

LIBERIA

Tapping Nature's Bounty for the Benefit of All

Diagnostic Trade Integration Study



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CURRENCY EQUIVALENTS
 (Exchange Rate as of June 3, 2008)
 Currency unit = Liberian Dollar (LD)
 US\$1.00 = LD63.5

ABBREVIATIONS

ACP	Africa, Caribbean and Pacific (countries)
ADB	African Development Bank
AGOA	Africa Growth and Opportunity Act
ATIBT	Association Technique Internationale des Bois Tropicaux
BNF	Bureau of National Fisheries
BoB	Bureau of the Budget
CA	Competent Authority
CBL	Central Bank of Liberia
CBMO	Community-Based Management Organization
CD	Certificate of Deposit
CET	Common External Tariff
CPI	Consumer Price Index
CPO	Crude Palm Oil
DFID	Department for International Development
EBA	Everything But Arms
EC	European Commission
ECOWAS	Economic Community of Western African States
EDF	European Development Fund
EEZ	Exclusive Economic Zone
EITI	Extractive Industries Transparency Initiative
EPA	Economic Partnership Agreement
EPD	Export Permit/Declaration
ERC	Economic Revitalization Committee
ETLS	ECOWAS Trade Liberalization Scheme
FDA	Forestry Development Authority
FDI	Foreign direct investment
FIAS	Foreign Investment Advisory Service
FMC	Forestry Management Contract
FPA	Fisheries Partnership Agreement
FTI	Forestry Training Institute
GEF	Global Environment Facility
GEMAP	Governance and Economic Management Assistance Program
GSM	Global System for Mobile (communications)
HACCP	Hazard Analysis Critical Control Points
HIPC	Heavily Indebted Poor Countries
ICTA	Investment Climate Team for Africa (IFC)
IFC	International Finance Corporation (World Bank Group)
IMF	International Monetary Fund
IPD	Import Permit/Declaration
I-PRSP	Interim Poverty Reduction Strategy Paper
ITC	International Trade Center
IUU	Illegal, Unregulated and Unreported (fishing)
LBDI	Liberia Bank for Development and Investment
LDC	Least Developed Country

LEAP	Local Enterprise Assistance Program
LEC	Liberia Electricity Corporation
LEDFC	Liberia Enterprise Development Finance Company
LISGIS	Liberian Institute of Statistics and Geo-Information Services
LPMC	Liberia Produce Marketing Corporation
LRC	Liberia Revenue Code
LRDC	Liberia Reconstruction and Development Committee
LTA	Liberian Timber Association
LUS	Lesser Used Species
LWSC	Liberia Water and Sewer Corporation
MCI	Ministry of Commerce and Industry
MCS	Monitoring, Control and Surveillance (of fisheries)
MDA	Mineral Development Agreement
MEA	Mineral Exploration Agreement
MFI	Micro-finance Institution
MLME	Ministry of Land, Mines and Energy
MoA	Ministry of Agriculture
MoD	Ministry of Defense
MoE	Ministry of Education
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoH	Ministry of Health
MoJ	Ministry of Justice
MoU	Memorandum of Understanding
MPEA	Ministry of Planning and Economic Affairs
MP&R	Marine Protection and Rescue Services Ltd.
MPW	Ministry of Public Works
MRU	Mano River Union
NIC	National Investment Commission
NBFI	Non-bank Financial Institution
NCC	National Coordinating Committee
NGOs	Non-governmental Organizations
NMML	New Minerals and Mining Law
NPA	National Port Authority
NTFP	Non-Timber Forest Products
PPCA	Public Procurement and Concessions Act
PPCC	Public Procurement and Concessions Commission
PPP	Public Private Partnership
PRS	Poverty Reduction Strategy
PSI	Pre-shipment Inspection
RCL	Revenue Code of Liberia
SAD	Single Administrative Document
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
STCP	Sustainable Tree Crop Program
TSC	Timber Sales Contract
UNMIL	United Nations Mission in Liberia
USAID	United States Agency for International Development
VMS	Vessel Monitoring Systems
WAEMU	West Africa Economic and Monetary Union
WTO	World Trade Organization

PREFACE

This Diagnostic Trade Integration Study (DTIS) has been prepared under the Integrated Framework (IF) for Trade Related Technical Assistance to Least Developed Countries in response to a request from the Government of Liberia.¹ The ultimate objective of the study is to build the foundation for accelerated growth by enhancing the integration of its economy into regional and global markets.

A preliminary mission was held in July 2007 to discuss the objectives and priorities of the study and to promote ownership of the process by the authorities. Terms of reference were then prepared and transmitted to the Government for approval. The main mission, consisting of national and international consultants, visited Liberia in November 2007. A technical workshop was held in February 2008 to review the draft report. The study has been reviewed internally within the World Bank, and among the IF agencies and selected donors. The report and its Action Matrix are now read to be discussed during a validation workshop, to be held July 17-18, 2008.

The members of the main mission, and their areas of responsibility, were as follows: Philip English (World Bank, task team leader, trade policy), and the following consultants: Jean-Paul Chausse and Franklin Philips (tree crops), Graeme Macfadyen (fisheries), Michel Mueller and Jonathan Mason (mining), Andrew Singer (investment climate and trade institutions), Dirck Stryker (macroeconomics, financial sector and import policy), and Jukka Tissari and Anthony Taplah (wood products). Uma Subramanian and Peter Yee of FIAS contributed most of the material on customs and trade facilitation.

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¹The IF is a multi-agency, multi-donor program established to promote the integration of the least developed countries into the global economy. The participating agencies are the IMF, the ITC, UNCTAD, UNDP, the World Bank and the WTO. For additional details see <http://www.integratedframework.org/>.

EXECUTIVE SUMMARY AND ACTION MATRIX

1. Liberia is a rich country, badly managed. This is a favorite comment of President Ellen Johnson-Sirleaf and an accurate one. The bad management is well-known, though perhaps not its duration and depth. Created in 1847, the country is far older than almost all others in sub-Saharan Africa. But for most of this time, it was ruled by an elite descended from African-American settlers who ignored or exploited the indigenous people. The result was growth without development, stark inequality, social tension and the seeds of unrest. The political order was turned upside down in a bloody coup in 1980, but bad management continued. Within ten years the country descended into civil war from which it only emerged in 2003. The 90 percent decline in GDP is possibly the most extreme economic collapse ever experienced in the world.

2. Less understood is the tremendous natural wealth of the country. It enjoys plentiful rainfall, a long coastline and ample land for its small population. Its seas are rich in fish, its streams carry diamonds and gold, its bedrock holds iron ore and other minerals, its forests are the most extensive remaining in West Africa, and its soils produce a variety of food and commercial crops. Liberia is the second largest exporter of rubber in sub-Saharan Africa and has the largest unbroken rubber plantation in the world. It has exported palm oil in the past and will do so again in the near future, as its agro-climatic conditions for oil palm are probably the best in West Africa. There is also enormous untapped potential for cocoa, as it enjoys the same conditions as neighboring Côte d'Ivoire, the largest cocoa exporter in the world.

3. *Liberia's comparative advantage clearly lies in natural resource-based industries.* It is blessed with ample resources to pull its small population out of poverty and move it well along a sustainable development path. Many other countries have exploited their natural resource base with great success –from Botswana and Chile, to the Nordic countries, Australia and Canada. With the current boom in commodity prices, there should be no doubt that this remains the most promising strategy for Liberia for the foreseeable future. As the limits to growth imposed by the small, poor domestic market are reached, it will be critically important to exploit the virtually unlimited global demand for resource-based products. But, with its limited human and financial resources after 15 years of war, Liberia needs to have a well-focused strategy.

4. *The challenge is to manage the rehabilitation and expansion of these resource-based industries better and differently than in the past.* All components of Liberian society must participate directly through employment or indirectly through the distribution of rents. Government must see that the tax revenues it collects are used for the benefit of everyone, but also that the rules of the game ensure that private companies work with local communities, smallholders and local suppliers. It will need to invest in the infrastructure and education necessary to promote competitive value-added activities.

5. *This study lays out a comprehensive pro-poor trade strategy in support of the medium-term growth agenda of Liberia.* It places special emphasis on tree crops as their development could benefit some 450,000 households, which is equivalent to almost one-half of the rural population today. More specifically, six key elements deserve attention:

- Strong support to outgrower schemes in rubber and oil palm through institutional and regulatory mechanisms;
- Promotion of the smallholder cocoa sector;

- Assistance to small-scale miners to improve productivity, working conditions and their share of the benefits;
- Careful management of the relationship between local communities and concession holders in mining, tree crops, and forestry;
- Encouragement of finance for micro, small and medium enterprises owned and managed by farmers, processors, and traders;
- Transparent management of resource rents from large-scale mining, forestry, and fisheries, to ensure that government receives its fair share and that it uses them for the benefit of the poor.

6. The new Poverty Reduction Strategy (PRS) for Liberia recognizes all this. Indeed, this Diagnostic Trade Integration Study (DTIS) and the PRS were developed in parallel and with considerable cross-fertilization. A joint workshop was held on the productive sectors in February 2008. The role of this study is therefore to reinforce the message contained in the PRS, deepen the analysis, and offer some practical next steps.

Macroeconomic policy, trade and growth

7. Economic growth has picked up strongly since the end of the civil war, reaching an estimated 9.5 percent in 2007. This is what one would expect as peace enables businesses to reopen, homes to be rebuilt, and farmers to return to their land. Much of this growth has been driven by the basic needs for goods and services in the domestic market, including demand generated by peacekeeping operations, foreign aid, and remittances. Exports have played a modest role, notably rubber which has accounted for over 90 percent of total exports in the past four years, and quadrupled in value during this period. There is still much room for expansion in services and efficient import-substitution as the economy returns to a more normal level of operation. However, soon the limitations of the small and poor domestic market will start to bind, and exports will play a critical role in sustaining the high rates of economic growth necessary to fight poverty. It is important to lay the foundations for successful export development today.

8. *Sound macroeconomic management is always the first component of competitiveness.* It encourages domestic and foreign investment by controlling inflation, limiting interest rates, maintaining taxes at reasonable levels, and preventing dramatic swings in the real exchange rate. The Government of Liberia is rapidly gaining the respect of donors and investors for its fiscal and monetary prudence, and its commitment to reform. While there remains a long list of measures still to be taken, the Government is aware of most of them and has plans to deal with many.

9. *Two key issues emerge from our analysis: management of the exchange rate, and the choice of the currency standard.* A modest appreciation of the real exchange rate of the Liberian dollar relative to the U.S. dollar appears to be taking place, but this is not surprising given the inflows of foreign aid and the expansion of exports. This trend will probably continue as foreign investment and exports accelerate, notably with the development of iron ore. This is unlikely to hurt the traditional exports of Liberia as they are all commodities and most of these are enjoying significant increases in their world market prices. Any appreciation in the real exchange rate will, however, reduce the price which can be paid to farmers and employees. It will also have an impact on the competitiveness of import-substituting activities. Therefore, *it will be important that foreign aid serves to improve the efficiency of export and import-competing industries, and is not devoted exclusively to expenditures which increase local demand and, hence, inflation.*

10. The second important issue is whether to move to a complete US dollar standard or to try to decrease the importance of US dollars in the economy relative to Liberian dollars. There are a number of arguments on both sides. Liberia does not need to formulate a strategy at this stage; there are far more important items on the public sector agenda. What is important is for the government to monitor underlying trends in the holding of US and Liberian dollars through its liquidity monitoring framework, build on the smaller denominations of Liberian dollars as an important component of the demand for this currency, and examine other ways in which the availability of Liberian dollars provides services to Liberian citizens and especially the poor. What the government should not do is to try to promote the holding of Liberian dollars through regulatory interventions that distort the currency market. ***A preferable approach would be to allow the situation to evolve naturally based on people's preferences and to give them as much choice as possible regarding the currencies they choose to hold, receive, or pay out.*** Such an approach is consistent with the government's goal of building confidence in the Liberian dollar.

Financial Services

11. Financial services are critical for many actors involved directly or indirectly in export supply chains. Larger firms have relatively good access to capital from their own resources, overseas banks, and local banks. It is small entrepreneurs that face the greatest obstacles. The financial sector in Liberia remains weak. The commercial banks depend heavily on non-interest sources of income, and do little lending. The two microfinance institutions are small and, like the banks, mostly limited to Monrovia. The regulatory status of other financial institutions is uncertain, and in some instances they may be undermining the development of the financial sector by providing credit on highly subsidized terms.

12. ***There is an urgent need to define clearly the legal status of microfinance institutions.*** This will provide a regulatory structure and permit the establishment of deposit-holding microfinance banks that can mobilize savings as well as extend credit. Development of financial services requires the establishment of linkages between the various institutions. Today the sector is not well integrated and, in many ways, it is far from sustainable. Access is very unequal, with rural areas, the poor, and small and medium enterprise (SME) at a particular disadvantage. The increased involvement of banks with retail banking involving microfinance is encouraging. However, bank refinancing of microfinance institutions will have to wait until the latter are no longer able to rely on cheaper NGO funding of their loan capital and operating costs.

13. Another issue is the relationship that exists between other types of non-bank financial institutions and the commercial banks. When the Liberia Enterprise Development Finance Company (LEDFC) was first established, there was concern that it would compete unfairly with the commercial banks, thus undermining the development of the banking sector. This issue was resolved when LEDFC agreed to route some of its lending via the commercial banks. However, other non-bank financial institutions are lending at zero or highly subsidized rates of interest, often paid for by donors or international NGOs, thus undercutting the commercial banks and microfinance institutions.

14. A profitable and sustainable financial sector is good for economic growth and poverty reduction. Unfortunately, there is still a strong sentiment that poor people cannot afford to pay high interest rates – that they need to receive grants or highly subsidized loans. But accumulated experience has shown that poor people need to be able access capital when they need it, and they are willing to pay for it. Furthermore, the development of a viable financial sector depends on being able to cover all costs, including those associated with taking risks and administering many small loans. It is important that financial sector development not be subverted by unfair competi-

tion from subsidized lending programs. *All lending programs should therefore come under the oversight of the central bank or another supervisory authority to assure that they do not undermine the development of a sustainable financial sector.*

15. The financial sector in Liberia could evolve simultaneously in two different directions. One would involve the presence of international and regional banks that would compete less with local banks than with overseas banks. At the same time, the local banks, in collaboration with microfinance institutions, credit unions and other associations, could develop their comparative advantage in servicing SMEs and in extending financial services into rural areas. The government needs to consider this option, consult with existing banks and other financial institutions, and then establish the necessary legislation.

Investment Climate and Institutions

16. Liberia offers many opportunities for domestic and foreign investors, but it is far from providing an attractive environment at present, not least because of the additional perceived risk arising from the long conflict. *Infrastructure of all types clearly poses the greatest obstacles, but the challenge is where to start. In order to export resource-based products, two aspects of infrastructure are impossible to do without – roads and a port.* Exporters can make do without publicly-supplied power or water, for instance, but they cannot manage without usable roads or a functioning port. It would be helpful to focus first on those roads that serve the exports most constrained by road access – such as timber and cocoa. The problems with the port are well-recognized and the decision to move to private management is an important step forward.

17. *Land tenure is probably the second most important issue.* Almost all investments in export production require land, if only to establish processing or packing facilities, but even more so for natural resource-based production. Investors look for security of tenure, linked to the expected life of the assets to be established, and as collateral for access to finance. However, the Constitution and its interpretation effectively bar land ownership by foreigners and even long-standing communities of non-African origin who include some of the most active local investors. It would be useful to set up a Land Commission and begin a public debate on the racial and land ownership provisions of the Constitution, and whether they continue to be in the best interests of the country.

18. There is interest in setting up a special economic zone which may or may not have an export focus. Given the current composition of exports, and its likely evolution in the medium term, it seems doubtful that an export zone will be needed. On the other hand, manufacturing for the local market will create demand for serviced industrial land. The preferred model would be a Public-Private Partnership to develop the physical infrastructure for each industrial estate (access roads, fences, electrical power etc.), with actual management undertaken by private operators, ideally with some competition between these operators.

19. Administrative barriers pose another challenge for investors. In 2007, Liberia ranked 170th out of 178 countries in terms of the ease of doing business as defined by the Doing Business survey of the World Bank. Among other things, this includes excessive procedures for business start-up and importing and exporting. The government is moving aggressively to improve its performance, but it will take some time to move from a tradition of control and revenue collection to one of facilitation and partnership with the private sector.

20. The on-going reform of the Investment Code, and the transfer and consolidation of all fiscal incentives to a revised Revenue Code, is an important improvement, notably the recent pro-

posal to remove disparate treatment of investors. However, it does not address the issue of land ownerships. This is problematic, as export sectors across Africa are often driven by non-nationals, who then open doors to domestic entrepreneurs either through the demonstration effect or on-the-job training prior to launching their own businesses.

Customs and Trade Facilitation

21. ***Trade logistics are in serious need of reform if they are to meet the requirements of an expanding economy for both imports and exports.*** Considerable time is spent in processing documents for a variety of agencies with much duplication, little coordination, and even less automation. Customs is over-staffed, while importers avoid paying the full duties and taxes. Other border control agencies, such as the Ministry of Commerce and Industry (MCI), and the Ministry of Agriculture, impose additional requirements for documentation and clearance which could be streamlined.

22. Nonetheless, the reform process is under way, with some simplification of procedures and reductions in customs staff. Whereas serious consideration was being given to the outsourcing of customs to a private company, this no longer seems appropriate. With strong political commitment, appropriate technical assistance, capacity-building and funding through donor agencies, it should be possible to rebuild efficient domestic border clearance processes and even terminate PSI at the end of the next contract.

23. There are a variety of quick wins which can be pursued at little cost, including eliminating PSI for designated essential goods, streamlining security arrangements, simplifying MCI procedures, and concentrating the import clearance and export approval processes in one building at the port. In the medium-term, deeper reforms will be needed to re-engineer procedures to produce a modern border clearance regime consistent with international good practice. This will involve adoption of a UN-compatible Single Administrative Document, computerization, and the application of risk management techniques to rationalize interventions. A Single Window should be implemented through the use by all agencies of the same document, coordination among institutions, and maximum delegation to a lead agency. ***Adoption of automated systems for border management, such as ASYCUDA World, would be the most important next step in the long road of reform.*** Extensive consultation with stakeholders through the Liberia Better Business Forum's Trade Logistics Working Group, targeted stakeholder meetings (e.g. taxpayer consultations) and a communications program to inform the public of trade logistics reforms will be essential to ensure steady and sustained progress.

Tree Crops

24. ***One tree crop (rubber) accounts for over 90 percent of current exports and rubber, oil palm and cocoa offer the best opportunity for widespread, direct participation by the poor in export activity.*** Liberia is blessed with ideal agro-climatic conditions for all three, and can build on long experience in their cultivation, strong world prices, and keen interest from private investors. However, the country will need to break with some bad habits of the past if the benefits are to be shared equitably and long-standing tensions are to be resolved.

25. Liberia has a strong "rubber culture" and few farmers, large or small, have never had contact with the crop. Private companies can be expected to take the lead in supporting small-holder production, but the stakeholders will need to establish how the sector is to be managed, and measures will be required to ensure that truly small farmers participate and are fairly rewarded. The main supply side issues are: (i) the old age of the existing plantations which requires

a massive replanting program; (ii) the need for an effective mechanism to provide agricultural services to smallholders; (iii) access to land; (iv) the mitigation of social and environmental issues associated with large-scale plantations; and (v) the need for clear, enforceable rules of the game.

26. The same issues arise for oil palm, except that private companies are less well-placed to start out-grower schemes without public sector support. Under the leadership of the Ministry of Agriculture, work has begun on a model framework agreement for new oil palm and rubber plantations. There is room to draw from the experience with concessions in the mining and forestry sectors, and a need to ensure that a fairly consistent approach is adopted so that all communities are treated equally and there is no potential for accusations of favoritism. At the moment, different ministries or agencies are struggling to manage their concessions independently.

27. Cocoa is the ideal smallholder crop and it has been a major source of growth and income generation in neighboring Côte d'Ivoire and Ghana. As there is less potential to draw on the expertise of locally-based private companies, compared to rubber or palm oil, donor and NGO programs will have to play a bigger role here. There is a wealth of experience and technology available from the sub-region through initiatives such as the Sustainable Tree Crop Program. The cocoa sector is confronted by: (i) a very small starting production base which prevents economies of scale and competition within the value chain; (ii) stiff competition for labor from rubber and mining; (iii) low quality produce; (iv) lack of access to planting material and advisory services; and (v) high transaction costs and extremely low farm-gate prices due to high transportation costs, scattered production and lack of producer associations, but mostly to a highly inefficient and monopolistic marketing system. The Liberia Produce Marketing Corporation (LPMC) is an additional tax on the sector without generating comparable benefits, and it should be disbanded.

28. ***The development of competitive value chains will require (i) a clear policy and regulatory framework, agreed upon by the main stakeholders; and (ii) strong horizontal and vertical coordination among actors to organize collective action and ensure that the product is efficiently brought to market.*** Stakeholders need to organize themselves to determine the type of contractual mechanisms to be used between actors and how they will be enforced (finding practical solutions to the problem of side-selling, and resulting default, remains a critical issue), and how the main common goods (pricing policy, research, quality issues) should be managed. It is critical that value chain actors themselves assume responsibility for this institutional framework.

29. Nonetheless, the government has a crucial role to play. Assuring a stable macroeconomic environment and improving transport infrastructure are clearly of critical importance. ***In addition, the Government of Liberia should focus its support on establishing a policy environment which provides incentives to key private actors while at the same time ensuring that the equity considerations of a pro-poor growth strategy are met.*** This will include: (i) enhancing competition by removing barriers to entry and enforcing coherent anti-trust legislation; (ii) promoting and enforcing systems for the efficient operation of contract farming arrangements; (iii) establishing accurate weighing and grading systems; (iv) improving access to warehouse space at ports and markets; and (v) strengthening the competitive position of small producers through the widespread availability of market information and the promotion of farmers' organizations. Other public sector support should serve to facilitate the development of private sector operators, with a clear exit strategy as private sector capacity grows.

Mining

30. Mineral and petroleum resources provide exciting opportunities for lifting people out of poverty if properly managed. The current boom in commodity prices only reinforces their potential importance. However, many countries have failed to ensure that the resources are widely shared and contribute to the transformation of the economy, succumbing instead to corruption while neglecting traditional sources of growth. Minerals can also become fuel for local and regional conflict - as demonstrated by the recent history of Liberia and neighboring countries.

31. The current government is well aware of past mistakes and the lessons from other countries and is determined to follow a different path. Many important steps have already been taken, including the adoption of the Extractive Industries Transparency Initiative (EITI), the renegotiation of existing mineral agreements (notably with Mittal), the careful selection of bids to grant leases for known mineral assets, the preparation of a new mineral sector policy, and adherence to the Kimberley Process for diamonds. Advice from the IMF on taxation has been received and is being implemented.

32. Nonetheless, there is still a need to strengthen the policy, laws, regulations and agreements in various ways. More attention needs to be paid to the infrastructure linkages for large-scale mining, and measures to increase the local economic impact of mining through the promotion of value-added activities and mining cluster development. Mechanisms are required to ensure greater consultation with local communities, sharing of benefits, and mitigation of negative social and environmental impacts of mining. While EITI is a credible step towards transparency of extractive industries revenues, attention needs to be broadened to encompass the entire resource management chain.

33. In the excitement over the relaunching of modern, large-scale mining and huge investment deals, *it is essential not to overlook the needs of the artisanal mining sector* which employs far more people, most of whom are very poor. The UNDP has recently completed a Poverty and Social Impact Assessment on Artisanal Diamond Mining which offers a comprehensive strategy for addressing the key issues. While focused on diamonds, most of its recommendations are also valid for small-scale gold mining.

34. For both the large-scale and artisanal mining sectors, regional cooperation in the context of the Mano River Union, and more broadly ECOWAS, will be important – to reduce smuggling, strengthen implementation of the Kimberley process, avoid a race to the bottom in fiscal incentives to attract foreign investment, and promote coordination in infrastructure development.

Wood Products

35. With the resumption of commercial forest logging in 2008, the forestry sector will be one of the country's engines of growth for many years to come. The next 24 months are critical, as the Government needs to address key issues in both policy and fiscal frameworks and rebuild the required government capacity to manage the sector. *While much progress has been made, a key element is still lacking – a strategy for the promotion of value-added wood products.* A way must be found to make the domestic processing of logs into sawn timber and higher value products attractive to foreign and local investors, while expanding the tax base and sharing the benefits on an equitable basis.

36. A total log export ban is an extreme measure which has seldom worked in other countries and should be avoided in Liberia. Bans tend to be difficult to enforce, promote illegal logging and corruption, reduce government revenue, and disadvantage local entrepreneurs. An export ban can actually have the paradoxical effect of accelerating deforestation. *A gradually de-*

clining log export quota, with taxes that diminish with the degree of processing, is recommended, as this would maintain government revenues while giving local processors the time to build up their capacity with the help of revenues from the sale of logs.

37. Value-addition should start at the logging stage, by planning logging operations prudently, grading and pricing logs appropriately, and delivering them efficiently to buyers. Efficiency improvements along the value chain provide another avenue for adding value in the early stages of industrialization as the processing industry tends to be notoriously inefficient with low labor productivity and obsolete technology. The next phase will be primary processing (sawmilling, plywood, veneers) followed by products such as moldings, flooring, frames and eventually furniture components. Furniture-making, however, is unlikely in the foreseeable future as it is highly demanding, and the global market is very competitive.

38. In a proposed scenario, log exports would peak in 2010 and processing would begin that same year. Tax revenues would peak the next year. Eventually there would be 3-4 integrated sawmill and plywood complexes, up to 7 major sawmills with integrated remanufacturing workshops, and a significant number of small rural sawmills. Some 10,000 jobs could be created. Log exports would diminish but never totally disappear.

39. As many of the high-value trees have already been exploited, attention will need to be paid to the potential uses of lesser-known species and the taxation system will need to be adjusted in consequence. Non-timber forest products, which are especially important to women, will also need to be protected and exploited in a sustainable fashion. Bamboo and rattan offer particularly interesting opportunities.

40. Important progress has been made in reforming forestry policy, including the launching of a Chain-of-Custody system and the extension of EITI to the forestry sector. *Once a forest processing strategy is in place, attention must turn to effective implementation, and capacity-building. Various modifications of the fiscal regime are also recommended to improve the incentives for value-added and adapt to the increased role of lesser-used species.*

Fisheries

41. Liberia has a wide range of fish resources which, if carefully managed, has the potential to make significant contributions to trade and poverty alleviation. However, at present, legal exports of fish products are virtually non-existent. The fisheries sector suffers from a lack of recognition of its importance. The Bureau of National Fisheries (BNF) is subsumed under the Ministry of Agriculture and has not had its own budget. The Revenue Code does not specifically mention fisheries. The I-PRS failed to mention the sector, though this has been rectified in the PRS. Sector governance is very weak. There is no formal fisheries policy, current legislation has many deficiencies, and government capacity is extremely limited.

42. *The lack of effective monitoring, control and surveillance is perhaps the single most important issue for this sector*, whether it be from the perspective of enhancing trade, alleviate poverty or ensuring food security. Illegal fishing takes place in clear view of the capital city, and it is estimated that between 60 and 250 vessels operate illegally in Liberian waters. A private sector proposal for fisheries surveillance may offer the best short-term solution, if properly managed. In the longer-term, the Coast Guard offers the most obvious mechanism, once it is operational, but fisheries control must be integrated into its design and training programs. Regional cooperation will also be essential.

43. Negotiation of a Fisheries Partnership Agreement (FPA) with the EC would provide an immediate source of tax revenue and development assistance, while Liberia develops its capacity to participate directly in the sector. Such an agreement would however need to be carefully structured to prevent any negative impacts on local fishermen. ***The Government in Liberia is not well-equipped to deal with an FPA and requires urgent support to prepare for negotiations, and to handle the obligations that would result.*** A regional study tour to countries that have already signed FPAs would help with the former, while an institutional assessment of the BNF would contribute significantly to the latter.

44. ***However, the impact of fish exports will remain modest unless much of the catch is landed and processed in Liberia.*** Current infrastructure in the sector is very limited. There is no dedicated landing quay for the industrial fishery, while cold storage facilities do not meet international requirements. In the artisanal sub-sector, there are effectively no small-scale landings facilities, no chill stores, and virtually no use of ice. All of these need to be addressed. It will be important to create Community-based Management Organizations which could help regulate fishing activity, manage landing sites, collect data, support credit, marketing, and savings, provide social benefits and lobby. But the first hurdle will be to establish a Competent Authority which can test and certify that fish exports meet stringent EU standards.

