. Of these, 2,174 were corporations, 237 were partnerships and 4,594 were sole proprietorships.

Economic History of Liberia: Historically, Liberia's enclave economy has offered little support to MSMEs and most small-scale business has always taken place in the informal sector. An MSME policy that can address this historical economic fragmentation by linking up enterprises of various sizes and types will help integrate the economy and ensure political and social stability.

Cultural Attitudes: Most Liberians have little experience in business and many will need to cultivate a taste for its challenges in the coming years. Historically, and as it stands now, new job entrants are far more interested in white-collar jobs in offices, preferably government offices, than in working for or starting their own businesses. Most people neither want nor are accustomed to the insecurity of self-employment, and the low status of business in Liberia makes the business option even less attractive. Interventions that promote a greater cultural appreciation for business can help shift public attitudes and attract capable people into business.

Problems with Flow of Business Information: Business information in Liberia does not flow well. Business people complain that they do not have the information they need, mainly information on business regulations. Business associations are not always quick to get relevant information out to their members. Information about markets is scarce, and people rely mainly on word of mouth. It is also the case that many business people are not particularly proactive about going after the information they need.

Government and Private Sector Partnership: Relationships between Government and owners of MSMEs can be improved. Many in the private sector feel

that Government does not do enough to assist them. This seems to stem from a broad-based perception (which requires correction) that Government ought to be supporting small business in more thoroughgoing ways than it currently does. Public sector employees often are not entirely clear about the importance of small business to the Liberian economy.

Fragmentation of Support Services for MSMEs: In the absence of PSD and MSME policies, Government and private support to the private sector has been ad hoc and fragmented. A good number of public and private programs assist small enterprises in Liberia. At the smaller end, NGOs and several microfinance institutions offer financial and advisory services to microenterprises. At the larger end, there are several funds that finance SMEs, including those from local banks, the National Investment Commission, the LEDFC with OPIC funding, and the African Development Foundation. The National Investment Commission, CHF, the Liberian Business Association offers selected training programs, and USAID operates a skills development program within their community infrastructure program. Small business needs for these kinds of assistance are great, and supporting existing programs to expand while encouraging new ones to take root within a coherent framework will lead to more and better coordinated services.

C. The Case for Government Involvement in Enterprise Development

An enabling business environment benefits all business, not just MSMEs. This being said, we know that small enterprises are more profoundly impacted by both positive and negative elements of a given business environment. They have fewer resources to shape their environments, whether to create positive elements for themselves or to buffer themselves against those elements that work against their interests. Rather, they must simply work with the environment they are given and Government has great influence when it comes to the quality of business environments in all countries.

Research has shown many times over that MSMEs are profoundly impacted by government initiatives to improve the business environment in core areas such as the following:

- **Physical Infrastructure:** As is known by visitors to Liberia over the past five years or so, the enormous, ongoing task of rehabilitating physical infrastructure (including roads, electricity, water, ports and telecommunications) has absorbed large portions of government and donor budgets for Liberia. Improvements are impressive and much remains to be done.

- **Reducing the Legal and Regulatory Costs of Doing Business:** Notwithstanding Liberia's improvement in its Doing Business ranking from 2008 to 2009 (from 170 to 157), the fact that it is ranked amongst the lowest among 183 countries in overall ease of doing business confirms that operating a business in Liberia remains difficult and costly.

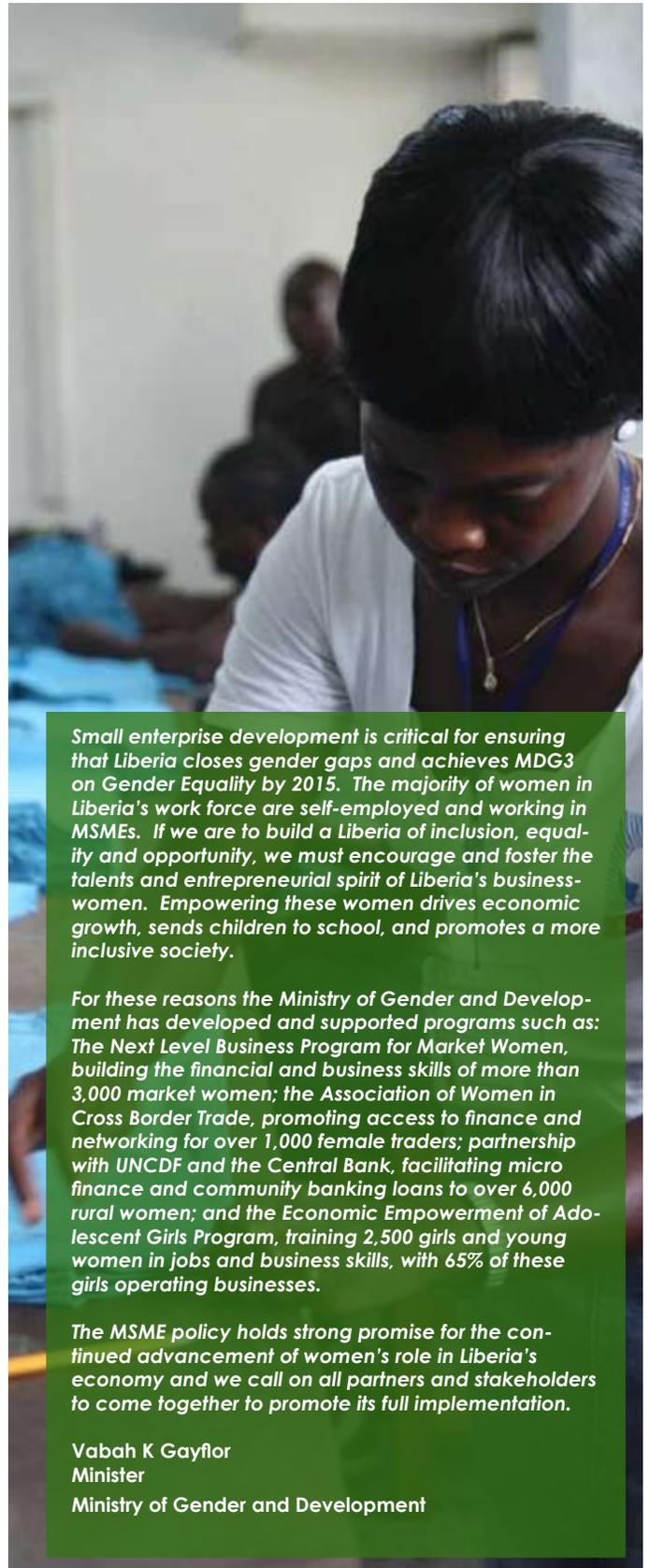
- **Improving the Judicial System:** The Government has supported development of a Commercial Code and Commercial Court to establish modern laws to govern commercial transactions and resolve disputes. Having these fully in place will significantly improve the investment climate, ensure greater security for commercial transactions, substantially improve access to finance, and inspire greater confidence in Liberia as an investment destination. Building capacity in the courts is a long-term undertaking.

- **Aligning Labour Market Development with Private Sector Needs:** Few Liberians have well-honed technical, financial, information technology, and general business skills, including entrepreneurship and business/work standards. The national capacity development program, led by the MOPEA, currently does not have a private sector capacity component although one is planned. Capacity and skills development is an important challenge and is an important pillar for enterprise development.

- **Strengthening Relationships between Government and the Private Sector:** Maintaining a dialogue between Government and the private sector ensures that reforms are enacted in collaboration and not in opposition. The Liberia Better Business Forum will continue to play an important role in this regard.