Trade Policy and Institutions

45. ***The Government of Liberia is faced with an overwhelming array of trade policy issues, negotiations and initiatives. It will have to make some tough choices about where to focus.*** Even before the recent global food price crisis, import policy was a high priority for the Government. It is confronted with pressure from domestic producers to limit competition, and policy makers may be concerned to help domestic industry get back on its feet, or to promote self-reliance, while consumers, retailers or industrial users lobby to keep prices down. Government will need the capacity to distinguish between legitimate policy instruments and those which are likely to undermine its longer-term objectives. It will also need the capacity to monitor the impact of policy changes and to remove temporary interventions when the job has been done. Perhaps most importantly, ***Government must be able to explain to the public what is driving prices, what is within its powers, and what is not in the best interests of the country.***

46. Rice import policy is clearly the number one concern at the moment. The skyrocketing international price of rice has imposed a heavy burden on the urban and rural poor, and created enormous pressure on the Government to intervene. As a first step, the Government temporarily removed the tax on rice imports. However, its scarce fiscal resources limit the number of other options that might be pursued. Even if the donors provided funding, a subsidy on rice imports or a targeted income subsidy to offset the impact of higher rice prices would be very difficult to implement. Price controls would be counter productive. ***A better policy would be to increase the productivity of rice production, and to improve the roads, so that local rice can compete with imported rice.*** In addition, the Government might consider entering into trade agreements with major rice exporters in order to ensure access to rice even if exports are generally banned by these countries.

47. The adoption of an ECOWAS Common External Tariff (CET) modeled on the UEMOA regime with a maximum tariff of 20 percent would be an important improvement in trade policy, representing a modest liberalization and enhancing policy credibility by insulating tariff policy from domestic lobby groups. It may affect a few heavily protected enterprises, so the impact will need to be assessed, and adjustment measures considered, if necessary. The revenue impact is likely to be minimal. On the other hand, current proposals to add a fifth band of 30-50

percent should be viewed with caution, with serious consideration given to a system of gradually declining surtaxes available on a temporary basis to those few countries who feel the need. Some of the energy devoted to the CET could be focused on promoting regional free trade, notably on food products.

48. Through ECOWAS, Liberia is also in the process of negotiating a free trade agreement with the EU. The Economic Partnership Agreement (EPA) will not provide any improvement in market access since all its exports benefit from duty-free entry to the EU under the Everything But Arms (EBA) agreement. Prices of imported goods might fall a little in Liberia. On the other hand, an EPA will have at least three negative impacts: (i) a loss in import duties; (ii) the erosion of protection for producers selling on the local market; and (iii) increased competition from the EU for Liberian exports in third markets in West Africa. LDCs such as ***Liberia will need to consider whether an EPA or the EBA alternative is in their best interest***, and explore the option of designing a regional EPA in which some members can opt out of the trade chapter.

49. WTO accession is a logical step in the country's process of re-engaging with the international community. However, it does come at a cost. It would stretch the country's scarce human and administrative resources. Although the WTO members have pledged to simplify the accession process for LDCs, the recent experience (e.g. Nepal, Cambodia) has not demonstrated a major shift in practice. Liberia should proceed with the accession process as a means of building its trade policy capacity and rationalizing and improving that policy. But ***it would be unwise to rush the process of WTO accession any faster than national capacity allows***, as this could lead to unexpected obligations without compensatory gains, and neglect of more urgent needs.

50. The Ministry of Commerce and Industry is formally responsible for trade policy but has very limited capacity. The Ministry of Planning has stepped in to fill the gap with regard to the CET, while no ministry appears to have monitored developments on the EPA. ***MCI has a tradition of concentrating on import and export permits, price controls and standards enforcement. This is not conducive to developing a ministry culture suited to policy analysis and advice, and on promoting business activity. A radical institutional change is required.*** It will need to participate in the on-going Review of Mandates and Functions, and it could consider bringing in an international consultancy firm to help drive a process of change and capacity-building. Within the revamped MCI, a small unit of two or three economists could be responsible for all analysis, monitoring, advisory and other work required to play a leading role in trade policy.

51. Preparations are underway to establish a Bureau of Standards, to be an autonomous agency under the MCI. It would serve to coordinate across the various ministries and agencies which would be responsible for different aspects of the standards agenda according to their areas of competence. The initial focus of the Bureau of Standards is sound, namely to concentrate on the domestic market, starting with health and safety matters, and then following with weights and measures. With respect to exports, much of the expected growth is likely to be from foreign operators, who will require little or no direct support from the standards bureau. The one exception may be fish products. An appropriate Competent Authority is urgently needed before exports to the EU can restart. A national standards bureau has a vital role to maintain proper standards in health, safety and metrology. However, MCI planning should recognize that many other quality-related services can be most effectively provided by a competitive market supplied by competing private service providers, appropriately accredited to international levels.

52. The **Priority Action Matrix** which follows represents the most important recommendations for a pro-poor trade strategy emerging from this report. It is a preliminary set of measures designed to focus the limited institutional and financial capacity of the state where it is most

needed. With time, and as funding becomes available, the agenda should expand to include a more complete set of interventions. These are summarized in the Full Action Matrix in Annex A.

Priority Action Matrix

(see Annex A for the Full Action Matrix)

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST (US\$)	PARTY RESPONSIBLE	PERFORMANCE INDICATORS
Macroeconomic policy				
Resolve domestic debt situation	Develop mechanisms for the treatment of contestable and rejected claims and conclude agreements with the commercial banks on restructuring the debt owed to them	1 year, No cost	MoF	Mechanisms in place and agreements signed
Financial Services				
Improve understanding of the finance sector	Undertake detailed financial sector assessment to identify the major constraints, its internal organization, and options for development	1 year, \$100k	CBL, MoF	Study completed and report with detailed recommendations issued
Strengthen microfinance and non-bank financial institutions	Pass a separate microfinance law or amend the existing New Financial Institutions Act of 1999; ensure legislation is in place for regulation of microfinance and establishment of microfinance banks	1 year, No cost	CBL, Parliament	Legislation passed
	Strengthen CBL capacity to extend its supervisory and regulatory operations to microfinance and other non-bank financial institutions	2 years, \$100k	CBL	Capacity strengthened
Strengthen commercial banks	Pass legislation to define better legal procedures for loan recovery and enforcement of loans regarding collateral.	1 year, \$30k	CBL, MoJ, Parliament	Legislation passed
Implement Financial Inclusion Strategy	Implement The Liberian Strategy for Financial Inclusion (2008-2012)	4 years, Cost uncertain	CBL, MFIs commercial banks	Strategy implemented

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST	PARTY	PERFORMANCE INDICATORS
Investment Climate				
Improve road access to the interior	Rehabilitate and rebuild rural road network giving priority to regions with cocoa and forestry activity	5 years, > \$50m.	MPW	Number of miles of road built and usable in rainy season
Rehabilitate Port of Monrovia	Prepare for PPP, as per December 2007 MoU	3 years Cost tbd	MoF; NPA	PPP contract or contracts signed
Improve land tenure conditions for investors	Set up Land Commission, with an initial focus on fast-track approaches providing sufficient security of tenure to promote investment in tree crops	3 years <\$1 m.	MoF, Justice, Cabinet	Land Commission established
Customs and Trade Facilitation				
Make immediate reductions in the cost of importing	Reduce fees for special services and PSI, eliminate PSI for essential goods and use DI, reduce security apparatus at the port, reduce number of signatures for IPDs and eventually eliminate document.	1 year No cost	MoF, NPA, NBI, MNS, Coast Guard	Fees rationalized, 2 security agencies operating at the port, IPDs eliminated
Simplify export procedures	Remove MoF Excise Tax Division and Bureau of Concessions from export declaration process; confine export clearance functions to Customs at the port; eliminate EPDs.	1 year No cost	MoF	Export clearance process takes less time
Undertake major reform of customs	Automate customs clearance by implementing ASYCUDA.	2 years \$2.5m	MoF	ASYCUDA operational and used
	Adopt Single Administrative Document based on ECOWAS model, to be employed by all relevant agencies.	2-3 years \$100k	MoF	SAD adopted
Agriculture				
Establish efficient value chains	For each value chain (rubber, oil palm and cocoa): i) Preparation of an operational development strategy; and ii) Implementation of medium-term action plan.	1 year \$150k; 2-5 years (cost tbd)	MoA, MoF, MCI, stakeholders	Operational strategy and medium-term development programs approved by Government and main stakeholders
	Establish three permanent stakeholder bodies.	1 year, \$50k	MoA, Stakeholders	Stakeholder body established with clear mandate.
Establish legal and	Comprehensive review of laws and regulations on: (i) introduction	2 years,	MoA, MoF,	Legal and regulatory framework

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST	PARTY	PERFORMANCE INDICATORS
regulatory framework.	of new genetic material; (ii) grades and standards; (iii) SPS policies and traceability; (iv) farmers associations, (v) exit and entry of new operators; and (vi) export requirements.	\$100k	MCI, MoH	overhauled
Provide smallholders with improved planting material	Mobilize industrial estates and specific development projects such as the STCP; Implement “smart subsidy schemes” including: (i) an efficient targeting mechanism; (ii) an exit strategy for transferring service delivery to private operators; and (iii) a reliable and equitable funding mechanism.	5 years, \$100k	MoA, estates; stakeholder bodies	Mechanisms/schemes operational
Establish new regulatory agency for cocoa	i) Review options for responsibilities and institutional structure of new regulatory agency; ii) Undertake audit of LPMC and liquidate it; iii) Establish new, efficient regulatory agency.	1-2 years, \$150k	MoA, MoF, MCI	LPMC liquidated; New regulatory agency established and operational
Create competitive and efficient cocoa marketing channels	Establish a “ <i>best practice channel</i> ” through buying stations up-country to purchase cocoa at a price reflecting quality and marketing costs; Assist cocoa traders and exporters to access market information and finance, and invest in infrastructure.	1-5 years, \$2.5m.	MoA, stakeholder body	Best practice/fair trade channel operational; Program launched
Develop industrial estates and out-grower schemes for rubber and oil palm	i) Design a new, best practice “Concession Policy”, addressing economic, social and environmental issues; ii) Review existing concessions to align them with new policy; iii) Design a contract farming policy (access to inputs and services, pricing).	2 years, \$250k	MoA, MoF, MoJ	New concession policy adopted; All concessions aligned with policy; contract farming deals signed with 75% of estates
Privatize State-owned oil palm plantations	Technical, financial and social audit of existing state-owned plantations; Preparation of detailed bidding documents for their privatization; Implementation of transparent bidding process.	2 years, \$400k	MoA, MoF, MoJ	State-owned plantations privatized
Rehabilitate and extend smallholder oil palm and rubber plantations.	Agree with industrial estates (included in concession agreements) for the provision of planting material and agricultural advice to smallholders; Implement training courses for farmer groups in rubber and oil palm rehabilitation.	5 years, \$300k	MoA, estates	Agreement with estates reached and mechanism operational; Training programs implemented and techniques adopted.

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST	PARTY	PERFORMANCE INDICATORS
Mining				
Improve legal and regulatory framework	Revise mining law and develop mining sub-chapter of Revenue Code, develop mining regulations, harmonize laws with other legislation, adopt model MDA,	2 years, >\$600k	MLME, MoF, parliament	Clear set of consistent laws available for all interested parties
Ensure equitable sharing of benefits	Develop mechanisms for sharing financial benefits with local communities, while minimizing and compensating for negative social and environmental impacts; promote regular consultation	2 years, \$500k	MLME	No major tensions between large mines and communities
Support small-scale mining	Formalize illegal mining, create mining cooperatives, introduce more efficient technologies, provide social programs	5 years, >\$5m.	MLME	Small-scale miners enjoying higher living standards
OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST	PARTY	PERFORMANCE INDICATORS
Wood Industry				
Develop strategies and incentives to promote value-added	Re-write Chapter 13, Section 13.3 of National Forestry Reform Law on Processing of Timber Products; Build into Law decreasing export taxes with degree of processing.	1 year, \$20K	FDA, MoA, MoJ, MoF, NIC	Incentives for investors clearly set out; no disputes on definitions and associated regulations.
	Draft Forestry Processing Strategy with Roadmap of quantitative targets for value-added products for 5, 10, 15 yrs.	1 year, \$60K	FDA, NIC, LTA, MPEA	Strategy published; vision is understood by stakeholders.
Promote value added with practical first steps	Adopt ATIBT grading rules on all logs for exports and later processing.	1 year, \$250K	FDA	Percentage of log harvest graded.
	Strike a deal between FDA & NPA on abandoned <i>ekki</i> logs in Buchanan Port; study feasibility of sawmill to produce railway sleepers.	1 year, \$160K	FDA, NPA, MLME	Feasibility and agreement established.
Protect and develop use of NTFP	Conduct study of NTFP potential and formulate policies to ensure their sustainable development; create NTFP unit in FDA.	2 years, \$50k	FDA	Study completed; unit established

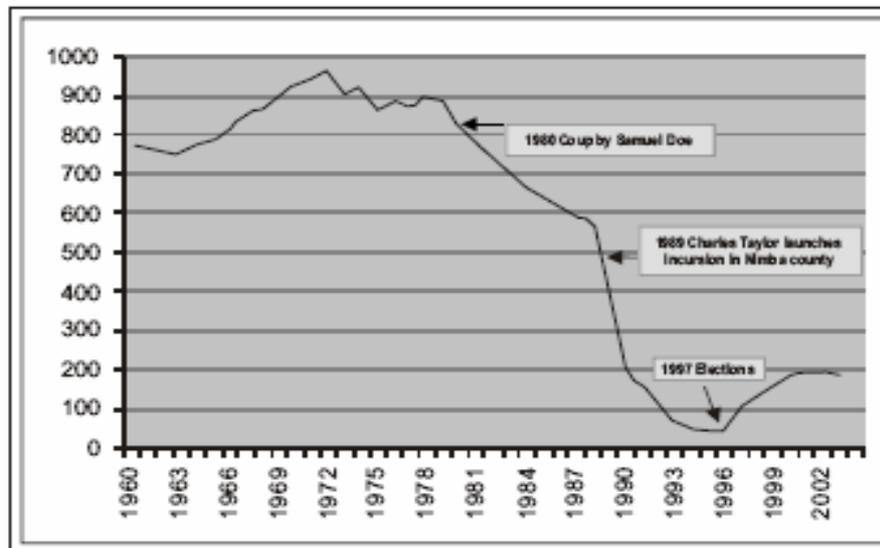
OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST	PARTY	PERFORMANCE INDICATORS
Fisheries				
Reduce illegal, unregulated and unreported (IUU) fishing	Conduct due diligence on MP&R proposal; prepare MoU specifying activities, reporting requirements; otherwise investigate potential for UNMIL to conduct MCS activities.	1 year, \$15k	MoA, BNF, MFA, MoD, MoJ	MoU/agreement signed with MP&R, or UNMIL
	Train Coastguard and fisheries inspectors/observers to operate from coastguard marine platforms or fishing vessels in the future	2-3 years, \$100k	MoD, BNF, MoA	Coast Guard performing effective MCS
	Specify and implement: i) Operating Procedures for marine and shore-based inspections; ii) MoUs between BNF, MoD, Coastguard and other parties for patrol activities; iii) VMS system and operations, and subsequent training and capacity development.	2-5 years, \$350k	MoD, BNF, MoA	Procedures and protocols defined; MoUs signed; VMS system operational
Negotiate Fisheries Part'ship Agreement	Conduct study tour to other African countries with FPAs to learn lessons; prepare action plan for negotiations and implementation.	1 year, \$15k	BNF, MoA, MoF, MFA	Study tour completed; action plan in place
Promote value added activity	Agree on Competent Authority, enact legislation, train relevant staff and private sector stakeholders on best practices and potential for improved quality and health and hygiene conditions.	1 year, \$100k	MoA, MCI, MHSA, EU SFP project	CA established; fish exports meeting EU standards
Trade Policy and Institutions				
Develop trade policy capacity	Establish unit for Integrated Framework to promote exports through implementation of DTIS action matrix in collaboration with other Ministries, private sector and civil society.	1 year, \$200k	MCI, other stakeholders	Unit established guided by inter-ministerial steering committee
	Build capacity on import policy to identify appropriate instruments, monitor selectively and communicate with the public.	2 years, \$200k	MCI	New staff hired, quality of public information improved
	Conduct functional review of MCI; develop and implement plan to restructure Ministry, retrench or retrain staff, and hire new staff.	3 years, \$1m.	MCI	Review and restructuring completed
Adopt simplified, liberal tariff regime	Engage in ECOWAS CET negotiations, assess impact on domestic industry, implement new tariff.	1 year, \$30k	MPEA, MCI	CET implemented

1. GROWTH, TRADE AND MACROECONOMIC POLICY

1.1 Liberia is once again on the road to economic recovery following several decades of devastation and civil conflict that ravaged the country's economy, destroyed its physical infrastructure, and eroded its once considerable human capital. Years of crisis and economic mismanagement have turned Liberia into one of Africa's poorest nations, with a GDP per capita of approximately US\$160. Yet the country's major mineral, agricultural, and forestry potential holds great promise of reviving the once booming economy and thriving export sector. And since 2006, Liberia has shown a strong commitment to implementing the sound reforms and maintaining the macroeconomic stability necessary for accelerated and sustainable economic growth.

1.2 Driven by the production and export of iron ore, rubber, and timber, the Liberian economy grew strongly in the 1960s and 1970s, so that by 1980 its average GDP per capita of US\$890 had reached middle-income country levels, ahead of both Ghana and Senegal.² After Samuel Doe's coup d'état in April 1980, however, the economy first slumped and then collapsed as a result of gross mismanagement and the civil war that ravaged it. Liberian GDP began a decline that resulted in an almost unthinkable fall of 90 percent by 1996 – possibly the largest economic collapse of any country since World War II.

Figure 1.1: The Evolution of real GDP per capita – 1960-2002



Note: GDP per capita data is based on World Bank, WDI 2004 series; GDP is measured in constant 1995 USD.

Source: Republic of Liberia: Interim Poverty Reduction Strategy

1.3 The conflict has been attributed to two factors: the marginalization of significant portions of society, and economic mismanagement. The original constitution was designed for the needs of the freed slaves who emigrated from the United States in the 19th century. The property rights of indigenous Liberians were severely curtailed, and political power was concentrated in Mon-

² In 1992 prices, IMF Country Report, 2006:14.

rovia, as were most infrastructure and social services. This led to the bloody but popular coup by Samuel Doe. However, the new administration was unable to cope with falling prices for iron ore and rubber, and the closure of most mines. Foreign borrowing and inflation increased, investment fell and donors pulled back. Disaffected youth were easily recruited by warlords, and by 1989 the country had descended into civil war.

1.4 After peace was restored in 1996, the economy began to recover rapidly, mainly driven by a strong expansion of the production and export of timber. However, the resumption of the conflict in 2001, followed by extreme violence in the country in 2002 and 2003, caused once again a steep fall in output. The imposition of UN sanctions on Liberia's timber and diamond exports further exacerbated the downward trend of the economy resulting in losses of 25,000 jobs in timber and 12,000 jobs in diamonds and lowering GDP by an estimated 31 percent in 2003. While the economy has resumed its recovery since 2003, national output is only one-third of its 1979 peak. Today, per capita income stands at one-eighth of pre-war levels and the country faces an estimated rate of unemployment of 85 percent.

Table 1.1 : Basic Economic and Social Indicators for Liberia by Decade (1960-2000)

Indicator	Unit	1960s	1970s	1980s	1990s	2000-05
GDP per capita	1980 US\$	673	898	495	100	140
GDP growth rate	% p.a.	4.7	3	-4.5	1.2	1.5
GDP per capita growth	% p.a.	1.9	0	-6.2	-3.2	-0.7
Agriculture GDP share	%	23	27	33	66	69
Total population	millions	1.1	1.4	1.9	2.1	3.1
Population growth rate	% p.a.	2.7	2.9	1.8	3.0	2.0
Rural as % total population	%	78	70	60	51	44
Rural population growth rate	% p.a.	1.8	1.7	0.1	1.2	0.3
Life expectancy	Yrs	40	42	44	43	42
Adult literacy	%				39	
Poverty	%				55	80

Source: World Bank, World Development Indicators.

1.5 Liberia's economy has traditionally been based on mining, tree crops, subsistence agriculture and timber. During the 1960s and 1970s, agriculture and mining each accounted for roughly 25 percent of GDP. With the decline of other economic sectors, the relative importance of agriculture has considerably increased. Though reliable data is not available, it is estimated that agriculture and fisheries contributed over half of total GDP in 2004-6, with forestry accounting for another 12 percent of GDP (this share is almost certainly overstated). Tree crops (rubber, cocoa, coffee and oil palm) represented about half of total agricultural GDP or about 25 percent of the country's total GDP. Mining had collapsed while the share of services had fallen by half.

1.6 As an overall consequence of the civil conflict and economic decline, Liberia today is one of the world's least developed countries and the country's socio-economic indicators are among the worst. Poverty in Liberia is pervasive, with an estimated 80 percent of all households suffering from income poverty, with no access to basic health, education, and other social services. Around three-quarters of the population lives on less than US\$1 per day and approximately 90 percent of the population is considered vulnerable to food insecurity.

Table 1.2: Sector Composition of GDP (%)

	1965	1987-89	2004-05
Agriculture and fisheries	25	31	52
Rubber		6	20
Rice & cassava		14	14
Other		11	17
Forestry	2	5	12
Logs and timber		3	0
Charcoal and wood		2	11*
Mining and panning	25	10	0
Manufacturing	3	8	12
Services	44	46	24

* This figure seems overstated.

Source: World Bank (1987), UNDP (2001) and IMF (various years).

BASIC MACROECONOMIC CONDITIONS

1.7 January 2006 marked a new beginning for Liberia with the inauguration of President Ellen Johnson-Sirleaf. The new government embarked immediately on an ambitious program of reforms supported by a Staff-Monitored Program with the IMF. Some of the key objectives of the new program include reviving key economic sectors, notably agriculture, mining, and forestry; rebuilding public institutions; and restoring credible financial management in the public sector. Performance to date under the Staff-Monitored Program was satisfactory and it was succeeded in early 2008 by arrangements under the IMF's Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF).

1.8 The new government has established a solid track record of implementing reforms and prudent macroeconomic policies. Maintaining macroeconomic stability, revitalizing economic growth, and creating a business environment conducive to private sector development and investment have been among the main priorities of the new government, along with improving financial management practices and curbing corruption.

Table 1.3: Key Recent Economic Indicators (2004-2008)

Key Economic Indicators	2004	2005	2006	2007	2008
	Est.	Est.	Est.	Est.	Proj.
Growth of real GDP (%)	2.6	5.3	7.8	9.5	9.6
Current account balance/GDP, including grants (%)	-5.6	-9.4	-37.3	-34.9	-64.6
Government fiscal balance (cash basis)/GDP	2.0	0.8	2.1	3.8	-0.4
Growth of exports f.o.b. (% US\$)	-4.7	6.3	43.0	43.8	46.8
Growth of imports f.o.b. (% US\$)	84.4	24.4	36.5	21.6	73.2

Sources: Liberian authorities; and IMF staff estimates and projections.

The data for Liberia are at best estimates because the civil war caused widespread destruction of databases and loss of administrative and institutional capacity. There is little information on economic activity during the war and as with many low-income countries, the informal sector activity is almost certainly under-reported, so total GDP is presumably higher than the most recent numbers suggest.

1.9 As shown in Table 1.3, Liberian economic conditions have improved since 2003. GDP growth has accelerated with gradual improvement of security in rural areas, the return of refugees to their communities, and the restoration of activity in those sectors benefiting from donor assistance. Real GDP is projected to grow by about 9.6 percent in 2008, partly due to the resumption of logging as UN sanctions are lifted, and continued growth in the services sector. In 2006, the services sector (including construction and government services) expanded by 18.4 percent. Much of the growth in this sector is fueled by expenditures resulting from foreign assistance and peacekeeping operations.

1.10 Despite an accelerated rate of economic recovery, growth in Liberia is still fragile, driven by the “bounce back” effect resulting from recovery of capacity utilization and donor-driven activities. Fundamental constraints still remain in place, keeping GDP growth in Liberia below potential: the damaged infrastructure (roads, power, and water), which hinders economic activity, especially in agriculture, timber, and mining and isolates entire parts of the country; the unavailability of basic factors of production, as refugees returning to their farms face a lack of seeds, fertilizers, and tools; and the limited capacity of the government to deliver public goods to the vast majority of the population.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

1.11 The civil conflict seriously eroded Liberia’s once booming export sector, although some rubber exports continued as did small-scale gold and diamond mining, and informal (strictly speaking, illegal) timber cutting and rubber tapping. Officially recorded exports dropped from \$486 million in 1978 to about \$104 million in 2004.³ Since then, exports have begun to grow again, thanks primarily to the recovery of the rubber sector. Timber exports, on the other hand, ceased in 2004 due to the imposition of UN sanctions. They are expected to resume in 2008.

Table 1.4: Major exports of Liberia: 2000-05

(US\$ millions)

	2000	2001	2002	2003	2004	2005	2006	2007*
Timber	61.0	69.2	100.4	54.6	0.0	0.0	0.0	0.0
Rubber	57.1	54.0	59.2	43.9	93.4	126.7	150.1	170.9
Cocoa	0.6	0.5	0.4	0.9	3.5	5.7	1.8	1.2
Coffee	0.5	0.0	0.2	0.1	0.0	0.0	0.1	0.1
Iron ore	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.5
Gold	0.0	0.0	0.0	0.0	0.0	0.0	0.1	4.5
Diamonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3
Other	1.1	4.3	6.3	9.5	7.0	7.8	6.4	4.6
Total exports	120.3	127.9	166.5	108.9	103.8	140.2	157.9	184.1

* Provisional

Source: IMF, Liberia: Statistical Appendix, May 2006; Liberia, Central Bank of Liberia, 2008.

1.12 The major exports over the last six years are presented in the Table 1.4. It is likely that actual exports are somewhat higher due to cross-border trade with neighboring countries (notably in cocoa and diamonds). More importantly, this data excludes the modern mining sector, which was traditionally the largest source of foreign exchange and will undoubtedly resume that role in the coming years. Indeed, pre-war exports of four iron ore companies peaked at a present-day

³ Steve Radelet, 2007.

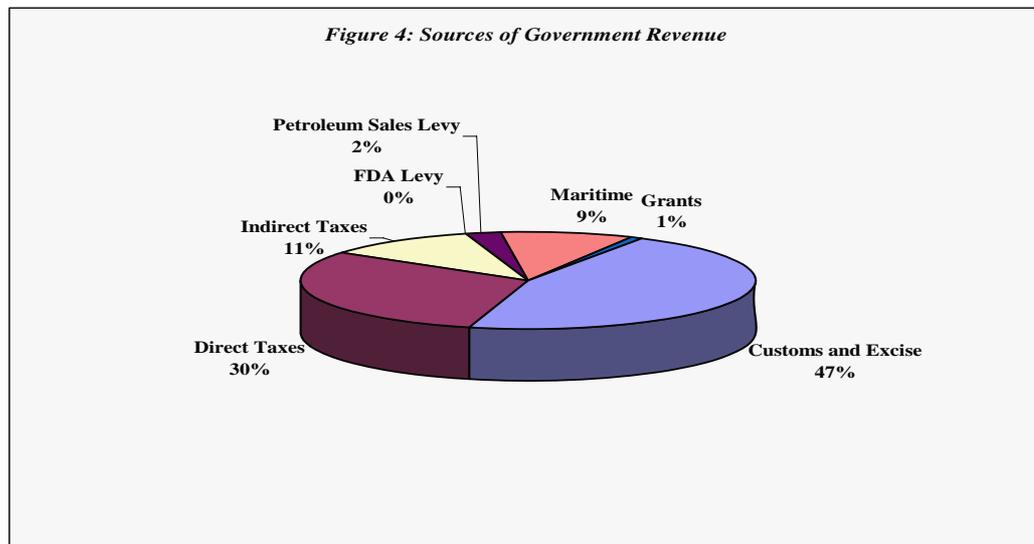
value of US\$1.3 billion per year, dwarfing all other commodities. While small quantities of previously mined iron ore were exported in 2006, newly mined product is unlikely to come on stream until 2011. Scrap metal and palm oil are the two main products included under 'other' exports.

1.13 Despite expanding exports, especially of rubber, Liberia has a growing trade deficit because of rapidly increasing imports associated with peacekeeping operations, donor programs, and foreign direct investment. The trade deficit is financed primarily by large transfers from donors, and to a much lesser extent by net inflows of remittances. A substantial inflow of foreign direct investment financing is also projected for 2008, primarily in the mining sector. Net public borrowing from abroad has been non-existent, because of Liberia's severe debt problem.

GOVERNMENT FINANCES

1.14 The Government depends heavily on trade for its revenue, with customs and excise taxes counting for 47 percent of the total (Figure 1.2). Since 2006, the government has demonstrated continued commitment to enhancing revenue collection efficiency as well as broadening the tax base. This contributed to a three-fold rise in revenues from US\$57 million in 2002/2003 to US\$147 million in 2006/2007. Some of the reform measures that have already been undertaken involve stronger enforcement of customs administration and pre-shipment inspection of imports, reducing the Customs User Fee to 1.5 percent, strengthening the Large Taxpayer Unit, eliminating the settlement of tax liabilities through non-cash payments, and reducing tax and duty exemptions on imports of rice and petroleum products.⁴ Other measures include more consistent implementation of the revenue code, expansion of automated tax administration, improved auditing resulting from comparing different sources of taxpayer information, and taxpayer education.

Figure 1.2: Sources of Government Revenue (2006)



Source: Central Bank of Liberia

⁴ Some companies in the past had settled their tax obligation by undertaking public works.

1.15 Several reforms are in the pipeline to continue strengthening revenue administration and broadening the tax base: reducing the corporate income tax rate and the highest marginal personal income tax rate from 35 percent to 30 percent, raising the Goods and Services Tax (GST) to 10 percent by 2010; further reducing tax exemptions by strictly applying the Liberia Revenue Code (LRC); and collecting more from sources that yielded little revenue in 2006/07, including GSM licensing fees and forestry related revenues. Concerning tax incentives, the authorities agree on the importance of amending the current law, which allows the government to grant ad hoc special tax incentives (beyond those already provided in the Liberia Revenue Code) regardless of an investment's size or strategic significance.⁵ An Act amending Section 204 (e) was recently submitted to the Legislature. It defines incentives for investments under US\$ 20 million. Investments above this threshold would be considered transformative and subject to discretion, with approval of the President and Legislature.

1.16 The core of the fiscal policy stance of the new government has been strengthening fiscal discipline and maintaining spending in line with actual monthly revenue. Accordingly, Liberia's fiscal balance has consistently been positive since 2004, and there has been little if any fiscal pressure tending to induce inflation. However, given that the government budget is implemented mostly in U.S. dollars, fiscal surpluses have increased the demand for these dollars, which has tended to cause a depreciation of the Liberian dollar, resulting in some upward pressure on prices denominated in Liberian dollars.

1.17 Of major concern in Liberia is the problem of public debt management – both domestic and external. Liberia's external public and public guaranteed debt, almost all of which has been in arrears since the mid 1980s, was unsustainable. Its nominal value was estimated at about \$4.7 billion in mid-2007. After applying traditional debt relief mechanisms, Liberia's net present value of debt-to-exports ratio was estimated at 1,576 percent, which was far above the threshold for debt relief under the HIPC Initiative. This was a major constraint in securing financing for the country's reconstruction efforts and attracting potential foreign investment. Given strong performance under the IMF's Staff-Monitored Program, Liberia in March 2008 reached the Decision Point for debt relief under the Enhanced HIPC Initiative.

1.18 Liberia's domestic debt and arrears was estimated in 2006 at USD 754 million, even though the government has undertaken no new borrowing since 2002-03. Resolving the domestic debt situation has a high priority, and a number of significant steps have been taken in this direction. In the meantime, the Government has little creditworthiness to issue new debt to the commercial banks or non-bank private sector. This has a significant impact on the ability of the Central Bank of Liberia (CBL) to influence the supply of money and credit denominated in Liberian dollars.

MONEY SUPPLY, INFLATION, AND INTEREST RATES

1.19 Trends in the money supply, inflation, and interest rates could have very significant effects on Liberian export competitiveness. In many countries, rapid growth of the money supply, often induced by large fiscal deficits, has led to high rates of inflation, which in turn have discouraged investment and, in some cases, led to overvaluation of the local currency. This has not been the case recently in Liberia, where fiscal stability has been maintained for the last several years. However, the economy still remains vulnerable to the importation of inflation from abroad and to the particular problems linked to a dual currency.

⁵ IMF, "Third Review of Performance Under the Staff-Monitored Program," March 2007.

1.20 Liberia operates under a dual currency arrangement, where both U.S. and Liberian dollars are accepted as legal tender. Today U.S. dollars comprise about 60 percent of the “official” broad money supply, and this does not count U.S. dollar currency in circulation outside the banks, which is not measured, though estimates of the magnitude of this currency lead to the conclusion that U.S. dollars comprise about 95 percent of the overall broad money supply.⁶ Most large public and private sector transactions are conducted in US dollars with significant amounts of savings at commercial banks held in US dollars.⁷ In rural areas, people hold US dollars but use Liberian dollars more as a medium of exchange. The latter role of the US dollar is more important in Monrovia. Everywhere, the Liberian dollar is useful, especially to poorer people, because of its smaller denominations.

1.21 The demand for money (both U.S. dollars and Liberian dollars) has been expanding rapidly in the post-war era, though the rate of expansion has been tapering off. This has not been because of fiscal pressures but has resulted more from structural changes in people’s demand for money associated with the establishment of peace and the resumption of economic activity. Nevertheless, the pace of expansion of the money supply, which is projected at 23 percent in 2008, is sufficiently rapid that there is concern regarding the ability of the CBL to control inflation.

1.22 Inflation was thought to have remained relative modest in recent years, helped by a relatively stable exchange rate. However, the rate of inflation calculated using the recently revised CPI appears to be higher than was previously estimated. During 2007, for example, inflation is estimated to have been 11.4 percent on average over the year, compared with 7.2 percent in 2006 using the old CPI. This trend has been exacerbated recently by the rapid growth in world market prices of such commodities as rice, wheat flour, vegetable oils, cement, and petroleum products.⁸ Unless this rate of inflation is reduced, it could have an unfavorable impact on investment and on the overall competitiveness of the economy, especially if there is an appreciation in the real exchange rate

1.23 As shown in Table 1.5, the average bank lending rate remained relatively constant in 2006 and 2007, while the average savings rate and the average rate on CDs fell sharply. In real terms (deflated by the CPI), the lending rate was 3.1 percent at the end of 2007, while the savings rate in the second quarter of 2007 was negative 9.6 percent. This is a situation in which there is little financial incentive to save.

Table 1.5: Recent Average Interest Rates

COMMERCIAL BANKS	December 2005	December 2006	December 2007
Average Lending Rate	14.0	15.2	14.8
Average Personal Loan Rate	12.7	13.0	13.2
Average Mortgage Rate	12.0	12.0	12.0
Average Time Deposit Rate	2.8	4.9	4.3
Average Savings Rate	3.0	3.0	2.1
Average Rate on CDs	5.0	--	3.0

Source: Central Bank of Liberia

⁶ International Monetary Fund. Liberia: Fourth Review of Performance under the Staff-Monitored Program and Request for Three-Year Arrangement under the Poverty Reduction and Growth Facility and the Extended Fund Facility – Staff Report. March 2008, p. 13.

⁷ Central Bank of Liberia, *Annual Report 2006*.

⁸ The overall rate of inflation rose in January-February 2008 to 15-16.5% whereas core inflation, excluding food and beverages, was about 6%.

1.24 Liberian monetary authorities are severely limited in their ability to conduct an independent monetary policy with respect to the Liberian dollar. This is due, first and foremost, to the dual currency arrangement and the predominance of the U.S. dollar over which it has no control. Second, the banks are flush with liquidity and have no need to borrow from the Central Bank. Third, there is no open market for government securities since those previously issued have been discredited and no new securities have been issued more recently. The only policy instrument that can be used to influence prices is the exchange rate, and that is not easy. For one thing, the U.S. dollar/Liberian dollar market is well developed, so it is difficult to operate in that market with limited resources to offset the impact of basic demand and supply trends. For example, the U.S. dollar reserves of the CBL are very limited and would not sustain a long run on the Liberian dollar.

1.25 Despite the shortage and weakness of instruments, Liberian monetary policy is geared toward maintaining low inflation and broad price stability. Under the dual currency arrangement and with a significant proportion of consumer goods being imported, the monetary policy framework recognizes that the exchange rate is the major mechanism through which imbalances between the supply of and demand for Liberian dollars affect prices.

FOREIGN EXCHANGE MARKET

1.26 The foreign exchange market in Liberia includes operations of the five commercial banks and about 52 licensed foreign exchange bureaus. There is also a small street market and probably some offshore trading. The CBL holds biweekly foreign exchange auctions in order to manage Liberian dollar liquidity and maintain exchange rate stability. The supply of US dollars comes primarily from exports, remittances, and inflows of foreign assistance; the demand for US dollars is determined mostly by the demand for imports. The supply of Liberian dollars arises mostly from government payments of salaries and for goods and services; the net demand for Liberian dollars is primarily for tax payments and as a medium of exchange in smaller denominations. When the auction was first initiated, the major concern was that the CBL would have insufficient US dollars to meet the demand without eating into scarce reserves; today, with large inflows of foreign assistance, the chief worry is that the authorities will be unable to keep the Liberian dollar from becoming overvalued.

Table 1.6: Liberian Dollar Exchange Rates – End of Period (2005-2007)

(Liberian dollars per US dollar)

Months	2005	2006	2007
Jan	56.5	57.5	61.25
Feb	57.5	56.75	60.5
Mar	56.75	56.75	60.5
Apr	57.5	57.5	61.5
May	58.5	58	62.5
Jun	58.5	59.5	62.5
Jul	59.5	59.5	62.25
Aug	59.5	60.5	62.5
Sep	57.5	59.5	61.25
Oct	54.5	59.5	61.25
Nov	54.5	57	59.75
Dec	56.5	59.5	62.5

Source: Central Bank of Liberia Financial Statistics and IMF

1.27 As shown in Table 1.6, during the period from early 2005 until the end of 2007, the exchange rate fluctuated but overall depreciated in terms of U.S. dollars from about LD55.0/US\$ to roughly LD62.0/US\$, or approximately 3 percent per year. In 2007, the rate of inflation in Liberia was 11 percent compared with that in the United States of about 3 percent. This suggests an appreciation of the real exchange rate in 2007 of about 5 percent per annum in terms of U.S. dollars.⁹ If this continues, it may have an impact on the competitiveness of exports and import-competing goods and services. Margins between buying and selling rates on the foreign exchange market are only about 2.0-2.5 percent, suggesting that this market functions quite efficiently.

KEY ISSUES

Appreciation of the Real Exchange Rate

1.28 The appreciation of the real exchange rate appears to be due more to structural factors than to monetary influences. This is difficult to avoid because increased inflows of foreign assistance and expansion of exports tend to exert substantial upward pressure on the prices of non-tradable goods and services, such as construction, so that their prices rise relative to those of tradables. This tends to encourage the growth of imports and to discourage the expansion of import-competing production, as well as non-traditional exports (which compete more on the basis of price, and do not benefit from the current commodity price boom). At the same time, inflows of foreign assistance can help improve the supply capacity of import-competing and export activities. No harm is done as long as growth of imports and natural-resource based exports (which are less sensitive to the exchange rate) relative to that of import-competing production and non-traditional exports is consistent with Liberia's national objectives of income and employment growth and poverty reduction.

1.29 Whether this is so depends on Liberia's comparative advantage and the extent to which its exploitation is consistent with these goals, as well as on the policy choices that are made. Liberia has a strong comparative advantage in natural resource-based products – rubber, cocoa, oil palm, timber, and minerals. Many of these can be produced by smallholders or using wage labor intensively, which will have a favorable impact on income, employment, and poverty reduction. Other activities, such as mining, employ less labor directly but can contribute to overall growth and employment if the government revenue that is generated is used in ways that enhance poverty reduction and heighten wellbeing and create conditions for secondary rounds of growth and investment in which the poor contribute directly. The same applies to the use made of foreign assistance so that the negative effects that are generated by appreciation of the real exchange rate are more than offset by the positive effects resulting from the increased investment in trade, growth, and poverty reduction that the assistance makes possible.

Currency Standard

1.30 One important issue that the government of Liberia faces is whether to move to a complete US dollar standard or to try to decrease the importance of US dollars in the economy relative to Liberian dollars. The choice made will have an important influence on Liberia's competi-

⁹ Because the USD has been depreciating relative to other currencies such as the euro, the impact on total Liberian trade will be reduced. However, given the importance of the USD in Liberian trade and the economy in general, an appreciation of the real value of the LD relative to the USD could be cause for concern.

tiveness in the global, and even regional, economy. A US dollar standard would have the advantage of facilitating international transactions without risk of changes in the exchange rate between US and Liberian dollars, which is especially important since most of Liberia's trading and investing partners conduct these transactions in US dollars. Greater relative importance of the Liberian dollar in the money supply, on the other hand, would increase that risk, or at least the perception of that risk, until international traders and investors became confident of the soundness of this currency. Given Liberia's past history of inflation, depreciation, and lack of fiscal discipline, this might take some time.

1.31 At present, there is no strong evidence of a clear direction in the money supply either towards or away from a U.S. dollar standard. In part this is because of the inability to measure the amount of U.S. currency in circulation. It is also because it is possible to identify factors supporting trends in both directions. For example, the effort being made to expand the number of Payment Centers in the country, where government workers, contractors, and others can be paid by the government in Liberian dollars, helps to enhance the use of Liberian dollars relative to U.S. dollars, especially outside of Monrovia. On the other hand, most of this money is held as currency, which is declining relative to deposits that are overwhelmingly held as US dollars. One reason for this is that banking services are very limited outside of Monrovia. As this situation improves, we can expect to see an increase in Liberian dollar deposits in other towns. This may be offset, however, by an increase in international and regional banking in Monrovia, which will likely be conducted for the most part in US dollars.

1.32 There are a number of arguments for and against moving towards a Liberian dollar standard. One argument in favor of "dedollarization" is that the State would capture the benefits of being able to print its own money (seigniorage). This currently amounts to about US\$5 million per year, and greater use of the Liberian dollar would increase this benefit. The cost of moving in the other direction, replacing existing Liberian dollar holdings with U.S. dollars, on the other hand, would be very high – in the order of US\$54 million. A second argument is that there is little evidence that Liberia, or other countries for that matter, have adhered to disciplined fiscal policy in the past when on a U.S. dollar standard. There are always plenty of opportunities to accumulate arrears, credit from suppliers and contractors, and other forms of domestic and external debt so that fiscal discipline can be avoided until the situation becomes completely untenable. Third, a rigid U.S. dollar standard would eliminate the possibility of Liberia maintaining any kind of independent monetary and exchange rate policy and would make adjustment to external disturbances in the balance of payments more difficult to achieve. Fourth, full US dollarization would reduce the ability of the Central Bank of Liberia to act as a lender of last resort, which would require banks to hold more liquid assets and equity capital, which would increase their costs of lending.

1.33 While these considerations argue against dollarization, others call for caution in moving to quickly in the opposite direction:

- While access to seigniorage is always attractive, Liberian dollar currency is today the slowest growing part of the money supply. Even if people continue to be paid in Liberian dollars, if they want US dollars, they can buy them in the market. To maintain a stable exchange rate, the CBL would have to purchase those Liberian dollars through the auction system, thereby incurring real costs and reducing the benefits from seigniorage.
- Adjustment to external disturbances in the balance of payment through changes in the exchange rate cannot occur under the existing system unless the CBL fails to maintain a stable exchange rate via its auction. However, if it were to do this, it would forego the use of its only instrument of monetary policy. The likelihood of being able to develop

other instruments of monetary policy within the Liberian dollar market, through the issuance of government securities denominated in Liberian dollars, will probably be low for some time to come. Allowing changes to take place in the exchange rate would also reduce confidence in the Liberian dollar and induce a movement into US dollars

- The lessened ability of the central bank to become a lender of last resort under a USD standard could be offset by the encouragement offered to international and regional banks to establish branches and subsidiaries in Liberia or to take equity participation in existing banks, substantially increasing access by these banks to capital. In fact, if Liberia were to complete US dollarization or even move substantially in this direction, this might put it at a unique advantage in a West Africa that is likely to be increasingly dominated by the CFA franc and the Nigerian naira.

1.34 This is not to say that Liberia should at this point formulate and implement a strategy for moving towards either full US dollarization or a greatly expanded role for the Liberian dollar. The cost of adopting the US dollar standard and replacing all the existing Liberian dollars in circulation would be much too high. Furthermore, there are far more important items on the public sector agenda over the next few years. In any event, private sector forces are likely to overshadow anything the government is likely to do, such as establishing more Payment Centers, requiring tax payment and government expenditures to be made in Liberian dollars, and introducing higher denomination bank notes. What is important is for the government to monitor underlying trends in the holding of US and Liberian dollars through its liquidity monitoring framework, build on the smaller denominations of Liberian dollars as an important component of the demand for this currency, and examine other ways in which the availability of Liberian dollars provides services to Liberian citizens and especially the poor. What the government should not do, on the other hand, is to try to promote the holding of Liberian dollars through regulatory interventions that distort the currency market.

1.35 A preferable approach would be simply to allow the situation to evolve naturally based on people's preferences and to give them as much choice as possible regarding the currencies they choose to hold, receive, or pay out. Such an approach is entirely consistent with the government's goal of building confidence in the Liberian dollar through ensuring a stable macroeconomic environment, strengthening the banking system, and removing mutilated banknotes from circulation.¹⁰ If this approach is adopted, the government can still benefit from seigniorage, at least insofar as people are willing to hold Liberian dollars once they are paid. Decisions regarding the issuance of short-term monetary instruments such as CBL certificates of deposit should, at least in the short term, be made on the basis of their usefulness in the money market and not because this will lead to an additional instrument of monetary policy.

RECOMMENDATIONS

- Alternative strategies regarding what currency standard to adopt and how to move to this standard need to be seriously considered, in order to have a realistic understanding of what the costs and benefits of each strategy will be, and how trying to force a move in either direction may have undesirable consequences. The monetary authorities should monitor the evolution of the money supply in terms of its distribution between currencies, undertaking a periodic survey of US dollar currency holdings in order to be able to assess more accurately changes in currency distribution.

¹⁰ Central Bank of Liberia, *Policy Statement 2007*.

- There is a need for continued capacity building at the CBL, especially in the areas of financial programming; supervision and regulation of the banking system, microfinance institutions, and other non-bank financial institutions; and compilation of statistics.
- CBL should pursue its plans to upgrade the existing Check Clearing System, to automate the posting of accounting records, and to work with the Ministry of Finance to streamline the payment of government payroll checks.
- The flow of government funds through the CBL, especially in US dollars, needs to be timed so that it does not put excessive pressure on the foreign exchange market and assists the CBL in maintaining exchange rate stability.
- With respect to tax policy, there is a need to move away from heavy dependence on taxes on trade. This will require the broadening of the tax base and the strengthening of tax administration and enforcement in areas in addition to customs.
- A substantial program for reform of the customs services has been developed but needs to be fully funded and implemented, including the use of PSI services for three more years.
- A number of other tax reforms are in the pipeline and need to move forward: reducing the corporate income tax and the highest marginal personal income tax from 35 percent to 30 percent, raising the Goods and Services Tax (GST) gradually to 10 percent by 2010, reducing the Customs User Fee to 1.5 percent, finishing restructuring domestic tax administration by establishing a headquarters in charge of policy formulation and field offices for large, medium and small taxpayers in charge of implementation; implementing the new 9-digit taxpayer identification number; further reducing tax exemptions by strictly applying the Liberia Revenue Code (LRC); and collecting from sources which yielded little revenue in 2006/07, including GSM licensing fees and forestry related revenues.
- The Minister of Finance has the authority to set excise taxes within a certain range. Businesses are concerned by the uncertainty and lack of transparency involved. These rates need to be established, widely promulgated, and maintained over a substantial period of at least several years in order to inspire confidence.
- The Minimum Turnover Tax on firms with less than LD 5 million in turnover should be reduced to 1.5 percent but its base should be expanded.
- To speed the pace of expenditure in accordance with the budget, line ministries and agencies will need to make further progress on public procurement training supported by technical assistance from the donors. Passage of the law to integrate the Bureau of the Budget into the Ministry of Finance should be a high priority.
- The government should move towards full resolution of the domestic debt issue by developing mechanisms for the treatment of contestable and rejected claims and by concluding agreements with the commercial banks on restructuring the debt owed to them.
- Having reached the HIPC Decision Point in March 2008, the government needs to move as rapidly as possible to implement the agreed upon macroeconomic reform program, supported by financial assistance under the IMF's Poverty Reduction and Growth Facility and Extended Fund Facility, as well as to implement the full Poverty Reduction Strategy.

2. FINANCIAL SERVICES

2.1 Financial services are critical for farmers, fishermen, timber companies, processors, input suppliers, traders, exporters, and others involved either directly or indirectly in the export sub-sectors. Larger firms have relatively good access to capital from their own resources, overseas banks, and local banks, though they prefer not to borrow much from local banks because of the high costs involved. It is the small entrepreneur that faces the greatest obstacles to obtaining financing. These entrepreneurs may be directly involved in the export chain, but many are also linked to that chain by the additional demand that is created for their inputs, food, transport, housing, and other basic needs resulting from export growth. Most of these entrepreneurs are associated with small and medium enterprises (SMEs), which are in need of the finance that is necessary for them to benefit from expanded exports. This will contribute to growth of income and employment and reduction of poverty throughout the economy.

2.2 The Liberian financial sector is small and undeveloped, with broad money (M2) and private sector credit accounting for 23 percent and 7 percent respectively of GDP. As of November 2007, total credit to the private sector totaled only L\$4,342.4 million (approx. \$72 million). There is a considerable demand for credit, however, with annual growth of private sector credit rising from 25.4 percent in 2005 to 47.0 percent in 2006. The financial system consists of the Central Bank of Liberia (CBL), five commercial banks, two microfinance institutions (MFIs), one non-bank financial institution (NBFI), several credit unions, a number of business and other associations that advance loans to their members, several NGOs involved in micro-credit programs, 180 foreign exchange bureaus, and an unknown number of informal savings clubs (Susus). Except for the Susus, most of these activities are highly concentrated in Monrovia

FINANCIAL SECTOR INSTITUTIONS

Banks

2.3 Table 2.1 presents the assets, loans, and deposits of the commercial banks in Liberia from 2004 to 2006. It is evident that lending has consistently lagged behind deposits, which almost doubled from the end of 2004 to the end of 2006 and have since continued to grow more rapidly than loans. Monetary policy is not a constraint. Although the CBL has a reserve requirement of 22 percent, the banking sector has huge excess liquidity. Rather, the failure to expand lending results from poor capacity to assess credit risk, high risk of default resulting from the damage done by the war, and lack of credit history of most potential borrowers. Bank lending to the private sector has been constrained by extremely high levels of non-performing loans, largely linked to real estate lending caused by over optimistic expectations as to property values in the post conflict environment. The rapid growth in new lending has reduced the proportion of non-performing loans as a percentage of total lending, standing at approximately 19 percent of bank loans in November 2007, down from 42 percent in December 2006. The good news is that significant domestic financing is available for lending if conditions can be improved.

2.4 The bank lending environment is further challenged by the need to operate within a dual currency environment. Notwithstanding the prevalent use of Liberian Dollars for domestic transactions, demand remains greater for U.S. Dollar borrowing, and lending rates have been higher for U.S. Dollars. This outcome is possibly a reflection of the use of borrowing to finance imports and the limited sophistication of the financial sector. The bank sector capital adequacy ratio has improved to 23 percent as of November 2007, up from 12 percent in December 2006, largely on the back of capital contributions. Equally, however, the open capital account in Liberia allows

domestic borrowers to access finance from overseas; as such, total private sector credit may be well in excess of that provided by the domestic financial sector.

Table 2.1: Assets, loans, and deposits, of Liberian banks (2004-2006)

(Million USD unless otherwise indicated)

	2004	2005	2006
Number of banks	3	5	5
Assets (end Dec)	75.3	109.7	157.5
Loans (end Dec)	47.4	49.0	64.7
Deposits (end Dec)	56.1	76.6	102.5

Source: Databank Leadership, “A Review of Liberia’s Economy, Financial Sector, and Investment Opportunities” and data from the Central Bank of Liberia.

2.5 Most bank revenue comes not from loans but from other services, such as deposit account fees, remittances, wire transfers, and currency exchanges. In fact, non-interest income accounted for about 78 percent of commercial bank revenue in 2006.

2.6 Table 2.2 shows the loan distribution of Liberian banks by economic sector from 2004 to 2006. By far the largest category is “Others”, which comprises primarily the public sector. Many of these loans are non-performing and are in the process of being settled as part of the domestic debt. Most notable after this is the relative importance of trade, hotels, and restaurants, as well as the growing importance of construction during the rebuilding phase in Liberia.

Table 2.2: Commercial Banks’ Loans by Economic Sector

(‘000 Liberian Dollars)

Sector	Dec 2004 (5)	Dec 2005 (5)	Dec 2006 (5)
Agriculture	8.0	10.6	6.8
Mining, Quarrying	0.0	0.1	0.0
Manufacturing	0.7	0.5	1.1
Construction	2.3	2.7	5.5
Transport, Storage, Communications	1.8	4.8	4.3
Trade, Hotel, Rest.	19.1	13.5	20.4
Others	68.0	68.1	61.8
Total	100.0	100.0	100.0

Source: Central Bank of Liberia, *Annual Report 2006*.

2.7 The spread between borrowing and lending rates of the banking sector is very high, with lending rates for businesses averaging more than 15 percent during the first half of 2007, at the same time that savings rates were 2-4 percent. Since inflation during this period was 11.4 percent, this implies that the return on savings was highly negative. The major reasons for this wide margin appear to be lack of competition within the banking sector, absence of opportunities to earn interest on primary or secondary reserves, high cost generally of doing business (cost of electrical power, lack of skilled labor, poor security, etc.), low volume of loans with which to cover overhead, poor recovery rates on loans, and high rates of taxation.

2.8 Recently, commercial banks have begun looking at the market for retail loans to consumers and micro, small, and medium enterprises, partly because international best practice has

shown that this type of lending is feasible if banks implement procedures that allow them to widen their scale and outreach, lower their costs and risks, and provide suitable financial products. Ecobank and LBDI have started providing loans to small and medium enterprise operators, credit unions, trade associations, religious societies, community based associations, and Susu groups. The most recent entrant is Access Bank which proposes to emphasize microfinance but prefers the status of a commercial bank. However, it has been concerned that the ceiling on lending rates, which stood at 25 percent in 2008, would not enable it to pursue its business model. In order to cover the higher risks and operating expenses involved in microfinance, it charges interest rates between 3 and 6 percent per month. The Central Bank will need to revisit its interest rate policy to facilitate such innovations.

2.9 Although not part of the Liberian banking sector, overseas banks play a vital role in the Liberian economy. Larger firms do not use local banks as an important source of their working and longer term capital needs but instead rely on banks overseas with which they have maintained strong relations over many years. Smaller Liberian firms do not have the advantage of being able to use the services of overseas banks. In part this is because they do not know how to establish relations with these banks and in part it is because the banks do not know them.

2.10 An important issue is whether local banks should be protected for a time from competition with stronger international and regional banks that are seeking to establish themselves in Liberia. Ecobank is, of course, already a regional bank. Several other banks are looking at investing in existing Liberian banks in order to improve their capital structure. This is by and large to be welcomed. Investment by outside banks in Ghana contributed substantially to improved banking service in that country. However, it is important that banks that are licensed to operate in Liberia be internationally reputable, with a strong capital base and credible business plan. It is also important that the banking sector not be expanded so rapidly that the regulatory capacity of the CBL cannot keep up. Concern has also been expressed that new entrants will crowd out incumbent banks given the current impaired state of bank balance sheets. There may be scope for a division of labor, with the international and regional banks substituting for overseas banks and the local banks concentrating on retail banking in the local market, which they tend to know better.

Microfinance Institutions (MFIs)

2.11 There are two formal Microfinance Institutions (MFIs), the Local Enterprise Assistance Program (LEAP) and Liberty Finance. Each of these institutions obtains funds from a number of different sources, mostly the CBL and NGOs. Neither provides any type of savings services to its clients, whether compulsory or voluntary. Each uses a group lending methodology whereby group members guarantee each other's loans. Groups are evaluated on the basis of their tangible assets, other sources of income, viability of the business, and liabilities to other institutions. No collateral is required. Group solidarity is the most important guarantee of repayment since recourse to legal procedures is difficult and costly.

2.12 Each of these organizations is facing similar problems: lack of loan capital; unstable nature of the population, especially in urban areas; absence of organized local leadership; limited expertise in microfinance and high staff turnover; lack of transport facilities and poor infrastructure; and limited outreach of formal banks outside Monrovia, which restricts the geographical coverage of the MFIs and creates a security risk for the movement of cash. Furthermore, there is the lack of any overall regulatory and supervisory framework to promote microfinance activities, including the mobilization of savings. Finally, the credit culture in Liberia has been seriously damaged by years of aid dependency, with individuals making little distinction between loans and grants.

Financial Cooperatives or Credit Unions

2.13 The concept of a credit union was first introduced into Liberia in 1966 for the purpose of cultivating a culture of saving, borrowing, and using the money to improve productive capacity. Their numbers fell during the war, but a survey in May 2007 identified 45 credit unions in seven of the fifteen counties. There appears to be a very strong interest in credit unions.