Given strong evidence that small enterprises are disproportionately disadvantaged by problems in the business environment and that they tend to benefit disproportionately when they are resolved, the most powerful boost to MSME development might well come from making significant progress on economy-wide is-

ssues such as those listed above. Additional benefits accrue to MSMEs when those issues that are of particular importance to them are addressed, e.g., legal structures for microfinance and effective linkages between large and small agricultural businesses.

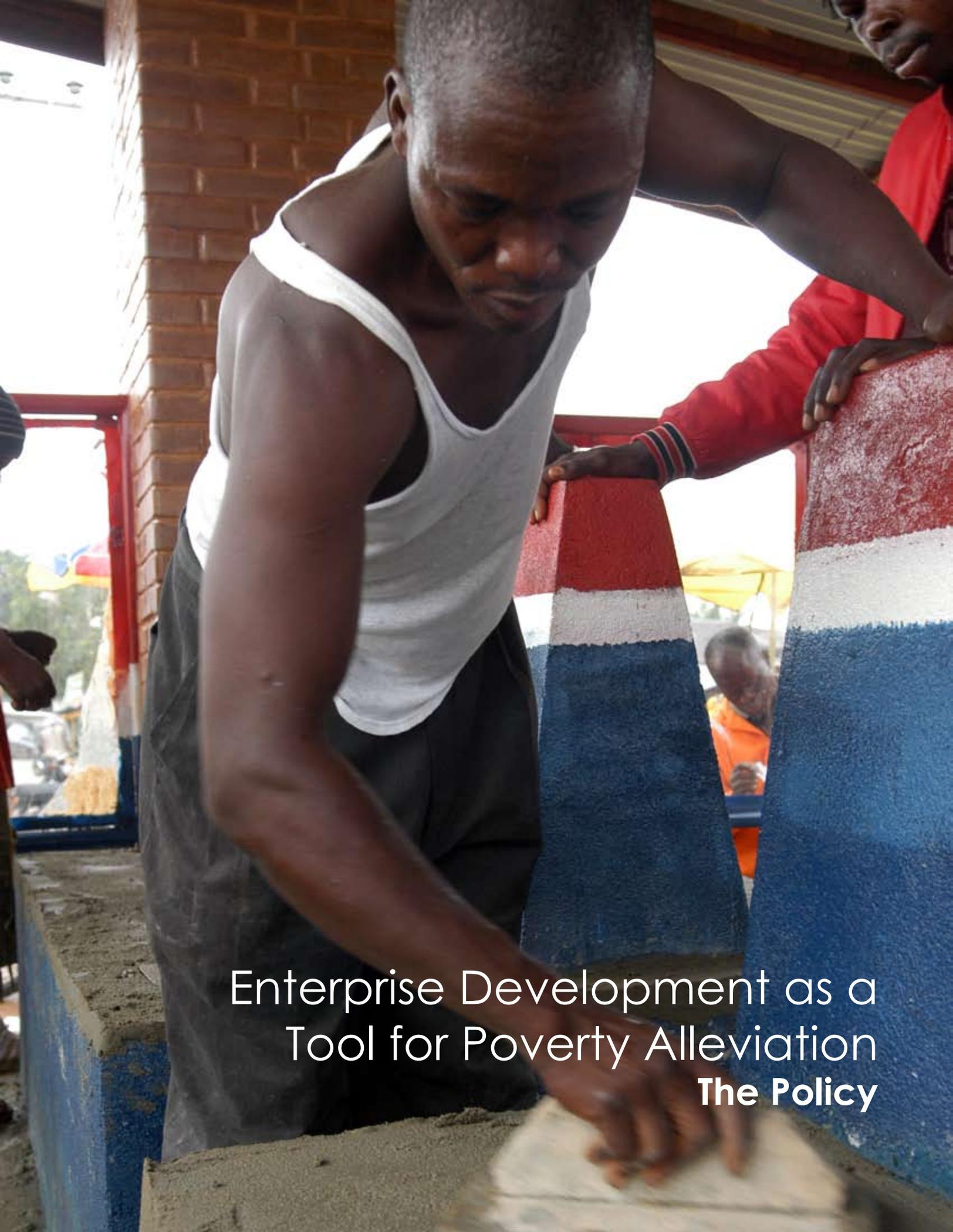


Small enterprise development is critical for ensuring that Liberia closes gender gaps and achieves MDG3 on Gender Equality by 2015. The majority of women in Liberia's work force are self-employed and working in MSMEs. If we are to build a Liberia of inclusion, equality and opportunity, we must encourage and foster the talents and entrepreneurial spirit of Liberia's business-women. Empowering these women drives economic growth, sends children to school, and promotes a more inclusive society.

For these reasons the Ministry of Gender and Development has developed and supported programs such as: The Next Level Business Program for Market Women, building the financial and business skills of more than 3,000 market women; the Association of Women in Cross Border Trade, promoting access to finance and networking for over 1,000 female traders; partnership with UNCDF and the Central Bank, facilitating micro finance and community banking loans to over 6,000 rural women; and the Economic Empowerment of Adolescent Girls Program, training 2,500 girls and young women in jobs and business skills, with 65% of these girls operating businesses.

The MSME policy holds strong promise for the continued advancement of women's role in Liberia's economy and we call on all partners and stakeholders to come together to promote its full implementation.

Vabah K Gayflor
Minister
Ministry of Gender and Development



Enterprise Development as a
Tool for Poverty Alleviation
The Policy

This Section begins with the principles that guide the Policy and moves on in Subsection B to summarize the conceptual framework that supports the Policy and, most importantly, generates its objectives. Subsection C lays out definitions employed for microenterprises and small and medium enterprises (SMEs) by this Policy. Subsection D contains the core elements of the Policy - those for microenterprises and those for SMEs - and lists the main objectives, policy statements, and sets of strategies for the Policy elements.

A. Principles of Policy Development

This Policy was developed with two primary considerations in mind. The first was that the Policy must adhere to best practices for national small enterprise policies. Chief among these best practices is a commitment to policies and practices that support, rather than distort, market development and that level the playing field for all players rather than tilting it in favor of any particular subgroup.

To avoid distorting markets and to move toward financial and institutional sustainability, public subsidies should be transparent. They should be placed within service delivery channels with great care, i.e., upstream in legal/regulatory reform efforts, institutional capacity building and R&D/product development rather than downstream in final prices of services to entrepreneurs.

Also in pursuit of market development and of sustainability, the Policy takes into account that sound MSME policies limit the role of governments in notable ways, including requiring governments to refrain from provision of direct support to small enterprises in favor of supporting others, mainly private sector organizations, to deliver needed financial and non-financial services.

The second primary consideration was that this Policy must be highly tailored to the actual business environment in Liberia, which is, as described above, one that embodies a unique history and culture. This means acknowledging the needs of various groups of entrepreneurs in Liberia and taking steps to strengthen linkages among them to better integrate the economy. The Policy recognizes the fact that most Liberians who approach business careers do so with little or no experience and rarely as a first choice option. The Policy takes note of the need to build trust, clarify roles, and create effective feedback loops between private and public sectors.

These considerations have helped prioritize areas of focus, formulate strategies, and develop practical and effective programming.

This Policy is written for the period from 2011-2016. The Liberian economy is in a dynamic state as it rebuilds, and conditions could be sufficiently different in five years that a new policy will be needed. Lessons learned from implementation of this Policy will be invaluable to that process.

B. Policy Objectives

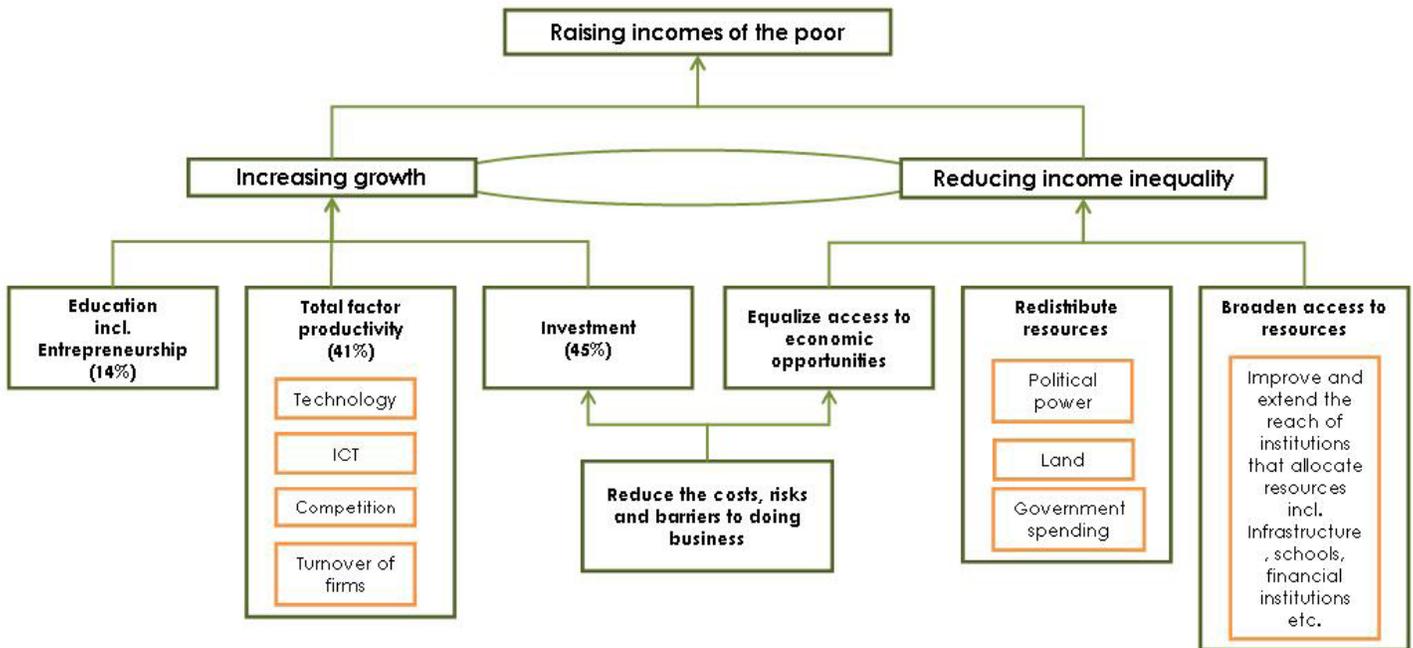
The objectives of this Policy are consistent with the Government of Liberia's overarching goal of reducing poverty in Liberia. As shown in the diagram below, reducing poverty is a matter of increasing economic growth and of reducing income inequality.

Increasing economic growth comes with adding capital and skilled labour and then with increasing the productivity with which they work together. Reducing income inequality is mainly a matter of opening economic opportunities to people whose access to opportunities has been limited and then of extending resources to those same people so that they are able to take advantage of new opportunities. As shown in the diagram, levelling the legal/regulatory playing field is a particularly powerful intervention as it both spurs investment and opens access to economic opportunity.

Economic growth and income distribution affect poverty rates in tandem. Where incomes are reasonably equitable, increases in growth are well distributed and poverty rates fall proportionally faster. Where incomes are highly unequal, however, the benefits of growth do not filter down as well to the poor, and poverty rates can be left little changed. The import of this dynamic is that countries like Liberia, where income inequality is significant, cannot count on high growth rates to reduce poverty. They must pay particular attention to reducing income inequality so that growth benefits all economic segments and thereby reduces poverty. In sum, poverty reduction comes about when growth rates consistently inch up at the same time that income inequality inches down.

This economic framework points directly to the means by which this MSME Policy will work to reduce poverty. This Policy seeks to further growth and to increase income equality by focusing on five integrated objectives:

- To increase the flow of capital to MSMEs;
- To enhance the skills of small business owners/managers;
- To build the productivity of MSMEs;
- To increase underserved groups' access to economic opportunities; and
- To broaden underserved groups' access to resources needed to respond to economic opportunities.



Source: World Development Report 2005: A Better Investment Climate for Everyone, Worldbank Group (2005) World Development Report 2006: Equity and Development, Worldbank Group (2006)



MOCI meeting with the market women of Ganta, August 2011

C. Defining MSMEs

Although often spoken of as one group, MSMEs actually are two distinctive kinds of businesses: microenterprises and small and medium enterprises. Microenterprises are very small, usually family businesses with only family labor or perhaps one or two, full or part time employees. Some produce simple products like soaps and metal and wooden products, but many are engaged in petty trade and provision of basic services. Some are registered as petty traders, but many are informal and not registered with any government agency. They are businesses in that they are profit-oriented, but they are not companies in any corporate sense. Few keep business accounts separate from their personal or household accounts.

Small and medium enterprises (SMEs) are companies with paid employees. They typically are far more organized than microenterprises, with fixed premises and business lines, more complex operating systems, company accounts, and a greater need for investment capital. SMEs are, or should be, registered as partnerships, sole proprietorships or corporations.

Categorization of a business as a micro, small or medium enterprise differs across countries. In Germany, for instance, any business with fewer than 250 employees is classified as an SME but the upper limit in Belgium is 100. Recent EU standardization categorizes firms with fewer than 10 employees as micro, firms with fewer than 50 employees as small, and firms with fewer than 250 employees as medium. In the United States (US), small firms have fewer than 100 employees and medium businesses have fewer than 500 employees. So, by EU or US definitions, most enterprises in developing countries are MSMEs – even those that we would like to think of as large.

Because businesses tend to be smaller in developing countries, classifications tend to use smaller scales. Consistent with this practice, definitions developed through consultations with stakeholders as this Policy was formulated are shown below.* They adhere to the easy-to-measure, international norm of using number of paid employees as the gauge of size. The main purpose of adopting set definitions is to ensure that discussions as well as policies related to MSMEs start from a shared understanding of enterprise sizes and accompanying characteristics.

Type of Enterprise	# of Full Time, Non-Family Employees
Microenterprises	0 – 3
Small Enterprises	4 – 20
Medium enterprises	21 – 50
Large enterprises	> 50

It should be noted that the above definition is meant to guide policy discussions and making – as the Government begins to learn lessons from its work with MSMEs, it will be necessary to adjust the definition that it uses.

* Stakeholders including LIBA, LCC, COLINBO developed the criteria for categorisation of enterprises



POLICY ELEMENTS





Discussions between MOCI and businesses from Kakata, Margibi County on constraints affecting small business, July 2011

D. Policy Elements

This MSME Policy focuses on issues that matter most for MSME development and formulates ways in which Government and others will respond to those issues. In some cases, the needs of MSMEs are already addressed in general private sector development policies, e.g., land tenure, improvements in infrastructure. In other cases, measures tailored to the unique and specific needs of MSMEs are called for, e.g., building of capacity of microfinance organizations, linkages between smallholders and large investors in agriculture. The comprehensive nature of an MSME policy means that both general and specific issues that significantly impact MSMEs are included.

Elements selected for inclusion in this Policy were chosen for their capacity to increase the number of productive, competitive MSMEs and not simply to increase their total numbers. All the elements meet one or more of the objectives of the Policy by:

- Furthering growth and productivity gains of Liberian MSMEs; and/or
- Increasing equality of access to economic opportunities and resources among Liberians.