2.14 Credit unions are currently supervised by the Cooperative Development Agency (CDA), with a board of directors chaired by the Ministry of Agriculture. Though this structure formally falls under the general Cooperative Act of 1936, the Act does not mention credit unions since they did not exist at the time this legislation was enacted. Furthermore, the New Financial Institutions Act of 1999 gives exclusive power to the CBL to regulate and supervise all financial institutions in the country including credit unions and Susu (savings) clubs. This has not been implemented and the CDA continues to take oversight responsibility for the credit unions.

Susu Groups

2.15 Susu groups (informal saving clubs) are very common in both rural and urban Liberia. The participating members set aside regular contributions, and the money generated is used to buy consumer goods or serve as working capital. Default is rare. Susu groups were the only local savings institutions that survived the civil war. Since the savings mobilized by Susu groups are not very large, the challenge is how to adopt their solidarity principles to larger organizations capable of generating more saving and investment.

Trade Credit

2.16 Trade credit is that provided by suppliers or purchasers to assist small entrepreneurs without good access to capital from the formal sector. In the past this was an important means of financing the commercial sector. For example, cocoa exporters, who obtained their finance from overseas, would provide their buying agents advances to purchase the cocoa crop. Farmers in some cases were even given advances to purchase inputs. Repayment was good because these advances were paired with good prices for the cocoa. This form of credit has declined because of the reduction in cocoa exports due primarily to bad roads. However, other forms of trade credit exist and can be expected to flourish as the trading sector grows as long as there are no restrictions placed on this form of finance.

Other Non-Bank Financial Institutions

2.17 There are a number of other non-bank financial institutions in Liberia; most are not officially registered as such. Some examples are CHF International/Liberia Enterprise Development Finance Company (LEDFC), WUDARBO Inc., Mercy Corps, Lutheran World Service, CCF, ARC, World Vision, SEDO/ARC, UNDP projects, and AGRHA. Many either are or have strong linkages with NGOs, which provide much of their funding.

2.18 LEDFC is the only firm currently licensed by the CBL as a non-bank financial institution. Thus, its collateral obligations are less demanding than for deposit-taking institutions. Although the CBL has yet to establish specific guidelines regarding these requirements, they are expected to include lower collateral requirements, use of group lending guarantees, and relevance of the provision of business development services. CBL credit rating will also be important. Non-bank financial institutions fall under the New Financial Institutions Act of 1999, but specific implementing legislation in the form of requirements and guidelines need to be issued by the CBL.

KEY ISSUES

2.19 The financial sector in Liberia remains weak. The commercial banks have been rationalized (there used to be fourteen), have all been substantially strengthened and now satisfy the minimum capital adequacy ratio. But they are still undercapitalized for more aggressive lending, retain a high proportion of non-performing loans, show negative or low returns to capital, have high interest rate margins between savings and lending rates, and continue to depend heavily on non-interest sources of income. Moreover, their presence in rural areas is minimal. The two microfinance institutions are small and mostly limited to Monrovia. Finally, regulatory status of the other financial institutions is uncertain, and in some instances they may be undermining the development of the financial sector by providing credit on highly subsidized terms.

2.20 There is an urgent need to define the legal status of microfinance institutions insofar as CBL regulation is concerned, so as to establish whether microfinance institutions can mobilize savings as well as extend credit, along with the regulatory and supervisory framework to support this activity. This will permit the establishment of deposit-holding microfinance banks that can mobilize savings as well as extend credit. There is a need to develop a simplified but clear legal framework in which loan recovery can take place, including foreclosure on collateralized property in the event of default. A strategy for reaching SMEs, the missing middle between the commercial banks and microfinance, also needs to be developed.

2.21 Development of the financial services sector requires the establishment of linkages between the various institutions in ways that are consistent with the ultimate goal of providing broad-based access to quality services on a sustainable basis and at reasonable prices. Today the sector is not well integrated and, in many ways, it is far from sustainable. Furthermore, access is very unequal, with rural areas, the poor, and SMEs at a particular disadvantage.

2.22 There are a number of initiatives underway to correct this situation, which are deserving of support. Perhaps most important is the increased orientation of LBDI and Ecobank towards retail banking involving microfinance, SMEs, and lending to households. However, bank refinancing of MFIs will have to wait for the time when they are no longer able to rely on NGO funding of their loan capital and operating costs since that money is cheaper than refinancing through the banking system. For LEAP and Liberty Finance, this should take place during 2008.

2.23 Another issue is the relationship that exists between other types of non-bank financial institutions and the commercial banks. When LEDFC was first established, there was concern that it would compete unfairly with the commercial banks, thus undermining the development of the banking sector. This issue was resolved when LEDFC agreed to route some of its lending via the commercial banks. However, other non-bank financial institutions are lending at zero or highly subsidized rates of interest, often paid for by donors or international NGOs, thus undercutting the commercial banks and MFIs.

2.24 A profitable and sustainable financial sector is good for economic growth and poverty reduction. Unfortunately, there is still a strong sentiment that poor people cannot afford to pay high interest rates – that they need to receive grants rather than loans – or at the very least highly subsidized loans. But research and accumulated experience have shown that poor people need to be able access capital when they need it – like everyone else – and they are willing to pay for it. Furthermore, the development of a viable financial sector depends on being able to cover all costs, including those associated with taking risks and administering many small loans. Much has been learned in the past few decades about how to do this through such devices as structured finance, group guarantees, and sharing the market among different institutions in line with their

comparative advantage. It is important that financial sector development not be subverted by unfair competition from subsidized lending programs of NGOs and donor-financed projects. While some projects require the beneficiaries to pay back the loans, others do not. Unless these projects separate handouts from loans, and avoid highly subsidized loans, their initiatives are likely to distort the credit culture in Liberia. It is important that all lending programs come under the oversight of the central bank or another supervisory authority to assure that this does not take place.

2.25 The financial sector in Liberia could evolve simultaneously in two different directions. One would involve investment by international and regional banks in branches and subsidiaries that would compete less with local banks than with overseas banks. If large firms had access locally to international or regional banks, they would have less need to go overseas. At the same time, the local banks, in collaboration with microfinance institutions, credit unions and other associations, could develop their comparative advantage in servicing SMEs and in extending financial services into rural areas. The government needs to consider this option and to discuss it with the existing banks and other financial institutions, as well as with the foreign banks that have expressed an interest in investing in Liberia. The necessary enabling environment then needs to be established through new legislation or modifications to existing legislation.

RECOMMENDATIONS

- Undertake a detailed financial sector assessment to identify the major constraints to expansion, its internal organization, and its integration into the global financial system, as well as the specific actions that need to be taken to achieve these objectives.
- When appropriate, raise the commercial banks' required capital adequacy ratio to a level that is commensurate with undertaking loans that are somewhat more risky but in the interest of broad-based Liberian development.
- Continue bank supervision by the CBL with a view to improving bank risk management and lending practices.
- Facilitate the establishment of branches of international and regional banks in Liberia commensurate with the expansion of the capacity of the CBL to supervise and regulate the banking system.
- Move towards full settlement of all non-performing loans within the banks' portfolios, including past debts and arrears of the GOL.
- Work to decrease the costs and increase the profits of the commercial banks by:
 - CBL paying a return on reserve deposits as soon as its financial situation permits.
 - General reductions in the cost of doing business in Liberia.
 - Passing legislation to define better legal procedures involved in loan recovery and the enforcement of loan contracts regarding collateral.
 - Reviewing the tax structure to ensure equitable treatment for commercial banks.
- Ensure market mechanisms are available to allow for money market operations (including repo transactions) to facilitate refinancing between commercial banks and microfinance institutions, credit unions, and associations involved in lending to members.

- Review the current legal structure for non-bank financial institutions to assure that all types of these organizations are regulated to the extent necessary to assure the protection of deposits and to avoid unfair competition in the provision of financial services.
- Non-bank financial institutions such as LEDFC should be encouraged to work with commercial banks to improve their ability to make funds available for investment purposes, including the use of consortium lending.
- Pass a separate microfinance law or amend the existing New Financial Institutions Act of 1999 so as to create a more inclusive financial system. Assure that the legislation is in place for the establishment of microfinance banks.
- Implement The Liberian Strategy for Financial Inclusion (2008-2012):
 - Expand outreach by using a broad range of financial service providers which allows for microfinance capacity in all of these institutions, including commercial banks, MFIs, credit unions, etc.
 - Facilitate development of financial products that respond to a variety of needs, including saving, borrowing, and transferring funds.
 - Promote the use of market interest rates over subsidies to build sustainable microfinance providers.
 - Focus on credit unions to reach areas that are difficult to access.
 - Support and strengthen the Microfinance Network of Liberia.
 - Facilitate linkages between commercial banks and other microfinance providers through awareness programs, loan guarantees, and revision of the regulations to allow greater flexibility in collateral requirements.
 - Develop capacity of service providers to the microfinance industry in the areas of training, accounting, auditing, management information systems, and business development services.
 - Establish a fully operational Microfinance Supervision Unit within the CBL and build its capacity to undertake its supervisory role as defined by the new legislation regarding microfinance.
- Strengthen the capacity of the CBL not only to supervise and regulate the banking system but also to extend its supervisory and regulatory operations to deposit-taking microfinance and other non-bank financial institutions.
- Ensure regulations require adequate capitalization and efficient management of MFIs and microfinance banks as part of the Inclusive Financial Sector Project;
- Take steps to modernize the payments system, including the passage of new legislation to facilitate the use of checks and electronic payments and transfers.
- Improve mechanisms for information sharing among financial institutions on the credit-worthiness of potential borrowers, particularly through establishing a credit reference bureau that goes beyond the credit histories maintained by the CBL and the commercial banks. This will require conducting a detailed study to assess the institutional and legal challenges, explore management and governance, and identify the institution in which it should be housed.

3. INVESTMENT CLIMATE AND INSTITUTIONS

3.1 Within the next five years, Liberia's best chance of attracting such investments will be within the proven resource-based product areas, namely iron ore, diamonds, gold, cocoa, oil palm, rubber, fisheries and forestry products.¹¹ As these opportunities are taken up, over time, it may well be possible to attract significant investments in labor-intensive manufacturing. But for now, Liberia is far from being an attractive option for such investments, not least because of the additional perceived risk arising from the long and destructive conflict. This chapter examines the cross-cutting constraints which affect most, if not all, of the promising product areas, in an approximate order of severity. It then discusses some of the institutions involved in supporting trade and investment.

INFRASTRUCTURE

Roads

3.2 In order to export resource-based products, two aspects of infrastructure are impossible to do without – roads and a port. Resource-based product exporters can make do without publicly supplied power or water, for instance, but they cannot really make do without usable roads or a functioning port.

3.3 Contacts with current operators confirm that the very poor state of most roads in Liberia is one of their most serious constraints. Not only were roads damaged during the conflicts, but there was lack of investment over a long period. Perhaps the key reason why cocoa farmers are receiving such a small proportion of the fob price is the cost of road transport to the port, which increases the margins required by traders but also reduces competition. Exporters report that some roads are impassible during the wet season, and are almost unusable the rest of the year. One has even resorted to trying cross-country quad bikes to tackle the problem. Coupled with the high cost of imported spare parts for trucks, bad roads add substantial additional costs onto exports. County-level consultations on the PRS have confirmed that the very poor state of roads represents the number one concern of up-country communities.

3.4 The EU is currently assisting the Government in rehabilitating feeder roads, and in introducing local maintenance capacity. It plans to continue this activity, and also to extend assistance to the rehabilitation of primary roads, focusing first on those linking Liberia to neighboring countries.

3.5 This report encourages the Government to focus its attention, and its investment resources, on continuing to re-build the road network. Given the scarcity of available resources, it would be helpful to focus first on those roads that serve the most important production areas for the resource-based products and with the best export potential. Timber, and to a lesser extent, cocoa, are top priorities, which are both grown mainly in remote, road-dependant location. Some of the revenues generated by this expanded economic activity can then be plowed back into the further expansion and maintenance of the road network in other regions.

¹¹ For specific issues and constraints affecting individual product groups, see the separate chapter on each.

Port

3.6 For the time being, the port that matters is the Freeport of Monrovia. The second port, Buchanan, is to be rehabilitated by Arcelor Mittal, as part of its large iron ore project.¹² The Freeport of Monrovia is a major problem for any investor either bringing in supplies, or attempting to export product. Management of the port was apparently gifted to one of the warring parties, in order to achieve an end to the conflict. Current users report that the port is almost “out of control.”

3.7 There is no system for locating individual containers; full containers are mixed in with empties; there are a lot of people seemingly just wandering around the container park areas, apparently uncontrolled. Port-owned container loaders are in a bad state, and rarely available for use. Users resort to unofficially “hiring” UN loaders after hours. Shipping lines are using their own loaders. Port charges can only be paid by “manager’s check” [ie. banker’s check], and only from one single bank, Ecobank. Firms importing through the port report that getting a container out can take anything between one and three weeks. In addition, there are serious problems with the physical infrastructure, starting with the dangerous state of disrepair of the main wharves.

3.8 The World Bank is currently implementing the Infrastructure Rehabilitation Project, which includes assistance to the Monrovia port and the main airport. However, the project’s limited funding of US\$8.5m has meant that, over the past three years, it has only been possible to undertake dredging, and rehabilitation of the oil jetty. The major physical infrastructure problems remain, and would require much larger funding. To deal with the wharves alone would probably require \$50m.

3.9 The World Bank has emphasized the need to reform port management for some time. Over the past three years, the Bank has proposed various approaches, in order to bring in outside commercial management. After long discussions, a Memorandum of Understanding (MoU) was signed on December 6th, 2007, between the Government, the World Bank, the US Government and UNMIL. It was formally agreed that the Port of Monrovia is to be managed under a long-term PPP contract, based on the Build-Operate-Transfer model. The main open issue is for the Government to decide whether it will opt for one single master concession, or arrange modular concessions. It has agreed to finalize this decision within 90 days of the MoU signature.

3.10 The World Bank and US Government will provide both investment support and funding for technical assistance, in order to prepare for the PPP contract, and to assist port management in the interim. After a long period of uncertainty, this MoU represents a major step forward. Finally, there is a formal agreement on a move to private management, and on the steps required to achieve this.

ACCESS TO LAND

Land Tenure

3.11 Almost all investments in export production require land as an input, even if it is only to establish processing or packing facilities, ahead of shipment. Investors look for security of tenure, linked to the expected life of the assets to be established on the land. They also look to util-

¹² See the chapter on mineral products for more on this.

ize the land as collateral, so as to free up this asset, and thus increase the working capital available for expansion.

3.12 A specialist consultant has recently been brought in by the World Bank to advise on this. He reports that security of tenure in Liberia is weak to non-existent. He cites several underlying reasons: a) illegal occupations during the civil war; b) loss and disorganization of land rights documents; c) lack of capacity within the responsible public agencies; d) dislocation of the dispute resolution structures; and e) opportunistic fraud and malpractice, aiming to exploit these weaknesses.

3.13 Along the coastal strip, and around the main towns, the first wave of immigrants, the ex-slaves from the USA, and their descendents, the Americo-Liberians, established themselves. Here, freeholds and long leaseholds up to 99 years operate, along the US model. However, because of the problems of legal challenges to ownership, and of achieving foreclosure, banks are generally reluctant to take leases and freeholds as collateral, at their full market values.

3.14 In the hinterland, the lands of the original local communities have been declared “public land.” Here, County Land Commissions may grant concessions, essentially usage rights, over such land, subject, in theory, to the “non-objection” of the tribal chief. In the case of plantations, of particular interest to export-oriented investors, the responsible line ministry grants concessions, ie. non-transferable leases. These, of course, may have attractive tax incentives built in, but such concessions cannot be used as collateral.¹³ Over the years, governments, dominated by Americo-Liberians, have asserted this government ownership over the lands of the original inhabitants, and have then transferred usage rights to outsiders. The Interim PRS acknowledged a serious problem of public officials procuring large tracts of this land from the state under less than fully transparent conditions.

3.15 The resentments caused are said to have contributed significantly to the war in Liberia. This reality adds considerably to the risks that outside investors must build into their considerations, before they take over concessions granted by public agencies.

3.16 The confrontations between communities over land go deeper. Article 27 of the Constitution states that “only persons who are Negroes, or of Negro descent, shall qualify by birth or by naturalization to be citizens of Liberia.” Article 22 prohibits land ownership by non-citizens. Thus, the Constitution itself effectively bars from land ownership long-standing communities of different origin, such as the Lebanese and the Indians, who currently are the dominant economic actors in the Liberian private sector. Experts are of the view that this racial requirement for citizenship probably violates international human rights law.

3.17 To further compound the issue, section 2.2 (d) of the Liberian Associations Law provides *inter alia*, that corporations can purchase, lease, own and hold real property. And while section 2.5 indicates that a corporation is a fictional person, it does not define a corporation as a citizen. Legally, this would seem to imply that corporations formed under Liberian law should be entitled to own land, even if its shareholders are not citizens. However, the law has been commonly interpreted to mean that only corporations founded by Liberian citizens can own land. This apparent contradiction needs to be clarified.

¹³ In the short term, obtaining a concession from a government agency is probably the best of the available options, from the viewpoint of a new investor, but it is far from ideal.

3.18 The effect is to add costs and uncertainties onto these key players in the private sector. These ethnic communities get by on the basis of leases or sub-leases. But these are costly; attract specific taxes; are more susceptible to legal challenges; and are inherently less secure. One interesting effect is that investors in residential or commercial buildings in Monrovia are wary of investing in anything over four stories in height, since they look for a break-even of around four years, to offset the high risks.

3.19 Perhaps just as important, from the perspective of attracting new investors, is the underlying message that potential investors are given, by these arrangements. The message is that investors who are not black Liberians cannot expect to be treated as equal and fully welcome partners, under the law. If they look to how the current leading players in the private sector are treated, it must surely give them cause for concern.

3.20 The domination of the private sector by specific communities is a matter of legitimate concern for the government. Efforts must be made to build up new entrepreneurs from under-represented communities; and help these communities to match the networking and private-finance strengths of the dominant communities. However, the deliberate exclusion of specific communities, on racial grounds, from owning land, is not conducive to attracting new outside investors. Nor it is conducive to obtaining the maximum benefit to the economy from the strengths and capacities in the present private sector.

3.21 The World Bank has recommended the creation of a Land Commission, which would oversee a set of reforms and capacity-building measures, to tackle the range of very serious problems concerning land tenure. The task will take many years to complete and a start should be made quickly. For the sake of inter-communal harmony, as well as from the perspective of attracting new outside investments, it would also be helpful to begin a public debate on the racial and land ownership provisions of the Constitution, and whether they continue to be in the best interests of the country.

Serviced Industrial Land

3.22 Although the immediate export opportunities lie in the proven resource-based product groups rather than with manufacturing, some processing and packing activities will need to develop, at first for the local market, and eventually for regional and overseas destinations. In forestry products specifically, this could extend into the manufacture of simple wooden products.

3.23 For such activities, investors require either ready-to-use factory shells, or at the least, serviced industrial land, with access to mains power, mains water and telecommunications links; and with access roads and security fencing in place. With the Bassa Industrial Estate now occupied by ten thousand or so squatters, and with little likelihood of it being restored to industrial use, there is no industrial park currently available to such investors in the greater Monrovia area.

3.24 The Government of China has recently offered to establish a “Special Economic Zone” (SEZ), alongside the port of Buchanan, apparently to take advantage of the port rehabilitation to be undertaken by Arcelor Mittal. The Government of China recently hosted a Liberian delegation of thirty, led by the Minister of Planning & Economic Affairs, to visit various SEZs in China.

3.25 Although, on the face of it, this offer looks attractive, there are potential pitfalls. The proposal is apparently not welcomed by Arcelor Mittal. A similar zone in Freetown, Sierra

Leone, does not operate in a transparent fashion, and is currently focused on importing.¹⁴ It is not clear what activities the Chinese would actually wish to establish in the proposed Buchanan zone. It has been suggested that the SEZ could attract some 100 Chinese-owned factories, exporting value-added products such as rubber products, refined palm oil, etc. There are also suggestions, however, that the SEZ might merely operate as a supply base to supply and service machinery for the minerals and forestry sectors. The Government has approached IFC to give guidance on this offer.¹⁵ Before a decision is made to go ahead, it is recommended that the Government consider best practices in the design and management of any potential zone.¹⁶

3.26 Caution is recommended regarding the SEZ proposal if exporting is a key objective. As most if not all exports will be resource-based in the near future, it may be necessary to locate processing facilities near to those resources. Export-oriented industrial zones have typically been most effective when devoted to labor intensive manufactures, such as clothing, which rely on easy access to imported inputs. These industries tend to be highly competitive with low profit margins, requiring a highly productive labor force and good investment climate. It would seem unlikely that Liberia will be able to make inroads in labor-intensive manufactured exports in the short- to medium-term, or indeed that this represents its comparative advantage.

3.27 On the other hand, manufacturing will need to develop for the local market, and this will create demand for serviced industrial land. The preferred model would be for the Government to partner with the private sector to develop the physical infrastructure for each industrial estate (access roads, fences, electrical power etc.), with the actual management of each estate undertaken by private operators, ideally with some competition between these operators. This is likely to result in a better and more responsive level of service than the alternative - that of relying on a monopoly supply by a public agency such as the NIC.¹⁷

UTILITIES

Electricity Supply

3.28 Electricity supply has been totally disrupted by the conflicts. Even the central business districts of the capital, Monrovia, still rely on private generators, a costly and inefficient source compared to mains supply. This is not a binding constraint, from the viewpoint of a potential investor in resource-based exporting, but it means additional investments in generators, even to have a working office near the port. The IFC is currently advising the Government on setting up public-private partnership (PPP) contracts, in order to bring in investments to supply greater Monrovia with mains power. The proposed PPPs will cover both generation and distribution. Requests for Expressions of Interest have already been published. However, the public element of funding will require donor support, which has not yet been secured.

¹⁴ Even the responsible Ministry has had trouble gaining access to the facility, and the duty regime is unclear.

¹⁵ Two workshops were conducted by IFC before the mission to China and further advisory support is ongoing.

¹⁶ A visit to the zone in Freetown, Sierra Leone might also be informative, to learn lessons from that experience.

¹⁷ Apparently, a public agency currently exists, with the mandate to develop and manage industrial estates, but which is for now inactive.

Water Supply

3.29 For now, businesses have to rely on tanker trucks. As a result of damage during the conflicts, there is no public water supply operating. This is not a binding constraint on most businesses, but does add to the general costs of doing business. If Liberia were to develop into the processing of raw materials, some of these processes are likely to be heavy users of water. Such processes would be uneconomic without a public water distribution system. As part of its support to the post-conflict rehabilitation of infrastructure, the World Bank is helping the Liberian Water and Sewerage Corporation to fund the rehabilitation of the Monrovia Water Treatment Plant, and the rehabilitation of piping within greater Monrovia. The aim is to re-establish water to at least some areas of greater Monrovia, as a first step.

Telecommunications

3.30 Much of the telecoms infrastructure has been lost during the years of conflict. However, mobile telecoms have been quickly re-activated. There are four operators. Competition is intense, and prices, as a result, have been kept low. Businesses rely primarily on these networks for voice communications. The problem for businesses is with data communications, primarily internet access and email usage, which has become essential for doing business internationally. Access so far is limited. Businesses in the central business districts of Monrovia seem to manage, but service quality and reliability are variable.

3.31 Posts and telecoms are being considered by the Posts & Telecoms Sub-Group, within Pillar Four of the PRS consultations structure. A draft Policy Framework has been prepared (October 2007). The World Bank Group has funded an independent study, the Liberia Telecoms Sector Fiscal Study, dealing solely with fiscal aspects.

3.32 The draft Policy Framework is still at the level of proposing broad policy directions. It makes no mention of privatizing the Liberia Telecommunications Corporation (LTC), the national operator of what is left of the fixed-line system. The focus is on achieving universal access to telecoms services, with the development of a high-speed data communications infrastructure seen in this context. It talks of achieving 75 percent access by 2010.

3.33 From the perspective of facilitating new export-oriented investments, what is more urgent than achieving universal access is to get fast, reliable, competitively-priced internet access to the main business areas. It is understood that the LTC is currently planning the use of short-distance microwave links within greater Monrovia, to provide high-speed data links quickly for businesses. This is a welcome initiative.

OTHER INVESTMENT CLIMATE CONSTRAINTS

Administrative Barriers

3.34 Would-be new investors face administrative barriers, which firstly affect the costs and time involved in establishing an investment and in setting up a local company. There are further barriers that continue into operations, with arbitrary inspections being cited by respondents as a particular burden. The Interim PRS acknowledged a serious problem of "...excessive business inspections by public officials, ... cumbersome bureaucratic procedures, ... and informal tax & customs procedures and charges." In the annual Doing Business Survey conducted by the World Bank Group, out of a total of 178 economies covered in the 2008 survey, Liberia ranked 170th in terms of ease of doing business. This is a strong indicator of the barriers that investors face.

3.35 The Liberian Government has made it a top priority to improve this ranking. In fact, the President specifically mandated the formation of the Business Reform Committee, a cabinet level committee designed to identify and drive implementation of administrative and regulatory reforms to improve Liberia's scores as rated by the Doing Business Survey. With technical assistance from IFC's investment climate team and the World Bank Doing Business Reform team, the Business Reform Committee has been able to achieve 21 reforms in only 4 months. These reforms streamlined business start-up, cut costs and processes for trading across borders and reduced time for obtaining construction permits. Further reforms are anticipated.

3.36 The technical assistance provided to the Business Reform Committee by IFC's investment climate team is part of its comprehensive technical advisory support program to the Government. During the first phase of its work, a study was completed to identify administrative barriers to business formalization; work was carried out to review and propose changes to the current investment code and a framework and mechanism for public-private dialogue was established. The second phase, to last three years, aims at simplifying administrative processes for business start-ups, including support to the business registry; work on simplification of business licenses; and will also extend into other administrative barriers. A full review of current company law is already underway, and a first draft is expected in late 2008.¹⁸ Detailed examination of the logistics value chain, and support to improvements, is also included, as is strengthening the capacity of the National Investment Commission and other Government ministries to generate and attract investment.

3.37 These wide-ranging activities are all critically important, as they are aimed at making it easier, quicker and cheaper to set up and run businesses in Liberia, and to export competitively from these businesses. Progress already achieved indicates that this work will have a major impact on the overall investment climate.

Debt Recovery

3.38 Although a specialized Debt Court operates, business people in the Lebanese community do not believe they are able to get a fair hearing, if they attempt to recover a bad debt from a Liberian citizen, or a Liberian-owned company. This would appear to be another area where not all are treated equally under the law. Debt recovery is clearly extremely difficult in Liberia. There are apparently no debt recovery services operating. Some business people resort to paying police officers to assist with recovering secured assets, such as missing trucks. But this is hardly a satisfactory solution. What is required is a thorough overhaul of the debt court system, to ensure that all business operators not only get a fair hearing, but start to believe that they will get a fair hearing.

Public Procurement

3.39 A domestic preference is in place, of 15-20 percent, to favor domestic firms over foreign ones, when they bid for public procurement tenders. Although this is a fairly common practice, the rates of preference are high. This represents a tax on imported services, and also is likely to add to the costs of delivering public services. The problem is made worse by the fact that local businesses, not owned 100 percent by Liberian citizens, are offered lower preferences, which decrease as non-Liberian ownership increases. In other words, the local Lebanese and Indian business communities are again disadvantaged by the laws and regulations.

¹⁸ The current company law is based on the law of the US State of Delaware.

Employment and Labor Issues

3.40 It is understood that the ILO is in the process of assisting the Government with the drafting of a new Labor Code. The IFC is advising to ensure that the new code is more conducive to private sector growth. Liberia will need to strike a careful balance between the protection of the legitimate rights of the small wage-earning population, and the need to create jobs for the much larger pool of un- and under-employed. Other important labor relations issues arise in the context of plantation agriculture and are handled in the chapter on tree crops.

Privatization

3.41 Some assets of potential interest to would-be investors in export-oriented production still remain under public ownership (e.g. some oil palm plantations). It is understood that there are as yet no formal arrangements in place, such as a privatization commission, to privatize these remaining public assets. In addition, some public agencies appear to operate in competition with private businesses. For instance, the national social security fund has invested in cocoa trading. This almost inevitably results, at the least, in a perception of unfair competition, if not actual unfair competition itself. This is bound to concern potential investors. This is not a binding constraint, but is something to be considered over the coming five years.

INSTITUTIONS AND REGULATORY FRAMEWORK

3.42 The agency responsible for management of state owned assets is the National Investment Commission (NIC). This investment promotion agency does not come under the Ministry of Commerce and Industry (MCI), but reports directly to the President. The IFC investment climate team is providing capacity-building assistance to NIC, including the preparation of a new business plan. The aim is to re-orient the commission away from a regulatory function, including the granting of incentives, and towards pro-active promotional activities, and more targeting within these activities. Greater accountability to the private sector would also be welcome.