Policy elements are grouped into four areas: legal/regulatory reforms, access to markets, access to finance, and building skills and knowledge. The Table below shows core objectives for each area for both microenterprises and SMEs.

	Legal & Regulatory Reforms	Access to Markets	Access to Finance	Building Skills and Knowledge
Microenterprises	Reduce Informality	Build Linkages & Value Chains	Rapidly Expand Microfinance	Build Entrepreneurship
SMEs	Improve the Legal & Regulatory Framework	Build Linkages & Increase Exposure to Markets	Increase Access to Financial Services	Build Business Skills and Knowledge

Three themes of great importance cut across Policy elements and merit special attention. These are:

- Building public awareness of the importance of business and furthering a shift in culture such that business becomes a desirable career route, particularly for young people.
- Increasing business-related information flows of all kinds, from Government, particularly as regards the rules that affect business, but also between businesses.
- Maintaining a productive partnership between Government and business that can further the larger agenda of private sector development, as well as accelerate implementation of this Policy

The four-pronged policy framework for MSME development is set out as follows:

(1) Legal and Regulatory Reform

Microenterprises

Policy Objective: To increase registration of microenterprises by notable percentages.

Policy Statement: Government will encourage microenterprises to register by increasing the benefits and decreasing the costs of registration.

Strategies:

- Increase the number of meaningful benefits that accrue to microenterprises that register, including maintaining very low tax rates and minimizing the cost (time and money) of tax compliance.
- Decrease the number and cost (time and fees) of legal/regulatory requirements for registering microenterprises, including licensing requirements.

SMEs

Policy Objective: To reduce unnecessary legal and regulatory burdens placed on small and medium businesses in Liberia.

Policy Statement: Government will reduce the time and money required of SMEs to comply with business laws and regulations.

Strategies:

- Establish a new modern business registry and registration process for businesses that will reduce time and cost of registration to the minimum needed.
- Simplify tax administration, restructure tax rates and examine tax incentives in ways that reflect SME concerns and constraints.
- Expand dissemination of legal/regulatory information through channels that are easy for SMEs to access.

Modernizing the company registration process in Liberia: the new Liberia Business Registry

In recognition of the catalytic effects of enterprise formalisation to private sector development and poverty reduction, the Government of Liberia's investment climate reform strategy prioritised the development of a modern Companies Registry.

After an extensive 3-year design and deployment phase – which saw the active engagement of business associations and various stakeholders – the Liberia Business Registry (LBR) was launched on April 18, 2011. The LBR brings together the agencies involved in the registration process under a single roof and reduces the time for starting a business to a maximum of 48 hours (down from the 99 days measured by the World Bank Group's Doing Business Report of 2007). The LBR fully automates the process of enterprise formalization and permits online business registration and access to information services including search and reservation of corporate names. Currently accessible from satellite offices in Ganta and Buchanan, it is expected that satellite offices will be created in each county in the near future.

The Liberia Business Registry Project is a Government of Liberia initiative under the Poverty Reduction Strategy (PRS). It was delivered by the Ministry of Commerce and Industry in partnership with the Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of Justice, the Central Bank and the National Social Security and Welfare Corporation, with the support of development partners.

The Investment Climate Facility for Africa provided a grant for the development of the Registry and IFC provided, technical, financial and logistical support for the design and deployment of the Registry.

For further information please see <http://www.lbr.gov.lr>

(2) Access to Markets

Microenterprises

Policy Objective: To support growth of microenterprises by helping them access larger markets.

Policy Statement: Government will encourage microenterprises to access larger markets by working collectively and by linking up with larger enterprises.

Strategies:

- Promote concession agreements that contain sound and practical arrangements for smallholders to link up with large investors in commercial agriculture and mining, and go on to monitor and document implementation of the agreement in several locations to learn more about what works for replication.
- Extend appropriate support to build capacity of farmers' groups and other microenterprise associations to deliver services to their members, including opportunities for bulk purchase and sales agreements where practical and useful.
- Assess the current status of subcontracting between microenterprises and SMEs/larger companies and look into possible mechanisms that can facilitate an increase in such contracts.

SMEs

Policy Objective: To support growth of SMEs by helping them access larger markets.

Policy Statement: Government will help SMEs access larger markets by helping them link up with larger market players.

Strategies:

- Promote concession agreements that contain sound and practical arrangements for smallholders to link up with large investors in commercial agriculture and mining, and go on to monitor and document implementation of the agreement in several locations to learn more about what works for replication.
- Promote commercial linkages between SMEs and large domestic and foreign firms as suppliers and distributors.
- Facilitate trading across borders, with particular emphasis on reducing smuggling across land borders and reducing freight costs at ports.
- Reduce the incidence of petty corruption on the part of government officials, particularly in inspections and at checkpoints.
- Work with government offices that contract for provision of goods and services that could reasonably be supplied by SMEs to help them put in place regulatory and administrative arrangements that would make contracting with small businesses feasible and efficient.
- Help domestic SMEs link up with larger exporters that could reasonably include SMEs in backward linkages.

Improving the legal environment for doing business: Liberia's modern commercial code and court

Through the public-private-dialogue platform provided by the Liberia Better Business Forum, various private sector umbrella organizations have consistently identified the lack of a modern Commercial Code, efficient court systems, and other dispute resolution mechanisms as some of the principal constraints to doing business in Liberia.

In response to these needs, the new Commercial Code and the act creating Liberia's Commercial Court were enacted in September 2010. The Commercial Code and Court are expected to significantly improve the investment climate, ensure greater security for commercial transactions, substantially improve access to finance, and inspire greater confidence in Liberia as an investment destination. Comprising 8 pieces of legislation that create best practice frameworks for Sales, Finance Leases, Leases, Secured Transactions, Negotiable Instruments, Mortgages and Commercial Arbitration, the new Commercial Code provides a clear and transparent legal regime that adapts international best practice to the realities of Liberia; and, the Commercial Court, with its mandatory pre-trial arbitration and expedited adjudication processes, will ensure that commercial disputes are settled / litigated speedily.

The content of the Commercial Code as well as the design and structure of the Commercial Court were determined by and benefited from the insights of a wide range of stakeholders, principal among which were the Ministry of State in the Office of the President; the Office of the Chief Justice, members of the Banking and Finance and Judiciary Committees of the Senate and the House of Representatives; the Central Bank of Liberia; the Office of the Solicitor General; the Ministry of Justice; the Louis Arthur Grimes School of Law; the Law Reform Commission, the Chamber of Commerce; the Ministry of Commerce and Industry; the Liberia National Bar Association; the Bankers' Association; the Liberia Business Association; and, the Fula Business Association among others.

The World Bank Group (IFC and World Bank) provided technical, financial and logistical support to public and private sector stakeholders for the drafting and promulgation of the Commercial Code and the act establishing the Commercial Court, and for the refurbishment and furnishing of premises designated for the Commercial Court.



We strongly support micro and small enterprises (MSEs) because it allows the segment of the Liberian society – the rural and the urban poor that are some of the most marginalised and vulnerable strata such as rural women, youth and the landless, and that make up the majority of the small farmers – to diversify their incomes, create new sources of economic growth and generate additional employment (including self-employment). We would wish to see MSEs expansion to the point where this vulnerable strata can also be reached through support to small-scale local entrepreneurs whose business expansion could create new jobs for them in both the rural and poor urban areas.

Florence A. Chenoweth
Minister of Agriculture

(3) Access to Finance

Microenterprises

Policy Objective: To increase the reach, quality and sustainability of microfinance services to low-income and underserved Liberian micro-entrepreneurs.

Policy Statement: In line with the National Strategy for Financial Inclusion and the Micro Finance Regulatory and Supervisory Framework for Liberia, Government will promote further growth of outreach, product offerings and sustainability of microfinance institutions in Liberia.

Strategies:

- Respond to microfinance institutions' needs for regulatory and institutional support as they seek to expand: (i) product offerings from savings and lending services to include products such as housing and school fee loans, micro-insurance, micro-leasing and agricultural loans; and (ii) lending technologies to include use of cell phone payments and an expansion from group to individual lending.
- Promote agreements between small-scale and large-scale growers of tree crops that contain broad-based, feasible and sustainable provisions for finance for small holders.
- Encourage the Microfinance Network to take up its roles of setting standards for microfinance providers, serving as a generator and clearinghouse for relevant information and training, and liaising with the appropriate unit of the Central Bank.

SMEs

Policy Objective: To increase the reach, quality and sustainability of financial services to small and medium Liberian enterprises.

Policy Statement: Government will work to reduce the costs and risks associated with commercial lending to SMEs in Liberia.

Strategies:

- Upgrade the courts, including putting in place a small claims court that can settle small claims expeditiously.
- Improve the credit reporting system including automation so that it is able to provide accurate and full information about potential borrowers in a timely and cost-efficient manner.
- Complete the regulatory framework for bank and non-bank leasing operations and expedite information flows and institutional processes so that investors in leasing can start up relatively quickly.
- Work with the Liberian Bankers' Association and others to formulate and launch a public campaign of zero-tolerance for defaults on loans.
- Adopt and then implement a commercial code to govern commercial transactions and make contracts enforceable.
- Work with the Liberian Bankers' Association to encourage member banks to replace informal payments to bank employees for faster service with publicized "fast lane" fees to expedite loan processing.
- Work with the Liberian Bankers' Association and others to develop a training curriculum for SMEs that would help them prepare their projects for appraisal by loan officers.

(4) Building Knowledge and Skills

Microenterprises

Policy Objective: To boost entrepreneurship among Liberians.

Policy Statement: Government will place a high priority on entrepreneurship development, particularly among young people, by promoting a range of mechanisms to build entrepreneurship, particularly those that have the promise of reaching large numbers of people at low unit cost.

Strategies:

- Promote entrepreneurship by supporting entrepreneurship development programs (EDPs) and by launching public campaigns that increase people's exposure to business, encourage them to learn about the basics of business start up, and offer rolemodels of successful and innovative entrepreneurs.
- Promote programs that teach financial literacy to current and would-be entrepreneurs.
- Promote mentoring and networking programs for micro-entrepreneurs.

SMEs

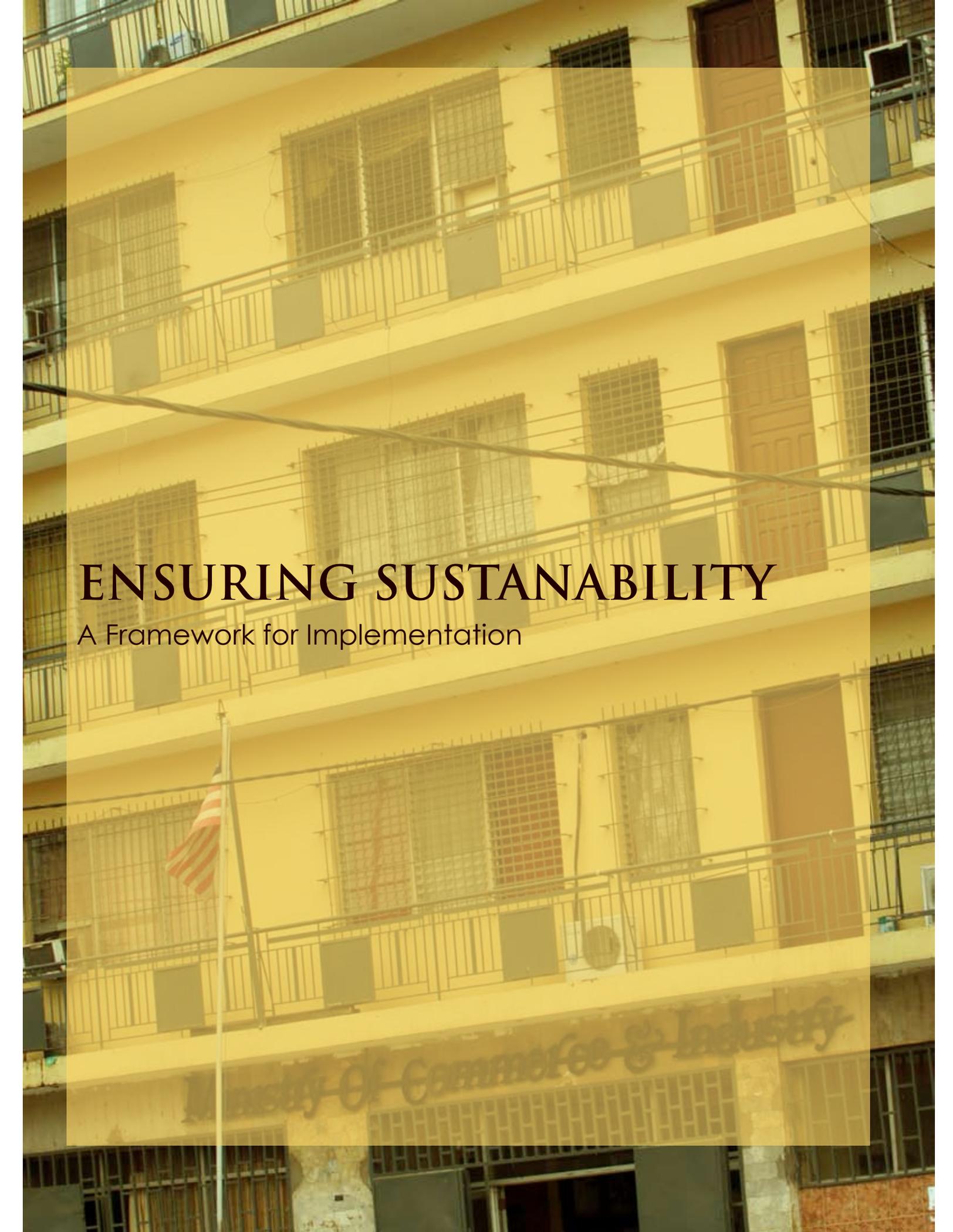
Policy Objective: To promote both demand for and supply of quality, sustainable training in personal, technical and business management skills for current and would-be SMEs and their employees.

Policy Statement: While maintaining its commitment to allowing the private sector to take the lead in provision of training services, Government will promote development of a broad range of training opportunities that will enable current and would-be SME owner/managers and employees to build their personal, technical and management skills. The Government will also encourage Liberians to take up training opportunities and to pay for them.

Strategies:

- Encourage development of a broad range of quality, sustainable training opportunities for current and potential SME managers and employees, including programs of internship, mentorship, on the job training, and short courses in personal, technical and management skills.
- Actively encourage current and would-be SME owner/managers and their employees to take up training opportunities on offer and to pay for them.
- Promote programs that teach financial literacy to current and would-be entrepreneurs.
- Promote mentoring and networking programs for entrepreneurs.



A multi-story yellow building with balconies and a sign that reads "Ministry of Commerce & Industry". The building has several floors with balconies, each with a metal railing. The windows are covered with metal grates. A flag is flying on a pole in front of the building. The overall scene is bathed in a warm, yellowish light.