3.43 So far, it would appear that new large outside investments have been modest, as to be expected in an immediate post-conflict situation. There have been investments in mobile telecoms, timber, rubber and diamonds. The next big wave is likely to involve PPP investments into electrical power and other utilities. It is not clear the degree to which any investment promotion agency can increase the quantum of investment in these activities over the next few years. However, such an agency can certainly provide information and guidance, to ease the path of would-be investors, as they explore opportunities.

The Investment Code

3.44 With the assistance of the IFC's investment climate team, a new draft of the Investment Code has been developed, and is to be considered soon by parliament.¹⁹ In parallel, and with advice from the IMF, an act has been prepared which will amend the Liberia Revenue Code, where it affects new investments.²⁰ The main impact of these new acts will be to deal separately with all tax incentives under the Revenue Code, rather than within the Investment Code, as presently.²¹ This in itself is a significant step forward.

¹⁹ To be known as the Investment Act of 2008.

²⁰ To be known as the Investment Acceleration Tax Incentives Act of 2008.

²¹ This was a planned action within the Interim PRS.

3.45 The revised investment code is a significant improvement over the current code and provides for national treatment for all investors, a progressive investor bill of rights (protection against expropriation and abuse of intellectual property and free repatriation of profits), and access to international dispute resolution mechanisms, among other things.²²

The Revenue Code

3.46 The tax incentive provisions in the new draft of the Revenue Code are also not ideal. The proposed changes call for “a new investment activity qualifying under Section 4.2 below shall be entitled to the special tax incentives specified in Section 4.3 upon certification by the National Investment Commission and the approval of the Minister of Finance.” There follows a list of qualifying sectors in Section 4.2. This list does not include water delivery, construction, financial services, or telecommunications. Mining is subject to separate legislation. Section 4.2 specifies that “the minimum capital investment of not less than One Million United States Dollars (USD1,000,000.00) shall be required to benefit from this special tax treatment.” Special Tax Incentives under Section 4.3 include:

- An incentive deduction of 30 percent of the purchase price of equipment and machinery used in the activity in the year a qualifying asset is placed in service.
- An incentive deduction of 30 percent of the cost of new hotels or tourist resorts.
- An incentive deduction of 10 percent of the cost of buildings and fixtures used in manufacturing processes that produce finished products (whether for domestic consumption or for export) having at least 60 percent local raw material content.
- A five-year loss carry forward for agricultural businesses.
- Exemption from minimum tax liability.
- A scale of additional incentive deductions for investment in a number of economically deprived zones.
- An additional incentive deduction for investment activity certified by the Minister as meeting standards for increased employment, which vary by zone and whether the activity is in agriculture or not.
- For a five-year period following commencement of the investment, exemption from the GST and import duty for medical and educational equipment, as well as for equipment, machinery, raw materials, spare parts, and other inputs, according to a schedule of applicability defined by sector. If the investment is for less than USD2 million, the GST and import duty exemptions are limited to a period of two years.
- For investment in excess of USD20 million, additional tax incentives shall be subject to approval by the President and Legislature.

3.47 Although there has been some progress in reducing the importance of these incentives, they still remain highly discretionary, with each firm having to be certified by the National Investment Center and the Ministry of Finance, and with a number of decisions regarding specific incentives having to be made on the basis of sector, amount of investment and employment creation, location, type of product (finished goods), and use of local raw materials. It will also complicate the collection of customs duties and other taxes and will run counter to the overall goal of reducing customs and other exemptions. Furthermore, the list of eligible sectors does not include a number that are important such as the water supply, construction, financial services, and tele-

²² In January, 2008, both the Investment Incentives Act of 2007 and the the Investment Acceleration Tax Incentives Act of 2008 were withdrawn from the Legislature by the President for wider and greater stakeholder consultation. It is anticipated that the acts will be resubmitted before the end of the current Legislative session which is due to close on July 31, 2008

communications; the minimum capital requirement of USD1 million excludes most Liberian businesses; and the exemptions on the GST and Customs Duties are unnecessary given the low level of the ECOWAS common external tariff on equipment and raw materials and the fact that the GST paid on inputs can be deducted from the GST tax obligation on final output.

Strengthening Dialogue

3.48 International experience indicates that improving the investment climate is an ongoing process, rather than a once-off project. Beyond the time-bound IFC investment climate team project and other initiatives described here, an effective structure of regular dialog will be needed between the private sector and the responsible organs of government. This will ensure full private-sector participation in preparing new legislation affecting business, and will ensure that feedback on administrative and legislative problems encountered by businesses is heard, and acted on.

3.49 As part of its program, the IFC investment climate team has facilitated the establishment of such a dialog through the establishment of the Liberia Better Business Forum. The Governing Board has been set up, with leading private-sector organizations and key ministries represented at high level. Separate specialist working groups, within this Forum, have been established. These cover the legal and regulatory framework; physical infrastructure; administrative processes; institutional capacity-building; and trade & export promotion. The secretariat function to the Forum is being provided within the IFC office in Monrovia. This structure is new and unproven, but is clearly forms a useful basis on which to build.

3.50 The new structure is widely supported by representative organizations within the private sector – businesses large and small, formal and informal and local and international. Among the organizations included in the forum are the Chamber of Commerce, the Liberia Business Association, the Liberian Women’s Chamber of Commerce, the Liberian Marketing Association and the local chapter of the World Lebanese Cultural Union. This represents an important initiative which deserves the full support of government.

RECOMMENDATIONS

3.51 The infrastructure and investment climate needs of Liberia seem almost limitless at this point, after so many years of neglect and decline. Government and donors face a challenging task of trying to identify the highest priorities, and by implication deciding what else will have to wait for a few years or more. This study does not pretend to be a comprehensive assessment of the needs of the private sector. It certainly does not attempt to assess the even broader social and political objectives which inevitably come into play in decisions on infrastructure investment. However, it does propose that, by giving a high priority to the needs of export sectors, tax revenues can be generated which will facilitate the subsequent expansion.

3.52 The key conclusions and recommendations of this chapter can be summarized as follows:

- Focus first of all on rehabilitating the port and the roads as the private sector can not be expected to provide such expensive public goods;
- Give high priority to roads serving the forestry and cocoa sectors;
- Improve access to land by establishing a Land Commission, creating interim, fast-track mechanisms to provide security of tenure to commercial investors while protecting

community rights, and explore possible changes in the land-ownership provisions of the Constitution;

- Create one or more privately-managed industrial estates with a minimum of infrastructural facilities;
- Continue efforts to facilitate the creation and operation of private enterprise, and dialogue between Government and the private sector.

4. CUSTOMS AND TRADE FACILITATION

4.1 Improved trade facilitation requires reducing the friction in the trading process, minimizing the cost and time of trading by ensuring that transactions that take place in an efficient, transparent, and predictable manner, based on internationally accepted norms, standards and practices while ensuring the effective discharge of legitimate government regulatory and tax requirements.

4.2 Trade logistics involves transactions along the length of the international supply chain linking the buyer and seller. The chain starts at the time an international purchase order is received by the seller and ends when the final product is delivered to the buyer and payment is received. The chain includes all the intervening activities, namely sourcing material inputs, order processing, inbound international transport, import border clearance, inland transport, warehousing and storage of inbound materials, manufacturing into finished product, inventory management, domestic transport, export border clearance and international transport. Some of these transactions depend primarily on the private sector, but in many cases government procedures complicate the process significantly. This chapter will focus on the border clearance procedures controlled by government.

4.3 Typically there are time consuming and costly activities in the chain that are plagued by inefficient procedures of a regulatory nature and raise the costs of trading across borders at the expense of the trader's competitiveness. Such procedures include excessive data and documentation requirements, onerous inspections, unwarranted escorting of cargoes, lack of transparency, slow legal redress, long cargo release and clearance times, and poor institutional coordination among regulatory agencies.

4.4 Modernization is always a central theme, where process re-engineering (e.g., integrated border procedures, risk profiling, etc.), document simplification and harmonization (e.g., removing redundancy, using Single Administrative Document, aligning documents to international standards), efficient payment systems (from cash settlement to bank account transactions and, eventually, electronic banking), and awareness building (communicating "reforms" effectively to the stakeholders) frequently play a prominent role. To date, many countries have successfully undertaken reforms to strengthen trade facilitation, notably Mauritius, Peru, Cambodia, Rwanda; border clearance times have improved significantly (as much as 75 percent), informal charges have reduced gradually, customs revenues have increased markedly (as much as 65 percent) and strong growth in trade achieved.

CURRENT SETTING

4.5 According to the Trading Cross Borders indicators of the Doing Business Survey of 2008, Liberia's trade logistics rank 98th out of 178 countries. This is not as bad as some other countries in West Africa, but it reflects the country's coastal location and the low trade volume that has not yet stressed the logistics system. Both import and export trade is likely to increase dramatically as the economy rebounds, and current inefficiencies will become an increasingly onerous constraint without significant reform.

4.6 The current system requires 20 days for a trader to export and 10 days to import which is far above international good practice. A breakdown of system performance reveals that much of the time is consumed in assembling and processing documents, due to the number of agencies acting largely independently of one another. Altogether there are 12 public agencies engaged in the border clearance procedures, as indicated in Table 4.1.

Figure 4.1: Liberia's time to export (calendar days): 20 days

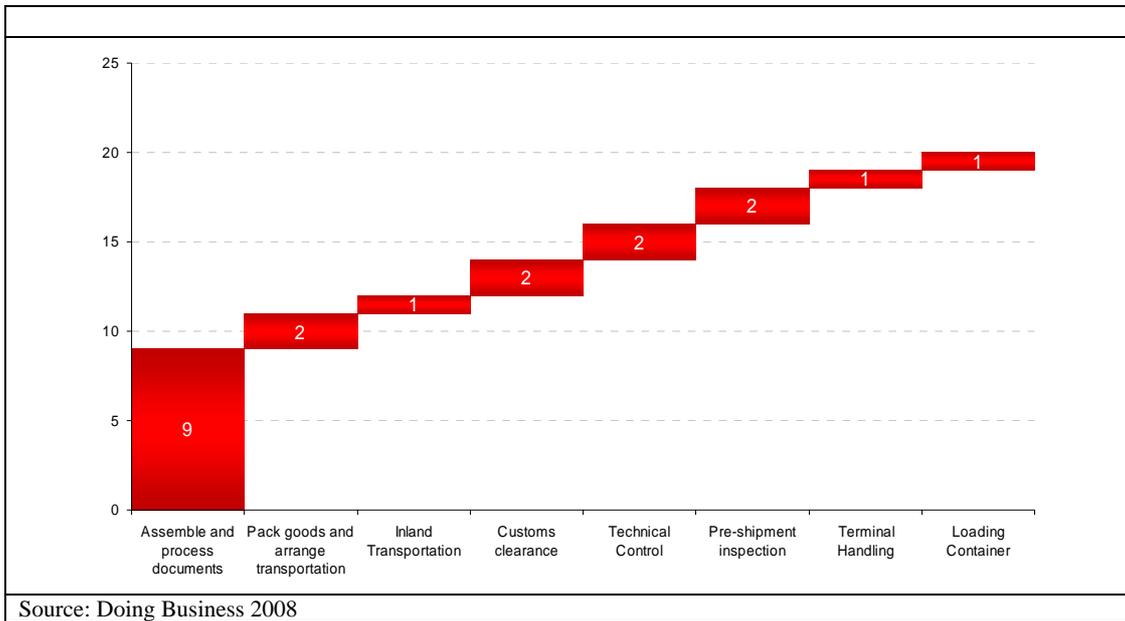


Figure 4.2 : Liberia's time to import (calendar days): 10 days

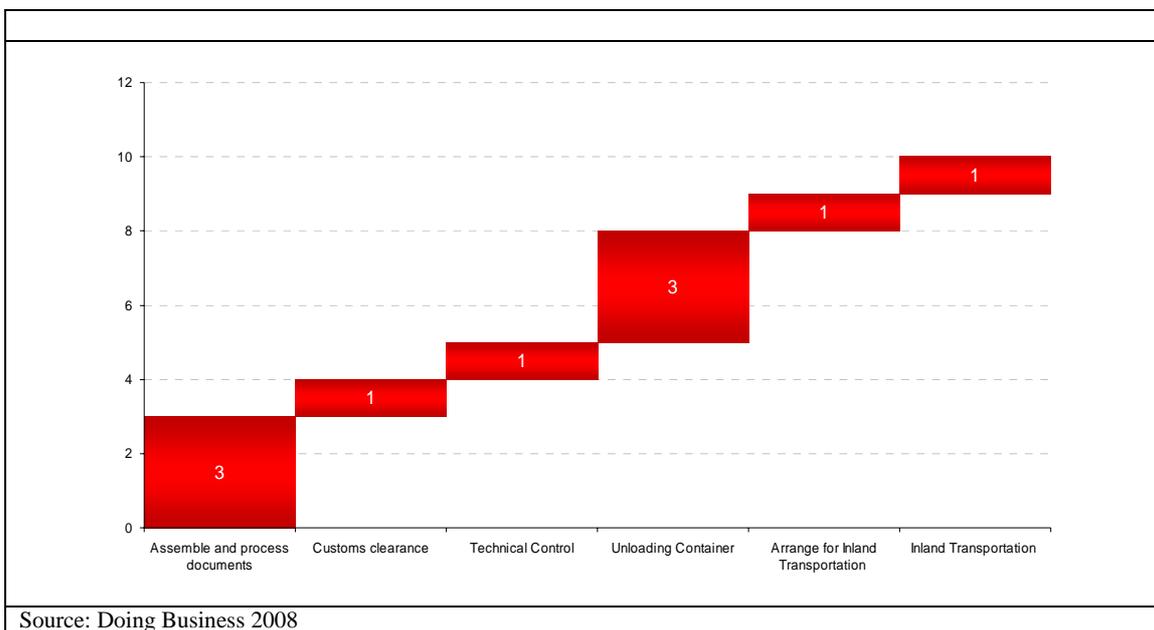


Table 4.1: Stakeholders in the Trade Transaction Process

	Party	Function/Responsibility
Public Sector (Border Control Agencies)	Customs and Excise, Ministry of Finance	Duty collection, trade statistics, contraband prohibition, smuggling prevention, etc
	Pre-Shipment Inspection Agency (BIVAC)	Authentication and valuation of goods on behalf of Customs
	Trade Department, Ministry of Commerce and Industry	Control the trade of "sensitive goods" (timber, diamonds, etc.), price monitoring, quality and standards control
	Food and Drug Administration, Ministry of Health	Control of illegal drugs, pharmaceuticals
	Sanitary and Phytosanitary Inspection Department, Ministry of Agriculture	Plant and animal products inspection
	National Port Authority	Port and terminal handling of goods
	Port Security	Security of goods at the port
	Ministry of Transport	Safety control of used transport equipment entering country
	Ministry of National Security	Border security
	Coast Guard, Navy	Maritime security at the seaport
Security Division, Ministry of Finance	Revenue security at the port	
National Bureau of Investigation	Border security	
Private Sector (Economic Agents)	Trader (Importer or Exporter)	Cargo owner
	Clearing Agent/Freight Forwarder	Represents cargo owner in clearing and forwarding goods
	Shipping Line	Ocean carriage of goods
	Land Transport Carrier	Truck operator
	Insurance Company	Cargo insurance services
	Commercial banks	Banking services to settle accounts between buyer and seller (LC, cash, etc.) and between the trader and relevant border control agencies (duties, fees, etc.)

4.7 The work of these border control agencies is carried out through cumbersome procedures and documentation that often reveal duplication and outmoded practices, where the original purpose is no longer relevant. These findings were validated by fieldwork on several missions in which traders revealed the significant demands on their time and resources as a result of official requirements in the form of import/export permits, compulsory pre-shipment inspection (PSI) or destination inspection (DI), redundant documentation and multiple inspections. As well, the opaqueness of border formalities also dictates the dependence of traders on clearing agents.

4.8 The dominant entry and exit point is the Freeport of Monrovia, which handles around 4-5 ships per week, and about 40,000 containers per year. Clearing agents, who receive shipments at the port and dispatch them on behalf of their clients, consider frequent equipment breakdown at

the port as a significant factor in delaying the clearance of containers. While the National Port Authority is making some progress in improving operations at the Port of Monrovia through the restructuring of operations and management, the challenge of modernizing an antiquated facility requires a far larger scale of effort in institutional reform as well as investment than has been dedicated to the problem so far (see Chapter 3). Improved trade logistics will help underpin better utilization of a modern port.

4.9 **Border Management:** Customs presently requires the trader to submit Customs Import/Export Entry Forms, Clean Report on Findings (through PSI or DI outsourced to a contractor called BIVAC), evidence of payment to the central bank, followed by a post-clearance audit. A local version of a Single Administrative Document (SAD) has been introduced, which is not aligned with international standards. As a result one more form has to be processed in addition to the existing set of documents. This negates the point of an SAD whose objective is to replace a multiplicity of documents. A new SAD aligned to the ECOWAS standard is needed which could then replace various documents. This is being addressed as part of an on-going modernization strategy being introduced through an IFC/FIAS project.

4.10 Customs at the port is seriously over-staffed, with each officer handling on average only four entries per day. The number of Customs brokers operating in Monrovia is also far larger than would normally be required just to provide guidance and process transactions. Traders report that they prefer to have these third parties negotiate and dispense speed monies on their behalf, rather than involve themselves in this time-consuming and frustrating process. However, market entry is easy, required qualifications are low, and monitoring of performance by the private sector or government is negligible.

4.11 Fraud and corruption are serious problems. A recent independent assessment estimated that, to clear each imported container, the “speed money” required by Customs and other agencies would be around US\$75-100. A survey of prices in local markets suggests that goods are able to find their way onto the domestic market, without paying the full duties and taxes prescribed. Alcoholic drinks are selling for prices that would be impossible were they to include all duties and taxes. The Government is aware that the duty-free privileges of the large UNMIL contingent result in some of this leakage. Port security is also a problem as some containers are apparently smuggled out before they come under customs control. However, Customs is probably another important source of leakage.

4.12 On the other hand, Customs has recently made some headway in its reforms, particularly with process simplification and work force rationalization. The number of import clearance steps has been reduced from 44 to 19. Further reduction is anticipated through the anticipated opening of the one-stop building that will house all relevant parties engaged in border clearance under one roof. Customs staff had been reduced by 30 percent at the end of 2007. Whereas one year ago the situation was so bad that serious consideration was being given to outsourcing all of Customs operations, this may no longer be the recommended approach.

4.13 **Pre-shipment inspection:** BIVAC has been supplying PSI services to the Government since 1997. It is not clear what purpose is served by PSI on the export side, other than controlling the narrow set of sensitive export goods (e.g. scrap metal). On the import side, many traders are choosing to have their goods inspected by BIVAC upon arrival at Monrovia, even though they face a stiff surcharge for the privilege. This seems to result from difficulties experienced in getting BIVAC to undertake inspection at the origin, notably in China. Smaller importers in particular can not afford to tie up their capital and risk missing market opportunities. This issue needs to be addressed when the BIVAC contract with government is renewed. Customs used to conduct

100 percent re-inspection of all incoming containers, but now this is confined to shipments without pre-shipment inspection. In these cases, customs and BIVAC conduct joint destination inspection followed by post-clearance inspection later on.

4.14 Renewal of the PSI contract with BIVAC was being negotiated in mid-2008. The duration of the new contract had not yet been determined at the time of writing, but may be in the range of three years, to give time for the essential improvements at Customs to be achieved. The expectation is that, after that, Liberia will no longer require PSI. This plan is endorsed. PSI imposes burdens of cost and inflexibility on traders, as a result of shortcomings in Customs. Once Customs is working properly, PSI should no longer be required.

4.15 **Other Agencies:** The particular way in which other public agencies are involved in the clearance process also adds to the friction in the system, most notably the Ministry of Commerce and Industry (MCI) which requires the importer and exporter to submit Import Declaration Permit (IPD) and Export Declaration Permit (EPD) on a shipment by shipment basis respectively. In 2007 this required 4 signatures (Minister, Deputy Minister, Director General, Director of Foreign Trade), but this has been reduced to two. On the import side, the Ministry has a team of around 12 officers, processing around 300-500 IPDs per month; and on the export side, a team of 2, processing around 15-40 EPDs per month.

4.16 The essential purpose of these controls appears to be to trigger Pre-Shipment Inspection (PSI), which is carried out by BIVAC, a private contractor. However, it is not clear why PSI requires this MCI trigger. On the import side, it should be possible for any would-be supplier to Liberia to make a direct initial contact with the nearest BIVAC office, in order to request an inspection. The IPD also results in inflexibility regarding import sources. Traders report that they have to arrange the IPD in Liberia, ahead of going to, say, China to source supplies. If, in China, they find a more advantageous supplier, they have to arrange for a new IPD to be raised in Liberia, and hold on in China until this reaches them, before agreeing to the new order, and supervising the shipment. For both imports and exports, the main purpose for MCI involvement would seem to be data collection. There is no reason why this could not be achieved by Customs directly and then transmitted to MCI.

4.17 Since inspection cannot be carried out inside the port area because no arrangement has been made with Customs or the NPA, MCI's inspectors conduct their work at the trader's warehouse outside the port. Though MCI has little coordination with the two key agencies on the inspection process, it has closer ties with the Ministry of Agriculture, the security apparatus, and other relevant parties through coordination of the post-Customs inspection for import traffic at the trader's premises. In particular, the security apparatus takes advantage by escorting the import container for a fee. The upshot is a time consuming border clearance process based on sequential inspection rather than simultaneous or delegated inspection in the clearance process.

4.18 The few manufacturers currently operational in Liberia typically operate under what are referred to as "concessions," in other words, individual case-by-case investment incentives. These usually include specific waivers of duties on equipment, spare parts and production inputs. This arrangement results in an additional control on import consignments for such manufacturers. Each consignment has to be cleared by the Ministry of Finance, to check that the duty waiver being claimed matches what was specified in the concession, and often contract clauses have proven inaccurate or imprecise. This process can result in significant additional delays, and thus additional storage costs imposed by the port. Concessions are also fraught with opportunities for fraud and would normally require post-clearance audits.

4.19 ***Charges and payments:*** These controls and other taxes load a heavy additional cost on consignments, particularly small ones, since the minimum charge per consignment is US\$250, with a pro-rata charge of 1.5 percent of fob value for the IPD, and 1.4 percent of consignment value for the EPD. Of these charges, it is believed that 1 percent is passed on to BIVAC, to pay for PSI. Apart from the prescribed duties and GST, there is a Customs User Fee of 0.5 percent and an ECOWAS levy of 0.5 percent. These are not charges for optional services; they are effectively an additional tax burden on every import transaction. These costs have to be passed on to Liberian consumers in the form of higher prices.

4.20 The international community is taking an active role in assisting the Government to address trade logistics problems. FIAS, a joint facility of the World Bank and IFC, has a Trade Logistics Advisory Program of technical assistance. The program is focused, first of all, on reforming border control procedures within the Ministry of Finance before extending the agenda to more systemic reforms, with the goal of moving to a Single Window and modern integrated border management system. This program works closely with the World Bank-financed Infrastructure Rehabilitation Project, which seeks to restore priority infrastructure and develop medium-term strategies for the Port of Monrovia and Roberts International Airport. The IMF is providing technical assistance in Customs reform, covering issues pertaining to modernization and revenue collection, and some assistance on PSI procurement. USAID is providing assistance to support the Customs and Excise in the development of the single-stop building at the Port of Monrovia.

REFORMING THE TRADE LOGISTICS SYSTEM – ISSUES AND CHALLENGES

4.21 A broad strategy for modernizing the trade logistics system would call for the streamlining of procedures, simplification and harmonization of documents, adoption of risk-based border management, automation anchored by a Single Window. The path for such a strategy should be practical and, at the outset, provide quick relief to traders to win support for subsequent deeper reforms. The government should engage the private sector, particularly the users and the business community, in a dialogue which promotes awareness and transparency so as to provide the best prospect for maximum impact. And, the allocation of responsibilities in the implementation process should be based on a careful assessment of institutional capacity.

QUICK WINS AND MOMENTUM BUILDING

4.22 At the outset, the strategy should target the anomalies in the existing border clearance regime where administrative decisions could be swiftly instituted to simplify the onerous procedures and burdensome costs. Such anomalies would include outmoded practices that are found in certain documents, signatures, and cargo control activities that have lost their relevance; in other words, the short term streamlining of existing practices rather than fundamental re-engineering through deeper institutional reform. Customs is leading this effort in conjunction with the MCI, MoT, and the security apparatus through the following initiatives to date:

- Lowering the charge for special services provided to import shipments that require urgent processing due to specific circumstances ascribed to irregular or sensitive goods, such as emergency, perishability, unsafe packaging, etc. The new fee will be 1.5 percent of the CIF value of the shipment, a 50 percent reduction from the current level of 3 percent;
- Reducing the PSI fees collected by PSI contractor, BIVAC, from 1.5 percent of the FOB value to 1.1 percent.

- Improving PSI compliance by revising the violation fee regime from a flat fine of 20 percent of the FOB value to a tiered structure that starts at 10 percent for first and second violations and progressively reaches a maximum of 30 percent at the 5th and subsequent violations;
- Eliminating PSI by BIVAC for specially designated essential goods, such as rice, cement petroleum, and used road vehicles, and replacing it with destination inspection instead, a measure that eases the import process for such commodities;
- Streamlining the security participation at the Port of Monrovia to two authorities, NPA police and Ministry of National Security personnel, instead of previous arrangements that also included National Bureau of Investigation, Coast Guard, and Ministry of Finance security personnel, thereby reducing the number of steps in the clearance process;
- Eliminating the Ministry of Transport from goods clearance at the port to simplify the clearance process for used road vehicles;
- Reducing the Ministry of Commerce's number of signatures from 4 to 2 for the Import Permit Declaration approval process;

4.23 As for exports, the Ministry of Finance is easing the burden on exporters by:

- Eliminating the signatures of the Excise Tax Division and the Bureau of Concessions on the Customs Export Declaration Form;
- Streamlining the export approval process that now requires export clearance documents (Customs Export Declaration and transshipment and bonded goods) to be processed at the Ministry of Finance offices in the city so that everything can be done at just one location at the port;
- Eliminating the involvement of the Assistant Minister of Finance and the Commissioner of Customs from the export approval process, allowing all processing to be confined to the port with the Senior Collector of Customs signing off.

4.24 More can be achieved with the current momentum of reform, some of which is already in the pipeline but need a push for completion, especially the following:

- Customs has built a single-stop building in the Port of Monrovia to house the border clearing agencies under one roof, including the commercial banks, so that traders (and clearing agents) can complete the cargo clearing transactions quickly and conveniently. The opening of this facility has been delayed beyond its planned opening in early 2008. Customs should be encouraged to swiftly work out the problems so that the facility is opened without further delay;
- The manual paper-based processing activities undertaken by the key agencies at the Port of Monrovia (Customs, NPA, Ministry of Commerce) should be computerized quickly. Customs is leading this back-office computerization project (with technical assistance from FIAS). The final stage leading to an MOU between MoF and the Africa Investment Climate Fund is pending but should be speeded up so that implementation can proceed without further delay;

- MCI should consider relaxing the IPD and EPD approval process further, so that only one signature will be required in the approval process. As well, the submission of letter of request should be eliminated to reduce another step.

MOVING TOWARDS BEST PRACTICE IN BORDER CLEARANCE

4.25 The next step would involve deeper reforms through re-engineering of procedures to produce a modern border clearance regime consistent with international best practice. This would transform the individual border control functions of Customs, MCI, MoA, and MoH into an integrated border management system through a strategy with the following key features:

- Computerize Customs management system, such as through ASYCUDA, in which a Single Administrative Document (SAD) aligned to the UN key layout, risk management procedures and other relevant measures associated with accounting, trade data management, and reporting are implemented. SAD would harmonize Customs' declaration documents into one document, while risk management would remove the need to inspect every shipment, freeing up resources to be channeled to high risk trade or other high value added activities. The PSI function will eventually be eliminated;
- Other border control agencies adopt the SAD as the document of choice replacing other documents utilized by these agencies. Declaration documents employed by MCI (IPD and EPD), MoA and MoH will be eliminated;
- Introduce risk management to other border agencies. Customs should offer its computerized management system, such as ASYCUDA, as the vehicle for developing individual risk profiles that reside parallel to Customs but which are dedicated to the individual agency's use. Utilizing specific risk criteria of its own, the relevant agency will control the risk engine and independently establish the risk profile of a shipment for it to take appropriate decision and action with respect to clearance. Compulsory inspection should cease, trade will flow more smoothly, and resources will be freed up in each agency which could be dedicated to the development of competence in their fields of responsibility (such as establishing technical standards consistent with international practice);
- Extend and strengthen the collaboration by formulating an arrangement with Customs whereby the other border agencies could defer the clearance function to Customs. Each border agency would utilize Customs as the party for conducting the physical clearance while continuing to control the decision on inspection according to risk profile. Other border agencies would serve on a standby basis to provide expert advice to Customs as needed. This delegation of responsibility would lead to single stop processing at the border (as opposed to sequential processing now being practiced), speed up the clearance procedure and reinforce the resource savings realized for other higher value added activities while strengthening each agency's statutory responsibility.
- The Ministry of Finance could consider delegating authority to an improved Customs to approve agreed duty waivers on individual consignments. The check on waivers claimed would then become an integral part of Customs import clearance.