ENSURING SUSTANABILITY

A Framework for Implementation

A. Overview of the Organizational Model

The elements of this Policy cut across the full spectrum of business support services and as such, they will be implemented by a broad range of service providers, from Government offices to private sector not-for-profits and for-profits to foreign donors.

The Ministry of Commerce and Industry through its MSME Division will implement this Policy. Because so many public and private offices provide business services, implementation of this Policy is largely a matter of helping the host of service providers that serve MSMEs directly to improve and expand their service offerings. This will involve convening providers of similar services to share information and forge partnerships, facilitating expertise from abroad to work with providers, documenting problems and lobbying Government for improvement, mapping various services to pinpoint gaps and synergies and so forth.

The MSME Division's sector specialists will work directly with service providers, offering all support possible to enhance the performance in the given sector. Its information specialists will take up the large job of gathering business information and making it available to the public, taking care to target information channels that are appropriate for MSMEs.

Implementation of this Policy will depend heavily on input from the private sector. The Ministry and the MSME Division will schedule regular consultations with private sector associations and others to elicit views on all aspects of Policy implementation, including requesting inputs on priorities and approaches.

The objectives and strategies set out for each Policy element are rather large in scope and full achievement will take at least the six years of this Policy. Each year, the MSME Division will undertake a highly inclusive planning process that will yield a picture of progress made and the next steps to be taken in the coming year toward meeting the main objective of each Policy element. After analyzing programming options and their implications, an annual plan will be drawn up and progress will be measured against the plan. In this way, year by year, Policy objectives will be met.

B. The Role of the National Government

The Government of Liberia's Poverty Reduction Strategy (PRS) is based on "private sector-driven growth, supported by public sector actions aimed at strengthening market functions." It states that:

"The basis of this strategy will be private sector-driven growth, supported by public sector actions aimed at strengthening market functions. The Government will focus on what the private sector cannot do or will not do at an appropriate price, such as maintaining safety and security, ensuring the rule of law, providing certain infrastructure and other public goods, providing basic services for the poor, and establishing a regulatory environment conducive to long-term development. It will aim to introduce policies that facilitate the expansion and functioning of markets and to establish a regulatory environment that is conducive to long-term growth. More direct interventions will be infrequent, and where they do occur, will be based on pressing need, and be time-bound with clear exit strategies and targeting mechanisms based on sound assessment of potential market-retarding impacts."

Government's primary roles in implementation of this

Policy will therefore be to make and implement public policies and regulations that support development of MSMEs and to take an active role as partner and champion of private sector development. Government will not be a provider of services directly to MSMEs, but rather will seek avenues for accelerating market development by offering broad-based, catalytic support to organizations that do provide direct services, both public and private.

More specifically, Government will take responsibility for the following:

- Provide funds to cover fixed operating costs of implementation for the coming six years.
- Create a mechanism to exercise regular, careful oversight of implementation to ensure that Policy elements are implemented in effective and efficient ways.
- Do its utmost to complete and implement the legal/regulatory/institutional reforms listed in this Policy as being of paramount importance to the growth of MSMEs.



- Maintain a transparent and effective working relationship with private sector organizations.

Because Government services in support of MSME development and growth are not solely within the purview of the Ministry of Commerce and Industry, this Policy calls for the Economic Management Team (EMT) to oversee policy implementation.

C. The Role of the Ministry of Commerce and Industry

The national Government has given the Ministry of Commerce and Industry the lead Ministry on the MSME portfolio, and overall responsibility for Policy implementation. In this role, its specific obligations include the following:

- Ensure that MSME constraints and concerns are considered in Government planning and decision-making by acting as the advocate within the Government and the public for MSMEs and on matters that will improve their opportunities (eg. lobbying and informing Government on where roads and value-chain/soft infrastructure should be constructed to assist small-growers; and informing the public of the effects of corruption).
- Encourage the development of low-cost products and delivery mechanisms targeted at MSMEs.
- Take responsibility for implementing this MSME Policy.
- Communicate frequently and effectively with the public about Policy contents and implementation plans.
- Maintain transparent, effective working relationships with private sector organizations.
- Build capacity in the MSME Division within the Ministry to take charge of day-to-day Policy implementation.
- Staff the MSME Division with appropriately skilled individuals and put in place incentives for superior performance.
- Exercise regular, careful oversight over the MSME Division to ensure effective and efficient implementation of its work plan.
- Ensure that results are measured with sound tools and provide Government with annual and other reports as needed.

D. The Role of the MSME Division within the Ministry of Commerce and Industry

The MSME Division is charged with formulating and carrying out those activities that will lead effectively and efficiently to achievement of Policy objectives. Its main roles include the following:

- **Coordination:** The MSME Division within the Ministry of Commerce and Industry will coordinate programs to implement the policies and strategies contained in this Policy. This is not meant in the sense of exercising control over them, but rather, in the sense of maintaining knowledge and rosters of the relevant organizations and their programs. Such rosters would yield a big picture of all efforts underway to support MSMEs as well as illuminate gaps in programming that new organizations and donors might take an interest in supporting, especially if marketed by Government as areas that need attention. This Division will also play a role in getting players in a given programming area together to share information and training.
- **Monitoring Results:** The central goal of this Policy is to increase the numbers of competitive MSMEs in Liberia and measuring success in doing so is important. The MSME Division will establish initial baselines of the numbers of registered MSMEs as well as the numbers, types and outreach of programs in each of the Policy areas so that progress can be measured over time. All programs supporting strategies within the Policy will be asked to submit basic information on an annual basis so that tallies can be made. The MSME Division will take responsibility for submitting an annual report to Government that will detail progress under each strategy of the Policy and, along with leadership of the Ministry, for making adjustments in tactics each year based on results.
- **Serving as a Convener and Clearinghouse:** The MSME Division will establish itself as a central convener of MSME-related activities and as a clearinghouse for information relevant to each area of the Policy. The role as convener means that the MSME Division will assume a catalytic role in getting players in a given area together to generate and share knowledge. This would include frequent and effective communication with the private sector about Policy contents and implementation plans. The role as clearinghouse means that the MSME Division will establish and maintain an accessible database of MSME-related information, from up-to-date information on legal/regulatory issues to rosters of programs to calendars of events.

Specifically, the MSME Division will:

- Establish itself as the Government centre of MSME activity.
- Take day-to-day responsibility for implementing this MSME Policy.
- Construct an annual national work program on MSMEs.
- Construct an annual Division work plan and perform to that plan.
- Establish excellent working relations with all MSME players.
- Embrace a role of information broker on all things MSME.
- Exercise strict discipline in sticking to coordinating, support, convening, and monitoring roles and refraining from direct service roles.
- Roll up results of all players' MSME activities into an annual report.

E. Implementation Risks.

This Policy is an ambitious one and as such, it carries implementation risks. Government struggles to stretch limited resources, and this Policy is yet another draw on those resources. The number and capacity of service providers for MSMEs is also limited, and the reliance of this Policy on their performance carries the risk that they will be unable to improve and expand their service to the extent needed to reach Policy objectives. Related to this is the risk that some of the many players involved with MSMEs (Government and private sector) will be unable or unwilling to cooperate sufficiently to make good progress. There is the risk that low civil service salaries will make it impossible to attract the level of talent needed to implement this Policy on a high performance basis and that other supplemental means of compensating staff will not be found. And last, there is the risk that red tape of various sorts will prevent this Division from becoming the nimble, opportunistic team it will need to be.