4.26 Customs is currently seeking funding for implementation of ASYCUDA. This should be given high priority by the donor community as it would represent a major step forward in Customs modernization (and capacity building) and, subsequently, to the integration of border control functions consistent with international practice. Customs will need to develop a strong and persuasive case to solicit the buy-in from other border agencies. The implementation process should take place at a measured pace over the medium and long term with the help of a strong technical assistance program.

Implementing a Single Window

4.27 These reforms should be accompanied by a program to improve the exchange of information between (and among) the border control agencies and traders in the form of a Single Window (SW). This is a concept that allows traders to submit all documents through a single entry point to fulfil all import, export, and transit-related regulatory requirements. The steps leading to a SW include co-location of control authorities (“single building”) and a one-stop shop, i.e. co-ordinated inspections, at the same time and place. The concept also needs a lead agency to be in control of the window and serve as the natural operator of the window. A more advanced stage of SW is the Electronic Single Window (ESW), through which traders can lodge the information required in import/export/transit and receive the respective answers/results in electronic form. The ultimate goal for an ESW is that each element of information is submitted only once, and that agencies involved are in a position to communicate joint responses.

4.28 The development of ESW should come after the first two steps of reform are well underway and not before since the primary conditions for a successful ESW relies on an adequate level of computerization for basic office operations, experience with a single building for one stop-shop operations, use of internationally aligned SAD, risk-based inspection, integrated border control functions, etc. There are also external factors to take into account, such as steady power supply (no brown outs or black outs), good internet access, as well as an adequate volume of trade to make the system cost-effective. Most of these conditions are yet to arrive and so there is no immediate rush toward ESW. However, it will be important during this interim period to provide a solid foundation for a future ESW

Establishing a Trade Logistics Working Group

4.29 Successful reforms in trade logistics require a committee of stakeholders led by a progressive member to drive through the remedial measures that cut across all relevant government ministries and impact private sector stakeholders. In the case of Liberia, the Business Reform Committee appointed a trade logistics working group, chaired by the Deputy Minister of Finance, to undertake this task. The working group includes representatives from MCI, MoT, and Ministry of Justice as well as from the private sector (e.g. Clearing Agents Association and other LBBF members). To date, the working group has agreed to proceed with the 11 quick win reforms mentioned above. As discussed, these quick wins are undertaken primarily by Customs but the effort should in future broaden and deepen to other border control agencies as well, particularly MCI. Future reforms are more fundamental as they challenge institutional interests and therefore require more preparation, knowledge and rational decision making for a positive outcome. This puts pressure on the working group, as well as the affected stakeholders, to reach a consensus and significant capacity building may be necessary. Technical assistance will be needed to overcome this barrier.

4.30 Where reforms have been successfully agreed by the working group, a communications campaign is necessary to build public awareness of the benefits and transparency of the remedial measures. The working group may also need the relevant border control agencies to mount training sessions with traders, clearing agents and other interested parties to explain how the new procedures will work. The objective is to educate the public on the new ways of doing business in trade logistics. This effort is essential in order to realize the full impact of the reform. Such an effort is underway with the support of FIAS and the first campaign was recently launched in Monrovia.

RECOMMENDATIONS

4.31 Successful integration into the regional and global economy depends critically on the capacity to cope with the legitimate requirements entailed in crossing international borders, for both imports and exports, in a smooth and efficient manner, while eliminating any unnecessary procedures and fees. Otherwise, domestic industry may be undermined by the high cost and unreliable supply of key imported inputs, exporters may be discouraged and consumers will face higher prices. As the stakes are high, so are the opportunities for rent-seeking, opportunities which have become increasingly important sources of income as the legal foundations of the economy have crumbled.

4.32 The Government is slowly re-establishing a coherent set of procedures and institutions for customs and other border management functions, but much remains to be done. The short- to medium-term agenda is as follows:

- Pursue quick-wins in the import regime by reducing some of the charges for special services and PSI, eliminating PSI for essential goods, opening the single-stop building for all border agencies at the port; and streamlining security provisions at the port;
- Streamlining the approval process for exports, including the elimination of EPDs;
- Computerizing back-office operations in customs;
- Computerizing customs management through the adoption of ASYCUDA;
- Adoption of an SAD compatible with the UN and ECOWAS;
- Introduce risk management in the selection of shipments for inspection;
- Improve collaboration between border clearing agencies and delegate more responsibilities to Customs as its capacity expands.

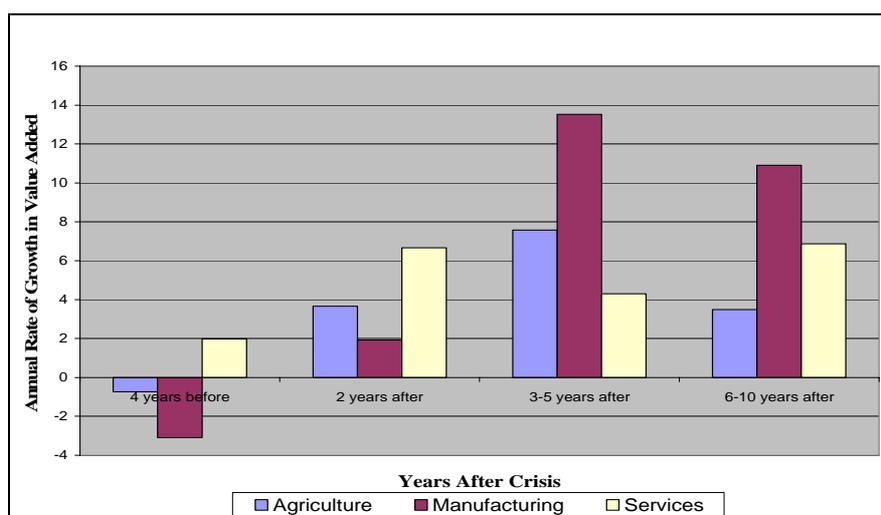
5. AGRICULTURAL TREE CROP VALUE CHAINS²³

5.1 Liberia's economy has traditionally been based on subsistence agriculture, tree crops, mining and timber. In 2004-2006, agriculture and fisheries contributed over half of total GDP with forestry accounting for another 12 percent of GDP during the same period. The two main food crops accounted for about a third of agricultural GDP and tree crops (rubber, cocoa, coffee and oil palm) represented another 50 percent (or 25 percent of the country's total GDP).

5.2 With a population annual growth estimated at about 2.5 percent, the realistic objective of doubling per-capita incomes within ten years would require an average annual growth rate of close to 10 percent p.a. With 50 percent of the country's GDP coming from agriculture, achieving this objective will require a similar rate of growth in agriculture. Strong and sustained growth in agriculture is particularly important since it can create direct employment for many low-skilled people, is a major engine of the rural and overall economy through its multiplier effects, and because productivity gains in agriculture provide the foundation for successfully shifting workers to manufacturing and services.

SOURCES OF AGRICULTURAL GROWTH

Figure 5.1: Comparison of Post-Crisis Growth by Sector: Ethiopia, Mozambique, and Uganda



5.3 Experience in other post-conflict countries (see Figure 5.1) indicates that strong agricultural growth is typically achievable during the early stages of the reconstruction efforts, supported by the resettlement of displaced populations and the quick recovery of very depressed agricultural production, in particular food crops. Agricultural growth is thus a major factor in early economic recovery, reaching 4 percent two years after the end of conflict and accelerating to an average of nearly 8 percent in years 3 through 5 after the crisis before settling down to about 4 percent in years 6 through 10, which is a more typical long-run growth rate for agriculture in most developing countries.

²³ This chapter is largely based on: Stephan Weise, 2007; MacArthur Pay-Bayee, 2005; Winrock International, 2007; and James Tefft and Mariam Sow, May 2007.

5.4 However, sustaining a strong agricultural growth in the medium-term is a far greater challenge: domestic demand (essentially of food crops, livestock products and fish) is not likely to grow at a much higher rate than the population -- possibly at about 3-4 percent p.a. High, sustained, broad-based agricultural growth will come only from penetrating export markets for commodities (i) for which there appears to be strong international demand; (ii) for which Liberia has a clear comparative advantage; and (iii) can be smallholder crops.

5.5 **Food Crops** The war that started in 1989 forced many subsistence farmers off their land, leading to a steep decline in food production which left the country heavily dependent on food imports (mainly rice)²⁴. Following the end of the war in 2003 -- and the subsequent resettlement of displaced agricultural families -- rice production is reported to have doubled, with most of the increase due to higher yields. The replacement of rice imports by domestic production should offer considerable growth potential in the short-to-medium term. The production of most other food crops probably also declined drastically during the war (with the possible exception of cassava). With domestic production accounting for perhaps 30 percent of total domestic food consumption, there is significant potential for domestically-driven agricultural growth in the next few years.²⁵ However, opportunities for food crop exports appear slim. The domestic demand for livestock and fisheries products should pick up gradually with the increase in domestic incomes, and offer a significant source of growth in the medium-term.

5.6 **Tree crops** Liberia's traditional tree crops, in particular rubber, oil palm and cocoa, offer the best opportunity for strong and shared growth and poverty alleviation in the medium- and long-term. The importance of the tree crops for Liberia's economy is evident from their contribution to GDP, export earnings and employment. They represent about half of total Agricultural GDP (about 25 percent of the country's total GDP). Tree crops are widely grown on a range of production systems: (i) industrial plantations of rubber (private) and oil palm (parastatals); (ii) medium-size private farms; and (iii) smallholder farms with mix-cropping of food and export-crops, predominantly coffee and cocoa, oil palm (both for own-consumption and for the market) and more recently rubber. It is estimated that that more than half of the agricultural household (i.e. 20 percent of the country's total population) may currently be directly or indirectly involved in tree crop production and in related down-stream activities.

5.7 Clearly, rubber, cocoa and oil palm offer the best prospects for strong, shared growth. Liberia has a strong agro-climatic comparative advantage for the production rubber (higher than South Asia), oil palm and cocoa (similar to Cote d'Ivoire's the world largest cocoa exporter and Africa's largest producer of rubber). It is by world standards a small producer of these commodities and would have no difficulty in exporting increasing volumes of these products if quality and traceability issues are addressed. There may be other crops that Liberia could produce and export profitably -- coffee, cassava and a large number of other crops such as chilies, ginger and a host of tropical fruits. However, these crops currently represent a very small production base and/or require high technical/marketing/financial capacities for penetrating very competitive and demanding export markets. Although their production should be promoted to diversify Liberia's agricultural production base, their development will not have a significant impact on growth in employment, incomes and exports receipts in the short-to-medium term. In the case of coffee, it is not even clear if it should be promoted at all. The robusta coffee produced in Liberia faces stiff com-

²⁴ Crop production statistics are unreliable but FAO estimates suggest that domestic rice production fell to less than a third of the levels of the mid-1980s.

²⁵ Cassava in particular shows a high financial profitability by hectare and by day of labor, even compared to rice, indicating that domestic production has a satisfactory comparative advantage for supplying the domestic market.

petition on international markets and is more labor-intensive than cocoa. Thus it is likely to earn a lower price while incurring higher costs than cocoa. Given the limited resources available to support small-holder agriculture, and the potential shortage of rural labor, it would seem wise to concentrate on cocoa.²⁶

5.8 Current and projected international prices for rubber, oil palm and cocoa are very good. Although prices are expected to soften somewhat after their recent increases they should remain attractive in the medium-term. The price of **natural rubber** increased five-fold between 2001 and 2007, and exceeded US\$3.00/kg in June 2008. This increase reflects for the most part the dramatic increase in crude oil price, which increased the cost of producing synthetic rubber, natural rubber substitute, and the sustained demand on international (tire) markets. The continuation of high crude oil prices is likely to maintain natural rubber prices at a high level. It is estimated that smallholder plantations can yield around 1.0 ton/ha. and thereby generate a net income of US\$1000/ha/year.

5.9 A strong demand for vegetable oils (in particular with the emerging bio-fuel market) should continue to support high prices for **palm oil** which, after a low of \$194 per tonne in February 2001, have steadily increased to reach over US\$1,000 a tonne in 2008. There should also be no problem substituting for most imported oils and satisfying expanding domestic demand, as Liberian consumers have a marked preference of local raw (red) palm oil for their traditional cooking. Prospects for **cocoa** are reasonably favorable. Following a 3-year period of price stability at about \$1.55/kg, cocoa prices doubled between October 2006 and June 2008. They are expected to remain above US\$2.00/kg in the medium term.

Table 5.1: Potential increase in production and export earnings, 2020

	Current area (ha.)	Potential increase in area (ha.)	Current output (mt.)	Potential increase in average yields (ton or kg/ha)	Potential increase in output, 2020 (tons)	Projected Average world price/mt	Projected increase in export revenues
Rubber	200,000	50,000 a/	125,000	150 kg	70,000	\$1500	\$105 mil.
Palm oil	100,000	30,000 b/	35,000	4 t of FFB or 1.4t CPO	150,000	\$ 800	\$120 mil.
Cocoa	30,000	15,000 c/	7,500	170 kg d/	11,000	\$1400 e/	\$ 15 mil.

a/ in addition to 50,000 ha of replanting; b/ in addition to 30,000 ha of replanting; c/ in addition to 15,000 ha of replanting; d/ 250 kg/ha for old plantations and 500 kg/ha for new plantations; e/ including a reduction in the quality discount.

Source: S. Weise (2007), J. Tefft and M. Sow (2007), and authors estimates.

5.10 There is strong interest from domestic and foreign investors for rehabilitating private and industrial rubber and oil palm plantations and establishing new ones. There is also strong interest from the small and medium-scale farmers for the rehabilitation and expansion of these three tree crops.²⁷ Therefore the growth potential for these three crops appears considerable, at least in the medium-term. Our rough estimates suggest that rubber production could grow by 7 percent p.a. starting in 2011 for the next ten years, while oil palm could grow by 10 percent over the same time period. Cocoa production could also grow by 10 percent, at least for the first five years. It is reasonable to envisage a total of over 100,000 ha of large-scale rubber and oil palm plantations under production in ten years time, which would generate some 35,000 jobs in direct employ-

²⁶ An STCP field survey showed little interest in coffee among small farmers for this reason.

²⁷ STCP field survey.

ment, benefiting an equivalent number of households.²⁸ The rehabilitation and extension of smallholder rubber, oil palm and cocoa production should involve another 300,000 ha. or perhaps 150,000 households. Taking into account the indirect effects resulting from forward and backward linkages as many as 450,000 rural households stand to benefit from tree crop production – almost half of the total rural population.²⁹

5.11 In the short-term however, output growth will be limited because of the long gestation period of new plantations. Replanting was interrupted during the war and a large proportion of existing plantations is at the end of its productive life. Replanting has started since the end of the war and is now accelerating, but the new plantations only start producing with a lag of three/four (cocoa, oil palm) to seven/eight years (rubber). Although there may be some short-term supply response through the rehabilitation of existing plantations, this additional production will be at least partly compensated by the production lost through the uprooting of old trees. The incremental production is thus likely to be small in the short-term.

SPECIFICITIES OF EACH VALUE CHAIN.

5.12 **Rubber:** Rubber has become synonymous with Liberia since the first concession agreement was signed by the Government with the Firestone Company in 1926. It is one of the country's main economic pillars. Its importance for the national economy dramatically increased during the civil war. In 2005, with mining and forestry having ground to a halt, the rubber sector accounted for more than 20 percent of Liberia's total GDP and 90 percent of its total exports. It is estimated that there may be about 200,000 hectares of rubber plantations in Liberia of which 65,000 ha of industrial estates and 130,000 ha of private small and medium-scale rubber farms. Firestone's Harbel plantation started operating in 1935 (at 35,000 ha it is the world's largest contiguous industrial rubber plantation). Five other industrial plantations were established across the country in the 1950s and 1960s. During and after the Second World War, Firestone initiated an out-grower scheme which became the nucleus of the Liberian-owned rubber sector. In 2006, total exports reached 100,000 tons of which two-thirds was block rubber and one-third liquid latex. Firestone alone was responsible for over 60 percent of total exports.

5.13 Firestone has established a pilot facility to process rubber timber into high value products. In most of the leading rubber producing countries, the production of rubber wood-based products (furniture, flooring) has become a major part of the rubber value chain. Buchanan Renewable Energy has launched an innovative project to clear old trees and produce wood chips for bio-fuel, initially for export to Europe. Now it is also planning to use some of the chips for electricity generation for the local market. The efficient use of this timber, in particular in view of the massive replanting program that will be necessary at least over the next ten years, offers major prospects for value addition and job creation, but may also require some coordination.

5.14 Liberia has a strong comparative advantage for the production of rubber. The production is totally exported as block or liquid rubber, after processing within the country. The sector is dominated by a few well-established industrial operators but also includes a large number of large private farms and smallholders. The sector is totally liberalized and the prices offered at buying centers represent about 60 percent of the fob prices, which is in line with levels in other producing countries such as Côte d'Ivoire. Liberia has a strong "rubber culture" and few farmers, large

²⁸ Data from Indonesia (oil palm) and Côte d'Ivoire (rubber) suggests that every 3 ha of plantation creates one new job directly.

²⁹ Various studies have found that an initial injection of income in rural areas will typically result in secondary increases of income in the order of 1.5 times the initial increase. D. Stryker and L. Salinger, 2004.

or small, have never had contact with the crop. There are already considerable sunk costs in productive (plantation) and processing infrastructure. The industrial operators have an immediate access to markets, world-class technical and managerial skills and considerable financial resources. They represent the main engine for the development of the sector. They will be able to self-finance their own development and provide ready access to markets, technology and advice for smallholders. Because of the current and expected high prices on the world market, the sector will be able to self-finance the support necessary to jump-start the smallholder sector (through an appropriate levy). The main role of government will be indirect, through the provision of the required transport infrastructure and the establishment of a supportive policy and institutional framework.

5.15 The main supply side issues are: (i) the old age of the existing plantations which requires an immediate and massive replanting program and will induce a relatively long delay in the supply response; (ii) the need to set-up an effective mechanism for the provision of the required agricultural services to smallholders; (iii) access to land for the expansion of the industrial sector; (iv) the mitigation of social and environmental issues associated with large-scale plantations; and (v) the need to establish clear and enforceable rules of the game for the management of the sector.

5.16 **Oil palm:** With a total production of about 35,000 tons of crude palm oil (CPO), Liberia is a minor producer of palm oil on the international and even regional market (Nigeria, Cote d'Ivoire are the largest producers in West Africa). A net exporter of palm oil until the late 1980s, Liberia currently imports about 7,000 tons (for a value of US\$4.4 millions) of edible oils, essentially palm oil from Asia, i.e. about 20 percent of a total estimated domestic demand. Liberia still exports a significant volume of CPO to neighboring countries (2,000 to 3,000 tons) through informal border trade. There is a vibrant CPO marketing system, based on small and medium-scale traders, well-structured and competitive. A study recently launched (September 2007) by the Ministry of Agriculture indicates that there may be about 25,000 hectares of medium-to-large oil palm plantations of which about 17,000 hectares under State-owned plantations. Smallholder plantations may represent another 75,000 hectares. It is estimated that the annual production of existing plantations is about 20,000 tons of crude palm oil (CPO), with about half of the country's total production coming from wild groves. Industrial plantations have been largely abandoned during the war, some of them partly taken over by the local population for its own use. There has been no maintenance or replanting for about 20 years and trees are at the end of their productive life. Their productivity is now extremely low. All processing/marketing infrastructures (crushers, press, storage tanks...) have been destroyed. The Government of Liberia is now contemplating their rehabilitation and privatization, to serve as the engine of the sector's revival.

5.17 Liberia has a good agro-climatic comparative advantage for its production, probably the best in West Africa. The crop is of major importance for rural populations (income and nutrition) and was one of the few crops never neglected by smallholders during the war. Until now, production was essentially targeted at supplying the domestic market, but demand is exploding on the international market and there is now considerable interest from large investors to expand plantations/production for exports. Successfully penetrating the very competitive export market will however require major improvements in productivity at all levels of the value chain (farm, processing, exporting). All industrial and medium-scale plantations are very old, with very low on-farm productivity, and in immediate need of replanting. The status of smallholder plantations is unknown but it is likely that they are also at the end of their productive life. Similarly, the efficiency of processing through artisanal manual extraction methods is very low (8-12 percent oil/ffb ratio, partly due to the fact that a large part of the ffb's are from the Dura variety). There is an urgent need to introduce efficient small-scale and industrial-scale mills. Finally, the export of

crude palm oil will require the establishment of major marketing infrastructure (e.g. storage tanks) at port level.

5.18 Oil palm offers considerable opportunities for smallholder development. However, there is currently a total lack of access by smallholders to improved planting material, inputs, credit and technical advice. Given the lack of capacity in public services for input and service delivery, industrial plantations – as in the rubber sector -- will need to play a major role in this respect. However, contrary to the rubber sector, these industrial operators are not yet operational and thus will only be able to provide significant support to smallholders in the medium-term. In the short-term, these operators will require some form of donor funding to subsidize their support to smallholders. The main role of government will be indirect, through the provision of the required transport infrastructure and the establishment of a supportive policy and institutional framework to attract industrial investors and mobilize them in support of small producers. The main supply side issues are similar to those of the rubber sector.

5.19 **Cocoa:** Though vastly overshadowed by rubber, cocoa is Liberia's second most important export crop. Official exports have amounted to about 2-3,000 tons/year in recent years, but total production is estimated at about 10,000 tons from about 30,000 hectares, with most of the production exported through neighboring countries. Liberia has a good comparative advantage for the production of cocoa (comparable to Cote d'Ivoire). However, the crop never developed into a major industry in Liberia, essentially because of Government's neglect and mismanagement of the sector. Cocoa can have a significant impact on broad-based income growth and poverty alleviation in Liberia. It is a perfect smallholder crop. It is not labor intensive and does not require heavy up-front investments in processing. It certainly offers a major opportunity to diversify Liberia's productive base away from an over-dependence on rubber. Cocoa will benefit from favorable international prices in the medium-term that can sustain smallholders' interest for rehabilitating and expanding plantations if the pass-through of international prices to farmers is improved and better access to technology/services is provided.

5.20 The development of the cocoa sector is confronted by severe constraints all along the value chain: (i) a very small starting production base (6-10,000 tons) that will limit the initial supply response and prevent economies of scale and competition within the value chain; (ii) stiff competition from both rubber and mining for available labor in the main producing areas; (iii) very low quality of produce (US\$300/t discount on the international market); (iv) lack of access to planting material and advisory services; and (v) very high transaction costs and extremely low farm-gate prices due to high transportation costs linked to a degraded transport infrastructure, scattered production and lack of producer associations for upstream bulking of produce, but mostly to a highly inefficient and monopolistic marketing system.³⁰ As a result, farm-gate prices (25-35 percent of fob) are among the lowest in the world and do not provide farmers with the right incentive.³¹

5.21 The cocoa sector will not initially develop just through endogenous "market forces". Contrary to the situation in the rubber and oil palm sectors, there are no large scale producers in the cocoa value chain that could be mobilized for providing services to smallholders. The existing lack of capacity, in the private sectors and at all levels of the value chain, and the current absence of the initial critical mass – in terms of both production volume and number of operators – will not be able to sustain a private sector, market-led development. There will clearly be a need over the medium-term for sustained and coordinated Government support to jump-start development

³⁰ The leading exporter has typically handled 80 percent of the total.

³¹ The farm-gate price is 47% of FOB in Côte d'Ivoire, 60% in Ghana, and 78% in Cameroun.

until production levels provide space for a sufficient number of professional operators at critical levels of the value chain (in particular at export level), the capacity of the main actors has been strengthened (in particular those of producers/producer associations) and the provision of critical services has been re-established on a sustainable cost-recovery basis.

5.22 The Liberia Produce Marketing Corporation (LPMC) is still officially responsible for the overall management of the cocoa marketing system through: (i) fixing the producer price and margins along the value chain; (ii) licensing exporters and their mandated domestic buying agents (annual licensing fees of US\$10,000 and US\$200 respectively); (iii) setting and enforcing quality standards/grades; and (iv) authorizing exports. It has a staff of some 90 persons, most of them in Monrovia, and provides warehousing and pre-export bean drying services at Monrovia harbor. It still owns some warehouse up-country, although this infrastructure is largely destroyed or in need of substantial rehabilitation. It has no capacity to monitor or enforce the producer price it fixes (actual farm-gate prices have been one-third to one-half of the official price). Capacity to enforce quality standards/control is non-existent. Grading is not aligned with international standards. The sector is de facto totally liberalized. Whatever impact LPMC may still have is widely considered by private operators to be negative (administrative hurdles, rent extraction). It is highly questionable whether the resources devoted to financing LPMC's activities are justified.³² LPMC's future is currently under consideration by the Government.

MAIN STRUCTURAL CONSTRAINTS

5.23 **Transport infrastructure :** The country's transport infrastructure is in an appalling state. Paved roads are severely pot-holed and the rest of the road network is in very poor state of repairs with most bridges on the dirt roads made of logs. In most parts of the country, secondary and feeder roads are difficult to travel in the dry season and totally closed in the rainy season. As a result, about half of all villages are considered to have no vehicular access.

5.24 Good quality transport infrastructure is a particularly important contributor to competitiveness and growth in agriculture. Many agricultural commodities are either bulky or perishable (or both), and costs of transporting both inputs and products can account for a high share in the value of final products where infrastructure and physical market access conditions are inadequate. With poor transport infrastructure, markets may remain effectively insulated, even if all trade barriers are lowered or removed, and any efficiency gains in production is largely lost through the high cost of transport and of other related transactions. The improvement of the transport infrastructure is thus probably the most critical investment.

5.25 The cost of import/export activities at the Freeport is high due to channel shrinkage, blockage of berths by capsized vessels, limited and outmoded discharging and handling equipment and heavy reliance on manual labor, and a very high incidence of theft. Major investments in the infrastructure and management of the Freeport are necessary.

5.26 **Access to land:** Population density is still low on average. This would suggest that access to land should not be a major problem for the expansion of tree crop plantations. However, the war has brought to the fore the deep resentment created by Liberia's dual tenure regime. Historically, tenure regime and related labor practices have favored the establishment of the tree crop sector, by foreign investors through long-term leases, and by the Liberian elite, through purchase. Concession holders have exploited the concession areas as a form of private property, excluding

³² According to LPMC management, its total annual budget is about US\$600,000 of which 50% is raised from exporters through fees and royalties and 50% comes from the national budget.

others from any use-rights, and the area actually developed has often been much smaller than the total area under concession. This has generated considerable animosity among local communities³³.

5.27 Thus, finding large and contiguous tracts of land for the establishment of new large industrial plantations will become increasingly difficult. It will require careful negotiations with customary land rights holders for the granting of long-term land leases and probably involve the payment of adequate rent/compensation to the land right-holders (to local communities and to individual heads of lineages). On the other hand, this increasing difficulty in securing large areas will be a powerful incentive for large-scale investors to promote smallholder production through out-grower schemes. The Ministry of Agriculture has recently taken the lead in tackling some of these issues. With technical support from IFC's investment climate team, a framework for a model concession agreement is being developed.

5.28 **Labor availability:** The war has induced a strong acceleration in the out-migration of rural population and many youth may not go back to rural areas. In some of the main producing areas (e.g. Nimba) there will be competition for labor from the resumption of mining activities. The availability of experienced rubber tappers will be a problem, as a significant number of the experienced tappers disappeared during the war. However, labor may not be as limiting a factor as sometimes feared. Field surveys indicate that smallholders have clearly identified tree crops as a main source of future income and the rehabilitation of plantations has already started. The current profitability of palm oil and rubber, and the promise of steady incomes on industrial plantations, stand in sharp contrast to the high unemployment rate in the cities. Some estate developers are confident that ex-combatants can be re-integrated into rubber and oil palm plantation employment, even drawing on their past experience as illegal tappers during the war. Cocoa is not very demanding in terms of labor, and family members can be easily mobilized to carry out the necessary tasks.

5.29 **On-farm productivity:** The current productivity of existing plantations, both large-scale and smallholder, is low. Yields of cocoa trees, which averaged about 400 kg/ha in the 1980s, are currently estimated at 100-200 kg/ha, against average yields within West Africa of about 400 kg/ha, and a potential yield of 1.0-1.5 t/ha with the new hybrid varieties grown in Ghana and Côte d'Ivoire. Cocoa farms are subject to infestation of pests and diseases, primarily the cocoa black pod (CBP) which alone is estimated to reduce cocoa production by more than 60 percent.

5.30 The current productivity of oil palm plantations, both large-scale and smallholder, is extremely low. Because of the lack of maintenance and the aging of trees, average yields of the Tenera plantations are probably less than 4 tons of FFB/ha. This compares with 12t/ha on average in Cote d'Ivoire (industrial plantations 15-20t/ha and 5-10 t/ha for smallholders) and more than 25 tons/ha in Malaysia or Indonesia.

5.31 Most of the existing rubber plantations are old and will need to be replanted over the next 5-10 years. The aggregated average yield is very low at less than 1.0 ton/ha (wet) against 2.5

³³ The past concession system has been one of the main root causes of the country's socially non-inclusive development and resulting civil war. It is also grossly inefficient in economic terms.

tons/ha in Cote d'Ivoire³⁴. A significant proportion of the plantations have been destroyed during the war by faulty and excessive tapping.

5.32 However, this means that there is much potential for improving productivity, drawing on experience in neighboring countries. Industrial estates will have no difficulty in securing the necessary planting material (through imports and local multiplication), inputs and related technical services. The same is not true of smallholders, and a concerted effort will be required to assist them.

5.33 **Social issues:** One lesson from Malaysia and Indonesia is that there is a clear correlation between the expansion of plantations and land disputes and other social conflicts.

- *Land grabbing.* Estate expansion is often associated with the displacement of people and the creation of a new class of rural poor. It often brings an end to the extinction of secondary land uses and traditional ways of life where the forest provided non-timber products.
- *Asymmetric relationships.* Many farmers are willing to agree to land sales/leases or to become part of out-grower schemes, but these deals are often struck in very asymmetric and unfair fashion. There is thus a need for government oversight of contract farming negotiations and the establishment of mechanisms for arbitrating disputes.
- *Salaried labor.* The appropriation of large tracts of land can change the dynamics of the local economy, turning landowners into wage laborers, and leaving them with few alternative employment opportunities other than with the plantation company. This then leaves the workforce vulnerable to low-paid jobs, and poor health and safety standards. Many in the plantation industry argue that, although this may have been the case in the past, industrial estates have taken steps to create "stable well-paid jobs" and provide housing and social services to their employees that were otherwise lacking. A balance must be struck by providing a policy and regulatory environment that enforces workers' legitimate claims while ensuring the competitiveness of private investments.

5.34 **Environmental issues:** The palm oil and rubber industries are rife with unsustainable environmental practices.

- *Land clearing and loss of ecosystems and biodiversity.* Experience in other countries has shown that where forest has been replaced by palm oil/rubber, up to 80 percent of reptiles, mammals and birds species previously found cannot be supported by the new environment. The use of pesticides and herbicides also devastates fauna and flora. Also, the establishment of industrial plantations is often driven by a hidden logging objective.
- *Burning and greenhouse gas emissions.* The quickest and cheapest method of clearing already degraded land for plantations is often burning, contributing to air pollution and greenhouse gas emissions. Fires for clearing land often rage out of control, destroying primary forest and its critical ecosystems and killing fauna and flora.
- *Increased use of agrochemicals.* Oil palm production is very fertilizer intensive (rubber much less) and the use of highly toxic herbicides and pesticides is widespread. In the process-

³⁴ Based on aggregated national production: Liberia: 100,000 (dry) tons or 170,000 (wet) tons from about 200,000 ha; Cote d'Ivoire: 180,000 (dry) tons/300,000 (wet) tons from about 120,000 ha. Yields of specific plantations in Liberia cover a wide range, from negligible up to Cote d'Ivoire levels.

ing phase, mills frequently release untreated effluent.

5.35 Many of the social and environmental issues in oil palm have been highlighted by the Roundtable on Sustainable Palm Oil (RSPO), established in Kuala Lumpur in 2003. RSPO has drawn up guidelines to serve as best management practices for large scale oil palm plantations (Annex 1).

ELEMENTS OF A TREE CROP DEVELOPMENT STRATEGY

5.36 Government's tree crop development strategy needs to build on the sector's strengths, the presence in the sector of large estate operators which have an immediate access to markets, world-class technical and managerial skills and considerable financial resources, while also ensuring that smallholders become major actors in agricultural development and fully share in employment and income growth. For the large plantations (rubber and oil palm) the main objective will be to promote a development which is both economically efficient and socially and environmentally sustainable, based on a strong collaboration with smallholders. For smallholder and commercial farmers the challenge will be to improve their access to the input and output markets, providing them with access to improved planting material and advisory services and strengthening their voice and bargaining power with other actors of the value chains.

Establishing Efficient Value Chains

5.37 The development of competitive value chains, inclusive of smallholders and environmentally sustainable, will require (i) a clear policy and regulatory framework, agreed upon by the main stakeholders; and (ii) strong horizontal and vertical coordination among actors, to organize collective action and ensure that the product is efficiently brought to market. Stakeholders need to consider how they will organize themselves for carrying out the various functions of the value chain, what will be the type of contractual mechanisms used to link its actors and how they will be enforced (finding practical solutions to the problem of side-selling, and resulting default, remains a critical issue), and how the main common goods (pricing policy, research, quality issues) should be managed. This must be determined taking account of several factors including overall value chain goals, the capabilities of value chain actors, asset specificity and the degree of uncertainty in transactions, to name a few. It is critical that *value chain actors* themselves assume responsibility for the institutional framework and the management of the value chains.

5.38 The government has a crucial role to play in the establishment of efficient value chains. Assuring a stable macroeconomic environment and improving transport infrastructure (roads and port infrastructure) are clearly of critical importance. In view of its limited resources, the Government of Liberia should focus its support of the agricultural sector on establishing a policy environment which provides incentives to key private actors while at the same time ensuring that the equity considerations of a pro-poor growth strategy (the interests of vulnerable groups) are met. This will include: (i) enhancing competition by removing barriers to entry (for example transparent licensing procedures for marketing agents) and enforcing coherent anti-trust legislation; (ii) promoting and enforcing systems for the efficient operation of contract farming arrangements; (iii) establishing accurate weighing and grading systems; (iv) improving access to warehouse space at ports and markets; and (v) strengthening the competitive position of small producers through the widespread availability of market information and the promotion of farmers organizations.

5.39 Beyond these functions, an efficient way to build a value chain is through the preparation of a medium-term operational strategy and the establishment of a permanent stakeholder (“Inter-professional”) body, or crop board. The necessary actions to be taken in the next year include:

- *The participatory preparation of a development strategy and medium-term action plan for each of the value chains (rubber, oil palm and cocoa).*

The focus should be to strengthen inter-firm trust and information flows and build a value-chain participant-driven development strategy. The planning process would bring together key stakeholders from all levels of the value chain to develop consensus on key opportunities to increase the competitiveness of the industry, identify the principal constraints to the realization of these opportunities, and agree on action plans that engage stakeholders at all implicated levels of the value chain. This process should also implicate global buyers interested in sourcing commodities from Liberia, so that they can communicate to Liberia stakeholders the expectations and requirements of the international market.

- *The establishment for each of the value chains of a permanent stakeholder (“Inter-professional”) body.*

This body would advocate and interact with government on policy-making, discuss sector issues and set the rules of the game for the collective management of the sector’s common goods (pricing policy, research, quality issues, inter-firm collaboration/competition, information flows). This crop board needs to have strong ties with the industry, and should be purely led by producer/industry associations. It could possibly manage a development fund to finance critical activities (production of planting material, research, advisory services...), largely out of resources coming from within the sector through voluntary levies, to avoid interference from/allegiance to the Government; and

- *The review of the existing legal and regulatory framework.*

The review will align the sector’s legal and institutional framework with best practices, in particular: (i) introduction of new genetic material; (ii) establishment of grades and standards; (iii) SPS policies and traceability; (iv) establishment and management of farmers associations, (v) exit and entry of new operators/competition law (licensing requirements...) and (vi) export requirements (procedures, royalty...).

Establishing a supportive policy and institutional framework

5.40 ***Cocoa:*** In the cocoa sector, the immediate priority is to clarify the policy and institutional framework and improve governance in the sector. In addition to the establishment of the Inter-professional cocoa board, this involves in particular (i) addressing the LPMC issue and removing any uncertainty regarding its future role in the management of the sector; and (ii) increasing value added through improved quality, and increasing farmers’ share of this value added.

Addressing the LPMC/regulatory issue

5.41 A credible regulatory body, responsible for delivering pure public good activities such as licensing, export monitoring, enforcement of grades and standards, and data collection, is urgently needed and should be immediately established on the basis of an institutional audit focused on key responsibilities and resources (human, processes) needed for their delivery. Given the very poor reputation of LPMC, and because the “culture” of its current staff is not in line with Gov-

ernment's new vision, it is advisable that the new regulatory agency be clearly dissociated from LPMC. For that, LPMC would need to be liquidated with the new agency staff being recruited through an open competitive process. This regulatory body should not be involved in operational activities to avoid conflict of interests and foster transparency and accountability. The management of the common goods should be entrusted to an inter-professional crop board driven by the private sector. This issue is covered in greater detail in Annex B.

5.42 It is consequently recommended that:

- LPMC under its current form should be immediately liquidated and its infrastructure (port and up-country warehouses) either privatized through a transparent process or managed by a specialized entity which would provide warehousing facilities on a purely commercial basis;
- A new cocoa regulatory agency should be created, after a detailed review of possible institutional options (a department of the Ministry of Agriculture, or an autonomous agency), not involved in commercial/marketing activities but focusing only on regulatory and monitoring functions necessary for implementing government's cocoa policy and framing the activities of private operators in the value chain;
- The links between the newly created Liberia Commodity Exchange Company (LCEC), an offshoot of the LPMC, and the national social security fund should be investigated and immediate measures taken for dealing with any possible conflict of interest and ensuring a level playing field among exporters.

Dealing with quality and increasing value added and the farmers' share

5.43 This will require a sustained effort over the medium-term to (i) improve quality and eliminate the large discount currently penalizing Liberian cocoa on international markets; (ii) strengthen producers/producer associations' bargaining power; and (iii) increase production to volumes allowing an adequate number of operators to compete at every level of the value chain and allow these operators to benefit from economies of scale. Such a program of inter-related activities will require intensive support that can only be provided through a specific project.

Short-term actions

- (i) Establishing, under a time bound project such as the Sustainable Tree Crop Program (STCP), a "*best practice channel*" through buying stations up-country which would purchase cocoa from producers/producer groups at a price reflecting both produce quality and real marketing costs, and thus provide a fair trade alternative to the existing, rent-seeking marketing channels. This "*best practice channel*" should be established with willing traders/exporters;
- (ii) Re-establishment of a cocoa price information system. The current practice of setting and advertising indicative minimum prices at critical levels of the value chain (port-gate, regional buying center, farm-gate) through newspapers and radio should be supplemented by the efficient use of existing cooperatives and other producer groups for the dissemination of price, quality and other market information.

Medium-term measures

- (i) Launch a program for the development of existing producer groups into operational producer associations.
- (ii) Launch a program to provide traders and exporters with technical assistance for improving the efficiency of their operations through: accessing market information; investing in critical infrastructure (trucks, warehouses, dryers...); and accessing the required resources for financing their operations, in particular for working capital, possibly through the development of a warehouse receipt system.

5.44 ***Rubber and oil palm:*** The Government has adopted a nucleus estate-cum-smallholder (“plasma”) strategy for re-building and developing the rubber and oil palm sub-sectors. This strategy is based on the recognition that industrial estates will be the critical engine for the development of the rubber and oil palm sectors since they can (i) mobilize on their own the necessary financing (equity or credit); (ii) access market information and cutting-edge technology; and most importantly (iii) be the main instrument for linking small producers to markets and providing with access to inputs and services. In turn, the development of the smallholder sector will be beneficial to industrial estates by permitting them to outsource a growing share of their raw material requirements, thus easing the critical land access issue and transferring (part of) the agricultural and market risks to out-growers. Government’s role will be essentially to (i) provide the required supportive legal and regulatory framework, in particular through a new concession policy; and (ii) ensure that out-grower schemes are not unfavorable to smallholders. The critical steps to be immediately undertaken are to review and re-negotiate all existing concession agreements to align them with Government’s new concession policy; and the privatization through a competitive process of State-owned oil palm plantations. Other important policy issues will be to design a trade and out-grower pricing policy, supportive of domestic value addition and contract farming.

Developing a new “Concession Policy”

5.45 The Government of Liberia is developing a “model concession agreement” which is in line with international best practices, in particular with respect to social and environmental issues. This “model agreement” is currently being tested through the renegotiation of the flagship Firestone’s Harber concession agreement. When finalized, it will be consistently used for the renegotiation of all existing concession agreements and the competitive tendering of new ones to ensure: (i) the efficient and sustainable economic use of concessioned areas; (ii) socially equitable and environmentally sound management practices; and (iii) a level playing field for all concession holders. These issues are briefly discussed below.

- ***Respecting local populations’ customary rights.*** The establishment of new plantations should respect customary rights and no new plantings should be established on local peoples’ land without their prior free and informed consent, dealt with through a documented system that enables indigenous peoples, local communities and other stakeholders to express their views through their own representative institutions. Local people should be adequately compensated for any agreed land acquisitions and relinquishment of rights. Consultations and agreement should also take place for replanting programs. Replanting of over-mature plantations can

open up old wounds with local villages.³⁵ Care should therefore be taken to ensure that the local populations are adequately informed about replanting programs, and adequately and transparently compensated if need be. This can for example be done by a negotiated (annual) rent accruing either to heads of families/lineages or to the entire local community for the financing of priority community development sub-projects through a local development fund.

- *Making optimal use of existing plantations and degraded lands.* Government's development strategy should ensure that the development of industrial plantations no longer results in deforestation and biodiversity loss. This involves two main measures: (i) giving priority to the rehabilitation of existing plantations; and (ii) establishing new plantations on degraded land, not on the remaining closed forests. This will ensure that land already dedicated to rubber is re-used to establish new high-yielding plantations, and minimize environmental costs. Companies have traditionally preferred to convert forest lands as they can reduce the net cost of establishing plantations through the sale of timber from high quality forest. Another reason is that degraded lands are likely to be already occupied by people who have legitimate rights to their use. They have thus been keen to obtain concessions on forested land with low population density. This should be resisted.³⁶ Currently, accurate and reliable information about available degraded lands for viable industrial plantation is lacking. The government should immediately carry out a detailed review to identify degraded areas available for industrial plantation development - degraded lands not part of smallholders' farming system or already allocated for another economic use.
- *Making optimal economic use of existing or new concession areas.* In the past, many concession holders in Liberia have used only a small portion of their concession for the intended purpose, leaving potentially productive land idle while excluding local populations from using an asset critical for their income and food security. There is thus an urgent need to develop an appropriate concession instrument which will:
 - (i) Include penalties, possibly even forfeiture of the concession, if the business plan is not realized in due course, or if violations in use occur; and
 - (ii) Include proper incentives (land rent/tax) for a productive use of the land. The Government is currently contemplating the imposition of an annual rent of US\$2.00/acre for developed land and US\$1.00/acre for undeveloped land. The level of the proposed land rent should be seen in the context of the overall taxation imposed on the concession holder (income/turn-over tax, land rent, community development levy), which should not be excessive. It may be adequate for new industrial estate while plantations are not yet productive. However, it does appear very modest, and could be significantly increased for plantations in their productive stage in view of the very large net profit generated by industrial oil palm or rubber plantations at current and projected international prices. At a minimum, the concession agreement should include a transparent mechanism for regularly adjusting the level of the land rent to the potential profits achievable through an efficient use of the land (and thus in particular to international prices).

³⁵ This was clearly illustrated in the Côte d'Ivoire when government plantations were privatized and the new concession holders initiated the replanting of old tree stocks. The local populations wanted the land restored to its original owners.

³⁶ The cost of establishing new plantations on degraded/deforested lands can however be reduced by using mechanisms under the Kyoto Protocol (reduction of Green House Gases) for example through the creation and sale of Certified Emission Reduction (CER) units. The establishment of rubber plantations of degraded/deforested land would qualify under the mechanism main eligibility criteria.

- *Mitigating environmental degradation.* Tree crop production, in particular industrial plantations, are intensive in agrochemicals (fertilizer, herbicides and pesticides) and processing release effluents that can have very serious environmental consequences on local populations' health as well as the local flora and fauna. It is thus critical that concession agreements include a clear commitment to the necessary mitigating measures, efficient monitoring mechanisms and dissuasive penalties for non-compliance.
- *Ensuring proper pay, working conditions and social services to employees.* Industrial plantation and processing facility operators should provide proper pay and working conditions for workers, fully meeting national legal requirements and industry minimum standards. They should also provide, as part of the compensation package and sometimes in a cost-sharing arrangement with government (responsible for the provision of these public goods), adequate housing, schooling and health facilities for their employees.

5.46 The main requirements included in Government's new concession policy need to be applied transparently and equitably to concessions, whether new or renegotiated, to ensure a level-playing field for their costs of operations and competitiveness.

Designing an appropriate trade and smallholder pricing policy

5.47 Producer price policy, rules of the game for mobilizing out-grower production and the incentives to be given to local processing should be among the critical issues to be discussed and agreed upon during the preparation of rubber and oil palm sector development strategies. In particular, the following issues should be analyzed:

- Whether smallholder farm-gate prices should continue to be unregulated or be determined through an agreed upon formula (for example 60 percent of fob price as in Cote d'Ivoire) and paid by all buyers, to reduce the risk of side-selling and thus increase the willingness of industrial estates to provide inputs and services to out-growers through contract farming arrangements;
- Whether exports of unprocessed rubber should continue to be allowed and/or some incentives should be given to local processing (and value added), for example through a higher export tax on un-processed rubber; and
- Whether measures should be taken to limit the market power of Firestone which, because it controls more than 50 percent of total production/exports and benefits from substantial economies of scale and sunk costs, can out-compete other buyers for purchasing out-growers production.

Privatizing existing State-owned plantations and issuing new ones

5.48 The government has decided to privatize the existing state-owned oil palm plantations. The residual value of these plantations is relatively low due to the age and poor state of the existing tree stock and associated infrastructure. In addition, some of the plantations are currently heavily occupied by small farmers who have moved in following the plantations' abandonment during the war. The social aspects of the divestiture process will be critical as it is likely that private investors will be reluctant to bid for plantations with large squatter settlements. The divestiture process would thus involve the following steps:

- (i) The preparation of a detailed technical, financial and social audit; Government might then carve out areas occupied by squatters from the original concessions and distribute them to the current occupants, possibly under an out-grower scheme with the new industrial plantation management;
- (ii) The preparation of bidding documents (proposed concession agreements) in line with Government new concession policy, including adequate arrangements for related out-grower schemes;
- (iii) The tendering of the plantations through a competitive, transparent procedure in line with the Contract and Monopolies Commission and the Public Procurement Law.

5.49 The award of additional new concessions to interested investors (after full and transparent negotiations with local communities) would follow the same tendering process based on the model concession agreement, to provide a level playing field with respect to labor, social and environmental obligations, as well as fiscal regime and out-grower arrangements.

Improving on-farm productivity

5.50 Industrial estates will have no difficulty in securing the necessary planting material, inputs and related technical services. This is however not the case for smallholders who currently have no or extremely limited access to these critical services, or to the credit institutions that could help finance their mobilization. Thus, efficient delivery mechanisms need to be re-established if government's objective of a broad-based development of the sector is to be achieved. In the longer-term, the government should support the revival of a national technology generation and delivery system to provide the foundation for sustained technological progress. In the short-to-medium term, there appear to be two main delivery channels to do so:

- (i) *Industrial plantation estates.* This is an option for the rubber and oil palm sectors. It is however unlikely that, under the current uncertain and risky environment, industrial estates will agree to provide inputs and services on credit to smallholders under contract farming arrangements, especially given the risk of side-selling. They can still be mobilized for the production and distribution of seedlings/other inputs and the provision of advisory services to smallholders. They can either sell these services directly to smallholders with the capacity to pay or provide them free of charge against payment from a third party – Government, an external donor or a specific sector-wide development fund such as the “Rubber Development Fund”. These arrangements should be included in the estates' renegotiated or new concession agreements;
- (ii) *Specific projects such as the Sustainable Tree Crop Project (STCP).* For the cocoa sector in particular, where there are no large estates, using well-established NGOs and specific projects such as the STCP is the only short-term option for providing smallholders with access to adequate planting material as well as other critical inputs (agrochemicals) and services. The STCP and its Farmer Field Schools should serve as the principal vehicle for the establishment of clonal gardens/nurseries for the multiplication and distribution of improved planting material to farmers, along with the relevant technical advice regarding planting and maintenance.

5.51 In the same way, the development of an input distribution network, through producer associations and/or private rural outlets, should also be immediately initiated through projects such as the STCP or by specific input supply projects which provide a comprehensive support for the

establishment of small distributors in rural areas (training, start-up capital and the provision of a partial guarantee for accessing credit for working capital).³⁷ Care should however be taken that the mechanisms used in the short-term for jump-starting the delivery of inputs and services to smallholders be part of a longer-term program including a clear and time-bound exit strategy for making them self-sustained in the medium-term through their transfer to cooperatives and/or local commercial operators. These actions will also need to be closely integrated with relevant horizontal/sector-wide programs (i.e. the development of rural financial intermediation within the framework of an overall program for the rehabilitation of the financial sector).

Immediate/short term actions

- (i) Agreement with rubber and oil palm estates (and inclusion in concession agreements) on a sustainable mechanism
- (ii) Establishment under the STCP and other projects of nurseries for the multiplication and distribution of improved planting material for cocoa (and possibly other crops) to farmers; and
- (iii) Provision under the STCP and other projects of agricultural advice to producers on planting/replanting, improved production, disease control, post-harvest practices and quality issues.

Medium-term reforms

- (i) Re-building the national agricultural research system, building on strong partnerships with users, other national research centers, and regional networks and institutions.
- (ii) Promotion and strengthening of producer organizations. The Rubber Planters' Association of Liberia should refocus its attentions on smallholders.
- (iii) Development of a network of village-level private input distributors through the provision of training, technical assistance (and possible partial credit guarantee) to village/rural retailers.
- (iv) Promotion of access to credit for farmers organizations and individual farmers. Initiate improved financial and capital investment services to cocoa chain participants (debt equity capital to upgrade drying and storage facilities to international standards; debt capital through rural banks and MFIs to upgrade producer-level fermenting and drying facilities, perhaps at the level of village collection points).

RECOMMENDATIONS

5.52 In order to avoid the errors of the past, it will be essential to develop the smallholder sector for all three tree crops. In the longer-term, its development will require strengthening producers and producer associations' voice, capacities and bargaining power by: (i) promoting the development of efficient market/crop/technology information systems; (ii) strengthening farmer organizations; and (iii) improving producers' access to credit. These actions will take time and they should be initiated immediately. In the short-to medium-term, it is critical to accept the fact that

³⁷ See the Rockefeller Foundation experience in Malawi for one example.

the smallholder sector will not develop just through endogenous “market forces”. Smallholders are de-capitalized, do not have access to inputs, advisory services or credit and lack the institutions that would increase their capacity for undertaking collective action. Government’s sustained and focused support is thus necessary in support of these social goods. This intervention should however gradually disappear as the capacity of farmers organizations, sector institutions and private operators develop. Care should thus be taken not to build permanent public institutions to fulfill what should be temporary responsibilities, but to deliver the necessary support through specific programs/projects with clear and time-bound exit strategies.

5.53 Government’s active attention will be especially important in the cocoa sector which is in a “low equilibrium trap”. The existing lack of capacity at all levels of the value chain and the current low volume of production will not sustain a private sector-led development. There is clearly a need for sustained and coordinated support to jump-start development until production levels provide space for a sufficient number of professional operators at critical levels of the value chain, the capacity of the main actors has been strengthened, and the provision of critical services has been re-established on a sustainable cost-recovery basis. In the short-term, this support will need to come from reputable NGOs and/or the STCP to permit tight coordination of interrelated and carefully sequenced activities.

5.54 In the rubber and oil palm sector, government support will be needed to ensure that industrial estates play an active part in the delivery of inputs and services to smallholders, and that there is an efficient pass-through of international prices to out-growers. This should be embedded in the new concession agreement and also through the rules of the game agreed upon by the sector’s stakeholders and monitored/enforced by the to-be-created permanent stakeholder bodies.

5.55 In the short term, the most effective service/input delivery mechanism in these sectors appears to be through out-grower schemes (“nucleus plasma system”) which involve the provision by a core industrial estate (usually with both plantations and processing facilities) of a package of services (planting material, inputs, technical advice) to surrounding smallholders under a contract farming arrangement. Inputs and services are delivered at cost, either against cash payments or on credit, the beneficiary agreeing to repay through the delivery of its production to the service supplier. Contract farming arrangements are however open to significant risks, in particular because of side-selling to third parties who can offer a higher price because they have not extended any services in advance.

5.56 It is likely that establishing a credible credit recovery mechanism will not be possible, at least in the short-term, in Liberia. Smallholders can easily side-sell their production to independent village traders, other near-by farmers or even to other processors and thus avoid credit recovery. Nucleus estates are thus unlikely to provide inputs and services on credit in any significant way. However, because of their technical capacities, they should still be mobilized for the production and distribution of seedlings, the distribution of other inputs and the provision of advisory services to smallholders. They would either sell these services directly to farmers with the capacity to pay³⁸ or provide them against payment from an external source.

5.57 Because of the current lack of formal or informal financial institutions providing credit to agriculture, Government will have a critical role to play in ensuring that smallholders and other actors (traders, small processors) along the value chain have adequate access to credit. The possible instruments include (i) specific projects, (ii) contract farming arrangements; or (iii) the estab-

³⁸ Large farmers who can mobilize the necessary funds and sub-contract industrial estates for providing the necessary services to establish and/or manage plantations, as is already the case in Cote d’Ivoire.

lishment of “Rubber” and “Oil Palm” Development Funds, financed by government or donors, plus levies collected either at export or at factory gate level.³⁹ Another option that may be explored would be the establishment of a development fund for all tree crops or even of a general agricultural development fund, as is currently the case in Côte d’Ivoire⁴⁰, co-managed by government and agricultural producers and financed through budgetary allocations and levies on the main agricultural exports and imports. Finally, consideration should be given to initiate pilot actions for the development of inventory credit systems, either for traders to give them improved access to short-term credit for the purchase of the crops (the bonded warehouse system currently being developed in Nigeria, Ghana, Zambia, and Tanzania), or for smallholders (the “village/cereal bank” concept) already operating in several Sahelian countries to provide them with immediate cash at harvest time and thus greatly increase their bargaining power with buyers.

5.58 Most of the options for providing smallholders with the services/financing they need include an element of subsidy (from government or industrial producers) in favor of smallholders, at least during the start-up phase of sector rehabilitation. This is fully justified. It is estimated that the establishment (cash) cost of establishing one hectare of smallholder oil palm or rubber is about US\$400-600. This is clearly out of the reach of de-capitalized smallholders who do not have access to credit from financial institutions or industrial estates through contract farming arrangements. A “smart subsidy scheme” should however include: (i) an efficient targeting mechanism (targeting mechanisms have consistently proven to be management intensive and very expensive to administer); (ii) a clear and time-bound exit strategy for transferring input/service delivery to private operators and making it self-sustaining; and (iii) a reliable and equitable funding mechanism.

³⁹ Plans are already under way for the creation of a Rubber Development Fund in collaboration with the Rubber Planters’ Association of Liberia.

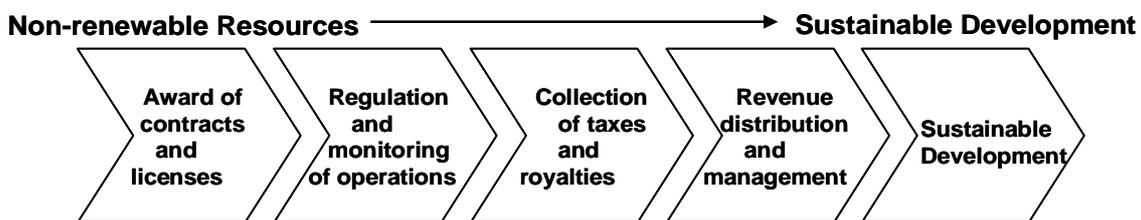
⁴⁰ The FIRCA, co-managed by producers and government, funds the priority research and extension programs of the Centre National de Recherche Agricole (CNRA) and the Agence Nationale de Developpement Rural (ANADER)

6. MINING AND PETROLEUM

6.1 Mineral and petroleum resources provide exciting opportunities for lifting people out of poverty and contributing to sustainable development. These extractive industries create jobs both directly and indirectly, transfer technologies and knowledge, contribute to infrastructure development, and generate significant foreign exchange earnings, thus providing governments with a financial base for the development of infrastructure and the provision of social services. Mining activities can have large multiplier effects through their upstream and downstream linkages. By harnessing the infrastructure benefits and economic stimulus that mining camps generate, other industries can develop in the same region, and thereby contribute to further development that can be sustained beyond the life of individual mining enterprises. With high commodities prices currently generating unprecedented revenues, the potential role of mining is tremendous.⁴¹

6.2 Unfortunately, many governments in resource-rich countries, including Liberia, have historically mismanaged their extractive industries revenues and have fallen prey to "the resource curse," whereby poor policy choices coupled with corruption have exacerbated the cycles of poverty, inequality and conflict. A comprehensive approach is required which extends sound management and transparency along the full spectrum of the extractive industries management chain, from the awarding of contracts, to the monitoring of operations, to the collection of taxes, to the sound distribution of revenues, and finally to the implementation of sustainable development projects, as depicted in Figure 6.1.