ANNEXES



ANNEX 1

Activities and Programs to Accelerate MSME Development

A. PROGRAMS FOR MICROENTERPRISES

Retrofitting Existing Initiatives				
	Legal and Regulatory Reforms	Access to markets	Access to finance	Building skills and knowledge
Objectives for micro-enterprises	<p>Reduce informality</p> <p>Possible programs:</p> <ul style="list-style-type: none"> Review the cost in time and money to register a microenterprise and formulate actions to reduce these by 25 percent. Launch a campaign to encourage informal sector operators to register and devise incentives to make it an attractive option. 	<p>Build linkages and value-chains</p> <p>Possible programs</p> <ul style="list-style-type: none"> Identify existing informal sector associations and bring them together to discuss options for assistance, twin successful ones with new associations. Identify and document in some detail cases where microenterprises are successful and significant subcontractors to SMEs and large firms and treat these as case studies for replication to additional industries or groups of microentrepreneurs. 	<p>Rapidly expand microfinance</p> <p>Possible programs:</p> <ul style="list-style-type: none"> Partner with the Microfinance Division of the Central Bank to bring together members of the microfinance network to discuss how they might become more active. They formulate action plan and MSME Division assists with implementation as needed. Discuss with network members options for increasing their reach and/or their product offerings. They formulate action plan and MSME Division assists with implementation as needed 	<p>Build entrepreneurship</p> <p>Possible programs:</p> <ul style="list-style-type: none"> Research options for entrepreneurship development programs and select one or two for testing and implementation. Seek donor funding for this. Pull together those that work with youth entrepreneurship and identify ways of increasing volume and quality of these programs.

Looking towards the future

B. PROGRAMS FOR SMES

Retrofitting Existing Initiatives

	Legal and Regulatory Reforms	Access to markets	Access to finance	Building skills and knowledge
Objectives for SMEs	Improve the Legal and Regulatory Framework	Build linkages and increase exposure	Increase access to financial services	Build skills and knowledge
	<p>Possible programs:</p> <ul style="list-style-type: none"> • Create a public information campaign that showcases the new, faster registration process and current, core regulations. Use media that is accessible to many and make sure that government officials also are fully aware of current regulations. • Review status of tax reform work and identify ways of both speeding it up and ensuring that it meets the needs of MSMEs. 	<p>Possible programs</p> <ul style="list-style-type: none"> • Identify appropriate ways to support formulation and implementation of a Mining Concession Linkages Program. • Identify appropriate ways to support formulation and implementation tree crop/ plantation Concession Linkages Program. • Support Trade Shows and Fairs. • Identify and document in some detail cases where microenterprises are successful and significant subcontractors to SMEs and large firms and treat these are case studies for replication to additional industries or groups of microentrepreneurs. 	<p>Possible programs:</p> <ul style="list-style-type: none"> • Review of status of establishment of leasing framework and operations and identify appropriate ways to support progress. • Work with Banker's Association to launch a campaign of zero tolerance for non-payment of loans. • Review status of work to establish an improved credit information service and seek avenues to support further progress. • Review status of work to establish a small claims court and seek avenues to support further progress. 	<p>Possible programs:</p> <ul style="list-style-type: none"> • Significant expansion of Business Edge. • Significant expansion of the SME Toolkit. • Launch a campaign to encourage current and would-be SME owner/managers and employees to take up training opportunities and to pay for them.

Looking towards the future

ANNEX II

Resource Implications for MSME Division: Structure, Staffing, Functions and Financing

A. Overview

Implementation of this Policy falls naturally to the whole range of Government offices and private sector service providers from banks to training organizations, each taking up those elements that fall within its normal domain, e.g., reforms of the courts with the Ministry of Justice, tax and financial regulatory reform with the Ministry of Finance and the Central Bank and so forth.

The Ministry of Commerce and Industry will build the capacity of its MSME Division to provide those centralized Government services needed to support Policy implementation. This will mean recruiting new staff with the requisite skills, training them to the extent needed, undertaking a careful planning process to construct the first year's work plan, and monitoring them closely during the first period. It will also mean constructing budgets and ensuring that funds are in place to secure operations.

It is important to note that there is no expectation of self-financing of the MSME Division beyond a limited ability to defray some costs of putting on events through charging minimal participation fees. The Division is to have its fixed operating costs covered by Government with the option of variable costs tied to specific initiatives covered by donors. The reliance on Government funds for core operating costs functions to ensure stable funding as well as to impose high levels of cost-effectiveness on the Division. It should also be noted that the MSME Division will not expect to collect fees for the services it renders to the public.

Oversight over Policy implementation rests with the Economic Management Team (EMT) and direct oversight of the MSME Division rests with the Minister of Commerce and Industry. An effective, streamlined avenue for capturing private sector advisory input into Policy implementation is to be established.

The selection of an implementation model that relies heavily on the performance of a project implementation Division within a ministry comes with some reservations. It is important that the weaknesses that have typically accompanied this model are well understood and readily addressed, mainly as they pertain to the need to retain solid and mostly specialized staff and to offer them sufficient compensation to generate high levels of performance.

B. Services Provided by the MSME Division

The main services provided by the MSME Division within the Ministry of Commerce and Industry include the following:

- *Leadership.* The Ministry of Commerce and Industry and its MSME Division will take the lead on behalf of Government on MSME matters, including undertaking such activities/responsibilities as representing Government at official events (in Liberia and potentially in other countries), gathering and distributing core information, weighing in on relevant policy and regulatory issues, participating in relevant meetings with private sector associations and so forth.
- *Clearinghouse.* The MSME Division will need to create and maintain one or more rosters of public and private MSME-related reforms/initiatives/organizations and their programs. Such rosters would yield a big picture of all efforts underway to support MSMEs as well as illuminate gaps in programming that new organizations and donors might take an interest in supporting, especially if marketed by Government as areas that need attention. This roster(s) would become an accessible database of MSME-related information and will provide up-to-date information on all legal/regulatory issues as well as calendars of programs and events. To the extent possible and perhaps over time, the MSME Division will also create a library of paper and digital resources on good practices in various aspects of MSME support from both within and outside of Liberia. The goal here would be for the MSME Division to be the "go-to" place for everyone interested in MSMEs in Liberia.
- *Annual Work Program.* The MSME Division, in close collaboration with those public offices and private organizations with major responsibilities for delivering on given Policy objectives, would formulate an annual work program every year for each of the five years covered by this Policy. This work plan would specify those objectives or sub-objectives contained within the Policy to be met within the given year, from legal reform to launching of new training programs. Each public and private entity involved would need to agree with the objective and the timing at the time

the work plan is put into place. The MSME Division might choose to monitor progress toward objectives on a quarterly or half yearly basis. The ability to put together a credible annual work plan will depend critically on the MSME Division's ability to establish and maintain good working relationships with all major players, both public and private.

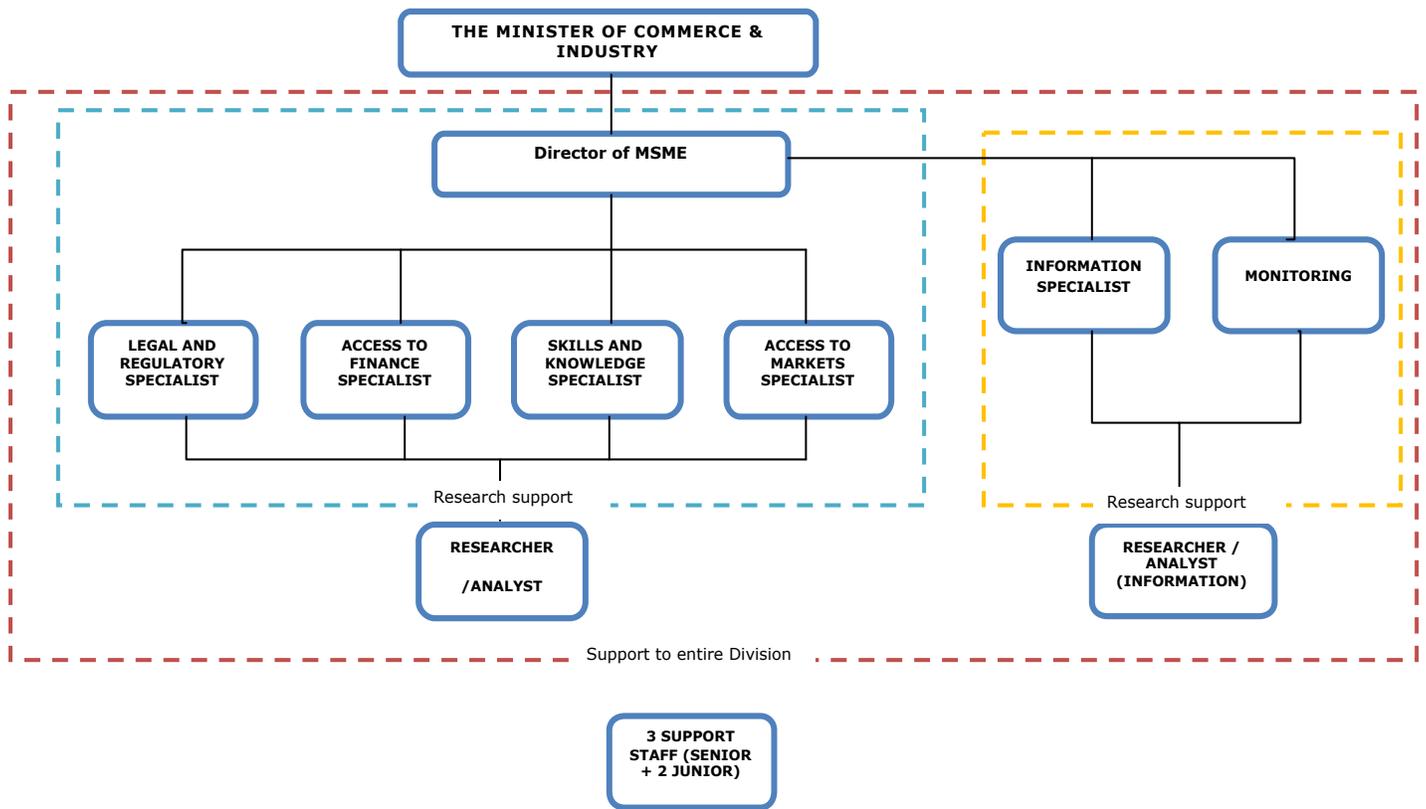
- *Convenor.* The MSME Division will establish itself as a central convener of activities (meetings, trainings etc) relevant to MSME development, taking up a catalytic role in getting players in a given area together for opportunities to generate and share knowledge, bringing in outsiders with relevant knowledge and perhaps providing opportunities for companies to link up. This role implies that the MSME Division should have ready access to appropriate meeting spaces and budget for covering meeting and event costs.

- *Monitor.* The goal of this Policy is to increase the numbers of competitive MSMEs in Liberia and measuring its success in doing so is important. The MSME Division will start by establishing initial baselines of the numbers of registered MSMEs as well as the numbers, types and outreach of programs in each of the Policy areas. All programs supporting strategies within the Policy will be asked by Government to submit basic information on an annual basis so that tallies can be made. The MSME Division will take responsibility for submitting an annual report to Government that will detail progress under each strategy of the Policy (along with progress in meeting the annual work plan). Adjustments in tactics (and in the preparation of the next year's work plan) will be made based on results. The idea of instituting a monitoring function and annual report within the Division is to maintain a focus on results across all programs for MSMEs. That may or may not involve setting targets in each of the strategy areas but at the very least, it means establishing a baseline and measuring changes from that baseline.



Raising awareness and meeting of stakeholders and MOCI in Kakata, Margibi County, July 2011

The proposed structure chart of the new MSME Division is provided below:



C. Resource Requirements

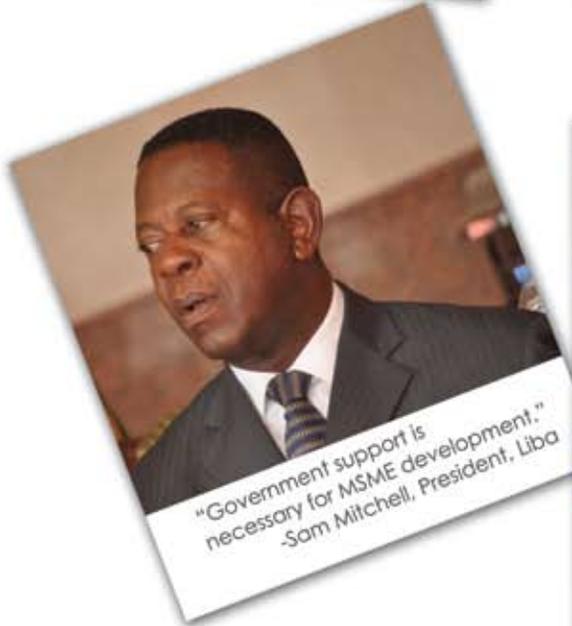
As noted, Government will provide core funding for the MSME Division to ensure the reliability of funding over the 6-year period. Donors and others are encouraged to supplement with additional resources to enhance programming or to underwrite the costs of specific initiatives that fit well within the mandate of the Division—but not to supplement core operating costs.

The core budget includes the cost of the 12 staff members listed above, all of whom will likely be Liberians. The core budget also covers non-salary operating costs, including any expected expenditures for meeting space, meeting expenses, computers and software for databases and annual reports, communication expenses that will stem from a continual flow of communication with program offices and stakeholders, and sufficient transportation funds for staff to be able to travel easily and as needed for outreach and data gathering purposes. In addition, the core budget should include a robust training budget for staff so that they can enhance their knowledge base over time, particularly by exposure to others in other countries that are engaged in similar tasks.

Supplemental funding from donors and others goes mainly to finance implementation of specific programs to implement Policy objectives and strategies or to one-off start up costs. This might involve underwriting various costs associated with specific programs, such as costs associated with special meetings or training programs, e.g. the costs of a particular event or set of events or of national business campaign. Donors might wish to underwrite the costs of short term, specialist consultancies that meet time-limited needs of the Division.

Acronyms, Abbreviations and other Terminology

AfDB	African Development Bank
CIT	Corporate Income Tax
COLINBO	Concerned Liberian International Business Organisation
EMT	Economic Management Team (Inter-Ministerial body of Government of Liberia with oversight over the economy)
EU	European Union
FY	Fiscal Year
GDP	Gross Domestic Product
IFC	International Finance Corporation
IT	Information Technology
LCC	Liberia Chamber of Commerce
LEDFC	Liberia Enterprise Development Financing Corporation
LIBA	Liberia Business Association
MFI	Microfinance Institution
MSME	Micro, Small, and Medium Enterprise
MOPEA	Ministry of Planning and Economic Affairs
NGO	Nongovernmental Organization
OPIC	Overseas Private Investment Corporation
PRS	Liberia Poverty Reduction Strategy (2008 - 2011)
PSD	Private Sector Development
SME	Small and Medium Enterprises



IFC supports the government of Liberia and private sector stakeholders in their private sector and MSME development initiatives. IFC support is delivered in partnership with Sida and the governments of Norway, Ireland, and the Netherlands through the Conflict-Affected States in Africa initiative.





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