Figure 6.1 : Chain of Management of Natural Resources



6.3 Sustained economic development from the extractive industries emerges from "beginning with the end in mind", recognizing that non-renewable resources must be transformed into sustainable activities that diversify and decentralize the economy beyond mine closure. Sustainable development investments in social and physical infrastructure must be lasting.

6.4 Sustainable development for producing regions is most effective when it is community-driven; using policies and frameworks that target poverty reduction through lasting tripartite (government, industry and civil society) partnerships. Whereas revenue distribution and management deal with a government's efficient use of monetary benefits, sustainable development is about rational spending choices that communities and regions make through informed consultation and local participation. Good spending choices rely on good governance reinforced by local capacity building, facilitating transparent reporting and regular auditing of expenditures so that feedback guides future decisions.

⁴¹ "Extractive Industries Value Chain - An Integrated and Comprehensive Approach to Developing Extractive Industries" - a COCPO forthcoming publication.

6.5 In addition to large-scale commercial mining, in many countries, including Liberia, small-scale artisanal mining employs large numbers of people. This sector often provides major challenges with largely unrecorded production, poor conditions, and a variety of environmental and social problems arising from artisanal mining activities. Due to its large employment potential, much can be done to reduce poverty by supporting and increasing the productivity of artisanal miners. For governments it is important to develop and organize small-scale and artisanal mining sector with an objective to generate employment and improve livelihoods in rural areas.

THE LIBERIAN MINING INDUSTRY

6.6 The geological configuration and style of mineralization of the country are similar to those of neighbouring Sierra Leone and Guinea. Iron ore, diamonds and gold are the most important mineral resources. Other mineral resources present in the country are base metals (copper, zinc), platinum group metals, uranium, columbite-tantalite (Coltan), bauxite and phosphate.

6.7 Iron ore mining was at one stage Liberia's economic mainstay contributing as much as 64 percent of total exports which provided nearly 25 percent of the country's GDP. For a number of years before 1979 the country was the second largest producer and exporter of iron ore in Africa. Iron ore production and exports ranged between 12 and 24 mt per year during the period 1964 to 1989 which was the last year of any significant extraction. Due to the decline in the world steel market in the mid 1970s and early 1980s, and the depletion of its high-grade iron ore reserves, the Liberian iron industry suffered severe setbacks. Three major producers closed down their operations due to technical and financial problems:

- the Bomi Hills operations of Liberian Mining Co. (MLC) in 1977
- the Mount Nimba and Western Area operations of the Swedish American Minerals Company (LAMCO) in 1983. Mining operations at the two sites continued however until 1990 conducted at a very reduced level by Iron Mining Co of Liberia (LIMINCO), and
- the Mano River Mine of National Iron Ore Co. Ltd. (NIOC) in 1983

6.8 Only the German-Italian Bong Mine remained active until it was occupied by a warring faction in 1990. Foreign investors are now returning to the iron ore sector. However, until the resumption of iron ore mining in 2010 or 2011, small-scale/artisanal mining of gold and diamonds will remain the only significant mining activity in Liberia.

6.9 To date all diamond production in Liberia has come from artisanal alluvial mining. Exports of rough diamonds peaked in 1960 at almost 950,000 carats but it is suspected that these statistics included diamonds smuggled into Liberia from neighboring countries in search of hard currency, Liberia being a US\$ currency zone. Between 1980 and 1990, production ranged from 400,000 to 150,000 carats per year, a level probably better reflecting the true domestic artisanal extraction capacity. On average, 25 percent of Liberian diamonds are rated to be of gem quality, 40 percent near-gem, and 35 percent industrial. Thus diamond production capacity may be similar in volume to that of Sierra Leone, but of somewhat lower quality.

6.10 Annual production of gold has been lower and is currently estimated at not more than 30 kilograms. Until two industrial scale gold mines come on-stream, all gold extracted in the country will be alluvial artisanal gold.

6.11 Since the beginning of the year 2007 prospecting and mining activities have visibly picked up and generated almost US\$2 million for the MLME from surface rental and license fees.

Currently 26 exploration companies are holding 53 licenses. The MLME is expecting to issue 44 more concessions in the year 2008.

Table 6.1: Mining licenses, other fees and payments, 2007

Activity	Revenues (US\$ 1,000)
Mining License Fees	589
Exploration License Fees	979
Royalties	202
Survey Fees	12
Penalties	3
ArcelorMittal MDA Payment*	3,995
Total MLME Revenues (January – November 2007)	5,780

*payment to three counties affected by the mine

Source : Ministry of Land, Mines and Energy

The Iron Ore Sector

6.12 Considerable reserves of low-grade iron ore reserves remaining at the sites of the abandoned iron ore mines, and contained in not yet developed deposits such as Wologisi, Putu Range, Bea Mountains, and Goe Fantro constitute the basis of the Liberian iron ore sector. Liberia's remaining iron ore reserves are estimated at almost 3 billion tonnes.

Table 6.2: Iron Mines and Estimated Reserves

Deposit	Title Holder	Duration of earlier mining	Type of iron ore	Remaining Reserves (mil. tons)	Ore Grade (% Fe)	Earlier annual production (mil. tons)
Bomi Hills (Western Cluster)	Feasibility study to award lease is ongoing	1951-1977	Hematite, Magnetite	50	36 - 55	3.0
Mano River (W. Cluster)	Feasibility study to award lease is ongoing	1958-1983	Canga / Limonite	100	46 - 58	3.5 – 5.8
Bea Mountain (W. Cluster)	Feasibility study to award lease is ongoing	Undeveloped	Magetite, Hematite, Limonite	400	30 - 55	--
Bong	Bids being collected	1965 -1990	Itabirite	290	35 - 45	7.5
Mt. Nimba / Western Area	ArcelorMittal	1963–1983 (LAMCO) 1990: LIMINCO	Itabirite	450	52 - 69	12.0
Wologisi	BHP Billiton	Undeveloped	Hematite	> 1,000	35 - 40	--
Putu Range	Mano River Resources	Undeveloped	Itabirite	460	45	--
Goe Fantro	BHP Billiton	Undeveloped	?	50 (?)	40 - 45	--

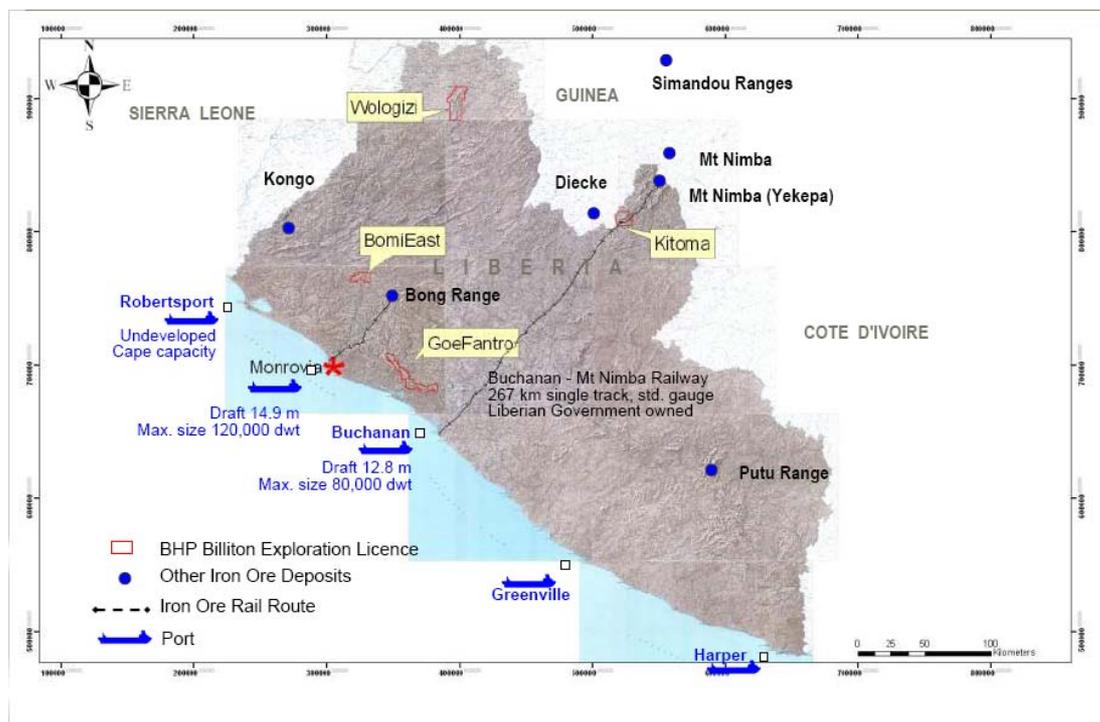
6.13 Liberian iron ore deposits are located relatively close to the coast (50-270 km.), and the former iron ore producers established a comprehensive railroad and deep-sea port infrastructure. This represents a major advantage for new mining title holders who will be in competition with

iron ore mines to be developed in Guinea, Senegal, and Gabon which are situated 500–1,000 km from the coast and require the construction of new dedicated, deep-sea bulk ports.

6.14 Nonetheless, major rehabilitation is required. In 1990, after the beginning of the civil war, all railroad traffic ceased and the rail lines were progressively dismantled and sold as scrap. Since then only the Bong Line has been rehabilitated by AmLib United Minerals for the transport of commuters and agricultural produce to Monrovia. The line between Yekepa (Mt. Nimba) and the iron ore port of Buchanan will be rehabilitated in the course of the rehabilitation of the Mt. Nimba mining operations.

6.15 All iron ore port facilities at Monrovia and Buchanan were destroyed and looted. Both iron ore terminals need comprehensive rehabilitation, modern equipment and intensive training of future staff because of the loss of technical expertise during the war. The ports of Monrovia and Buchanan have to be dredged to depths allowing the handling of large Cape-size ore carriers (120,000 – 240,000 DWT). A new iron ore port is to be built in the vicinity of Robertsport in the western part of the country for the handling of ore to be produced at Wologisi and the Western Cluster, respectively.

Figure 6.2 : Location of Iron Ore Mines and deposits



Source: BHP Billiton

6.16 The rehabilitation of the port facilities at Buchanan and of the Buchanan–Yekepa railroad infrastructure by ArcelorMittal will open the possibility of connecting this rail line to the planned iron ore mines of Simandou and Nimba in neighboring Guinea with a projected annual production in the order of 60 million tonnes. However, current agreement is structured such that ArcelorMittal has the right of first refusal. The capacity of the rehabilitated rail to carry additional cargo is not substantial and the government is discussing the possibility of a parallel track using the same corridor to serve other needs (mining and non-mining) in the region.

6.17 Two of the former mining companies, i.e. the Liberian Swedish Minerals Co. (LAMCO) and the Bong Mining Co. (BMC), respectively, operated pellet plants in the country because of the high proportion of fines in their concentrates which hampered the agglomeration of their saleable products in the sintering plants of the European steel mills. The complex nature of the remaining Liberian iron ore reserves will very likely require that all future iron ore mining companies convert a considerable part of their ultra-fine concentrates locally into blast furnace pellets. The eventual discovery of petroleum or natural gas in the country would therefore considerably contribute to the development of an integrated iron ore export industry.

6.18 With the increasing world demand for iron ore driven by the rapid growth of the Chinese steel industry and the currently high level of iron ore prices, the international iron ore mining industry is actively seeking additional sources of supply. As iron ore prices rose from 0.30 US\$/mtu (metric ton unit Fe) in 2000 to about 0.40 US\$/mtu in 2004, four international mining companies submitted bids that year to revamp and re-commission the former LAMCO mines in the Liberian Nimba Mountains.

6.19 Iron ore prices have since further increased driven by strong demand for steel and the magnitude of the price increase for 2008 reflects the continuity of very tight conditions still prevailing in the global iron ore market. In March 2008, Companhia Vale do Rio Doce (ex-CVRD, but now « Vale ») of Brazil, the world's largest iron ore producer, and ArcelorMittal Sourcing S. A., the world's largest steelmaker, concluded new reference prices FOB Brazil for 2008 with a price hike of 65 percent over the 2007 level to 1.3441 US\$ per dry metric ton Fe unit. In June 2008, China agreed to almost double the price it pays Rio Tinto. At these prices, all future Liberian iron ore operations are likely to be highly viable financially.

6.20 In December 2006, ArcelorMittal was awarded the mining rights to exploit the remaining Mt. Nimba reserves and to operate the railroad system and its ore port at Buchanan. ArcelorMittal estimates the investment required at roughly US\$ 1.5 billion over the next five years. The investment is expected to create 3,500 direct jobs, mainly at the mine site in Yekepa, and up to 20,000 indirect ones. The company has begun hiring local and international personnel and has launched a housing program at both the future mine site and the Port of Buchanan. According to the Mineral Development Agreement (MDA), iron ore mining operations are to recommence by 2010, but the company's development schedule must be considered optimistic. The world-wide boom in mining has resulted in long lead times for the delivery of many capital goods such as mining equipment. The end of 2011 may be a more realistic target.

6.21 The conclusion of an MDA with ArcelorMittal, the world's largest steel manufacturing company, marked the revival of the large scale iron ore mining industry in the country. However, it was not without its problems as the original Agreement had to be renegotiated to obtain more favorable conditions for the Government following the recommendation of the Public Procurement and Concessions Review in 2006. With the help of outside technical advice, this was successfully achieved. Among the major changes was the requirement that the export price for transactions with affiliated companies be set on an arm's length basis using international market prices to avoid tax evasion through transfer price manipulation. In addition, the income tax holiday was eliminated.

6.22 In its Section 9.22, the New Mineral and Mining Law provides for the acquisition of an equity interest free of charge by the Liberian Government in all Class A licenses equal but not less than 10 percent and/or not more than 15 percent of the operation's share capital. In the ArcelorMittal agreement, however, the Liberian Government acquired a 30 percent equity interest in the rehabilitation project by contributing mineral rights, assets, and infrastructure.

6.23 The Government acquisition of a substantial equity participation in the ArcelorMittal rehabilitation project is not likely to generate noticeable dividends before it will have attained its planned production capacity, which could realistically take more than 7 years. However, the Government will have to contribute considerable funds as a result of the inevitable cash calls arising from its equity participation in the course of the development phase of the project, or see its participation being reduced proportionately if it is not able to raise the necessary finances. Also problematic are the unavoidable conflicts of interest originating from the Government's role as regulatory Authority in charge of the technical, social and environmental supervision of the future operations, and its financial objectives as an equity shareholder and investor.

6.24 While some public participation may have been necessary in the post-conflict environment in order to reassure the investor, the Government would be advised to develop a clear exit strategy with divestiture of shares once the situation has stabilized. Instead of getting involved in the management of complex industrial ventures, the Government might be better off promoting a favorable business climate, introducing a consistent regulatory framework for the mining sector and concentrating on transparency and relations between the mines and local communities.

Diamond Mining

6.25 Diamonds occur in two principal areas in Liberia:

- within a relatively large area (60 x 120 km) in the western part of the country along the western border with Sierra Leone between the Lofa River and the Mano River where practically all river systems carry diamonds and host extensive areas of artisanal diamond workings. This part of Liberia is underlain by the Archean Mano Craton making it possible to contain diamondiferous kimberlites, the primary source of diamonds.⁴²
- in alluvial gravel terraces about 50 km south of the Nimba Mountains in the northern part of the country in the vicinity of the Guinean border with a geological structure similar to that encountered in the western area.

6.26 Diamond mining and exports were suspended by the UN Security Council Resolution 1343 of 2001 in order to stop proceeds from the sale of so-called "blood diamonds" considered to be financing the war in various countries. The present Government introduced an appropriate monitoring scheme in compliance with the requirements of the Kimberley Process, an international diamond certification system, established in the 2000, to track the origin of diamonds in the international market. As part of the process, the Government established a Diamond Valuation and Certification department in the MLME and field inspection offices in the diamondiferous areas of the country manned by specially trained mineral inspectors. The UN then lifted the ban in April, 2007, and in May 2007 Liberia was granted the preliminary Kimberley Process certification. A Liberian moratorium on diamond mining was lifted in July 2007 and the MLME issued 12 prospecting licenses, 105 Class C diamond mining licenses and 2 Class B diamond mining licenses in the period August–October 2007.⁴³

⁴² Survey results are not yet conclusive as to whether the quality of kimberlites is sufficient for industrial scale mining.

⁴³ As of November 2007, MLME's Office of Precious Metals had issued 9 certificates for 2007 covering 14,632.05 carats valued at US\$ 1,848,265.28.

6.27 Exports are expected to grow fairly quickly to 200,000 carats per year and could reach 400,000 carats or more in a few years.⁴⁴ Even using a conservative average price of \$100 per carat, diamond export earnings could reach US\$ 40 million. The KCPS implementation, however, has been slow for various reasons including the requirement to bring in actual stones for certification, putting miners at security risk (in other countries, a paper trail is sufficient) and the overlap of new certification facilities with traditional mine wardens systems.⁴⁵ Artisanal diamond mining is an important source of jobs, providing 90 percent of employment in some rural areas.⁴⁶ The total number of people involved in diamond and gold mining is estimated at 100,000.

Gold

6.28 The MDA concluded in 2004 between the NTGL and Western Mineral Resources, a subsidiary of Mano River Resources, covering a concession with primary gold bearing geological structures in the Bea Mountains, still remains to be renegotiated in compliance with the recommendations of the Public Procurement and Concessions Commission (PPCC). This property is on the site of major alluvial workings and Mano announced that it had identified a resource of approximately 3 million tonnes of gold ore at a grade of approximately 5 grams of gold per metric ton. The future mine is very likely to be called Liberty Gold. A second MDA to be agreed between the Liberian Government and AmLib United Minerals concerning the Cestos primary gold project in the North of the country is currently being processed by the PPCC. In the course of the year 2007 activities in the gold sector have gained momentum and the MLME issued 57 gold prospecting licenses, 153 Class C gold mining licenses and 22 Class B gold mining licenses during the period January – October.

Petroleum

6.29 Liberia's offshore territorial waters and exclusive economic zone contain various promising oil-bearing structures. However no offshore exploration activity has taken place in the country since 1985. Before 1985 only 7 exploration wells were drilled in shallow waters all being dryholes. The search for oil started again in 2001 when an offshore seismic survey for oil was carried out by TGS-NOPEC, a Norwegian-USA company. An additional seismic study of the shelf was commissioned in 2004 by NOCAL, the parastatal National Oil Company of Liberia. Potentially petroleum-bearing structures were detected in the west and east of the shelf.

6.30 In 2004 the country offered 17 blocks for international companies to acquire licenses for oil exploration. Eight blocks – all located in the western part of the shelf - were assigned to 5 foreign companies and Production Sharing Agreements (PSAs) were concluded. In November 2007 NOCAL launched the second bid round for 10 blocks situated in ultra-deep waters (3,000 m). Exploration drilling agreed on in the ratified PSAs had not yet begun as of mid-2008.

THE LEGAL AND REGULATORY FRAMEWORK

6.31 The legal and regulatory framework for the Liberian mining sector comprises the following major cornerstones:

⁴⁴ These estimates are taken from a US Geological Survey report and are broadly consistent with assumptions made by the IMF in its growth forecasts.

⁴⁵ A Kimberly Process mission took place in April 2008 and recommendations will be made available soon.

⁴⁶ UNDP, Poverty and Social Impact Assessment on Artisanal Diamond Mining.

- the Mineral Sector Policy (under preparation)
- the New Minerals and Mining Law approved on 3 April, 2000
- Mining Regulations in accordance with chapter 21. Regulations of the New Minerals and Mining Law
- the Public Procurement and Concessions Act approved 8 September, 2005
- the Revenue Code of Liberia approved 15 December, 2000
- the Investment Incentive Code of 1973
- individual Mineral Development Agreements (MDAs)

6.32 In addition, Liberia has subscribed to the Extractive Industries Transparency Initiative (EITI).

Box 6.1 : The elements of a legal and regulatory framework for the mining sector

The legal and regulatory framework for mineral sector is typically comprised of the following major elements:

Mineral Sector Policy provides a tool to monitor and report on the mining sector's contribution, create a competitive business environment, and establish a framework for the equitable sharing of resource rents.

Mining Law defines the rights and obligations of holders of mineral rights towards social and environmental management plans, fiscal and regulatory obligations, and provisions for mine permitting and mine closure.

Mining Regulations define specific procedures by which mineral rights are acquired, transferred, rescinded, or modified.

Mineral Development Agreements (MDAs): Major projects often require a special agreement to clarify terms and conditions regarding schedules of investment, mine closure and land reclamation, the use of shared infrastructure, and the economic, environmental, and social contributions of the mine to the region.

Mineral Sector Policy

6.33 A Mineral Sector Policy does not have the force of law but rather serves as a set of guiding principles for both the Authorities in charge of the mining sector and potential investors. From the Government's point of view a published mineral policy can be used to clarify the country's regulatory framework in its efforts to ensure that mining supports its development goals. The potential investor appreciates a formal mineral policy as it will be seen as imposing some degree of discipline on all government bodies in the formulation and enforcement of laws and regulations. At the very least, a formally adopted national mineral sector policy would send a strong signal to the private sector domestically and abroad that the government recognizes the importance of mining and that it is open for fair and transparent business.

6.34 A draft Mineral Policy of Liberia is now available. The draft document responds well to the aforementioned requirements covering practically all aspects of the mining industry from the exploration phase through to post-mining phase after mine closure. However, in Section 4 on the "Regulatory Framework" it is stated that "the principle of first come first served will form the basis for conferring mineral rights". This statement is in line with the New Minerals and Mining

Law and reflects international practices for green field projects, however, it has to be reconciled with the stipulations of the Public Procurement and Concession Act of 2005 which does not provide for the “first come first served” principle.

6.35 It might also strengthen the infrastructure development linkages for large-scale mining; specify measures to increase the local economic impact of mining through the promotion of value-added activities and mining cluster development, strengthen the strategy toward artisanal and small scale mining, and emphasize the need for benefit sharing at the local level.

New Minerals and Mining Law of 2000

6.36 The New Minerals and Mining Law (NMML) of 2000 addresses many important aspects of the mining sector. Despite its relative completeness, it is recommended to integrate into the NMML complementary provisions dealing with the impact of envisaged mining activities on local communities including adequate consultation processes prior to the issuance of licenses, benefit sharing between the State, the affected communities and the mining companies, and fair compensation for temporary and eventual occupation of community land and financial and/or social disadvantages stemming from the future mining operations. The absence of pre-determined mechanisms leaves communities exposed to social impacts without compensating benefits. There needs to be a framework for mine closure and unexpected environmental damages. Licensing procedures need to be adjusted in line with procedures employed in the sub-region and in line with the new mining cadastre information management system.

6.37 Since the passing of the Public Procurement and Concessions Act (PPCA) in 2005 important parts of the NMML, including the provisions concerning the issuance of exploration and mining concessions and the promulgation of Mining Regulations, are superseded by the provisions of the PPCA.

6.38 Another problem arises in section 17.8 which offers holders of mineral rights the opportunity to apply for investment incentives to be granted by the National Investment Commission under the provisions of the Investment Incentives Code. However, these provisions have been superseded by the Revenue Code of Liberia of 2000 which prevents the grant of further incentives that are not specified in the RCL. All fiscal conditions referred to in chapter 17 should be deleted - with the exception of a revised and completed clause referring to royalties - and included in the Revenue Code.

6.39 The fiscal terms for the mining sector are currently governed by at least three different laws, i. e. the NMML, the PPCA, the Revenue Code and necessarily by mineral agreements for individual projects. The various laws and the inconsistency of their respective provisions have led in the past to negotiations over each individual exploration or mining project and resulted in terms differing from case to case, thus resulting in a high level of uncertainty for the potential holders of mining titles. The IMF has undertaken a review of mining taxation and the Government has accepted its recommendations.⁴⁷ Revisions of the NMML (royalties and fees) and the Revenue Code (mining taxation) are under way.

6.40 Finally, it is recommended to review the provisions and the wording of the entire NMML taking into account the evolution of regulatory frameworks since the year 2000 reflecting the technical, financial and social developments in the international mining industry, while rapid actions have to be taken to harmonize the variety of laws governing this sector.

⁴⁷ IMF, Liberia: Reforming the Fiscal Terms for Mining and Petroleum, September 2007.

Mining Regulations

6.41 Chapter 21 of the New Minerals and Mining Law of 2000 requires the Ministry of Land, Mines and Energy to issue Mining Regulations concerning a number of issues connected with either exploration or mining activities, e. g. safety, environmental protection, rights of owners or occupants of land affected by exploration and mining activities, the relations between exploration and mining operators and the public infrastructure, etc. Currently a serious gap prevails in the mining regulatory framework as no Mining Regulation has so far been issued by the MLME addressing these issues.

6.42 The absence of the required Mining Regulations is especially important in relation to the matter of royalties. The NMML establishes royalties for minerals in a range of 3 – 10 percent but requires the MLME to set out the precise rates and the pertinent base for each charge in a regulation. It is therefore recommended to set precise royalty rates in accordance with international standards and levied on the value of the mineral FOB Liberian export port in the form of a gross revenue royalty where the royalty is determined with reference to gross sales value. Where no sales prices realized by arm's length negotiation are available, international reference prices should be applied as a base for royalty calculations. In this context, it is further recommended that Liberia adopt the OECD guidelines for transfer pricing and require the mining companies to disclose terms of transactions with affiliated companies for reasons of taxation. Clarification is needed as to whether the Government is entitled to lower or raise royalty rates, and to which extent, taking into consideration the possibility of widely fluctuating commodity prices in international raw materials market.

The Public Procurement and Concession Act

6.43 After taking office the present Government of Liberia took a number of actions aimed at strengthening the performance of the Liberian economy and its public finances. These measures included the passing by the National Transitional Legislative Assembly in 2005 of The Public Procurement and Concessions Act (PPCA). s to maximize efficiency in procurement and obtain best value for public expenditures, and promote integrity, fairness, accountability and public confidence in the public procurement process.

6.44 The Act established a body to be known as the Public Procurement and Concessions Commission which was assigned the oversight responsibility for all public procurement and concessions in accordance with the Act.

6.45 The Act also applies to the issuance of concessions in the mineral and mining sector (Section 75 (1) (b) i.). Since its enactment this Act supersedes any other law and instrument guiding public procurement and concessions. In accordance with its section 141 (2) (c) the PPCA therefore also affects the New Minerals and Mining Law approved in April 2000 as follows:

- the interpretation, operation and application of the New Minerals and Mining Act in respect of concessions is now subject to the provisions of Part IV of the Public Procurement and Concessions Act (General Provisions on Procurement Procedures)
- the entitlement or eligibility to mineral rights under sections 4.1 and 4.2 of chapter 4 of the New Minerals and Mining Act are therefore subject to the provisions of Part VI of the Public Procurement and Concession Act.

- any powers granted to the Ministry of Mines, Lands and Energy under the New Minerals and Mining Law under sections 21.2 and 21.3 of that Mining Law are hence subject to the provisions of the Public Procurement and Concessions Act and shall only be exercised in consultation with the Public Procurement and Concession Commission, and “any regulation issued by the Ministry of Mines, Land and Energy in respect of concessions shall to the extent of any inconsistency with the Public Procurement and Concession Act be void”.
- any power granted any person, body or entity in respect of mining, exploration or the extraction of any natural resource can hence only be exercised in accordance with Part VI of the Public Procurement and Concession Act (Specific Procedures for Processing Concession Agreements)

6.46 The PPCA corrects an essential deficiency of the implementation of the New Minerals and Mining Law of 2000: section 21.1 of that law requires the MMLE to define the scope and nature of measures and forms required for a number of aspects including the granting of mineral rights. No regulations have so far been promulgated and the absence of such ordinances could have left the processing of applications for mineral rights open to discretionary decisions on the part of the Ministry.

6.47 In 2006, the PPCC conducted a review of existing mineral rights agreement which resulted in the confirmation of the validity of 37 exploration agreements and the recommendation to renegotiate the terms of 2 mineral development agreements and to cancel 4 remaining agreements. The objective of the review was to determine whether or not the applications for the issuance of contracts and licences were processed in a transparent manner and in line with international standards. The PPCC succeeded in renegotiating the conditions of the original mineral development agreement with ArcelorMittal concerning the minerals rights at Mount Nimba, the railroad system, and the port facilities at Buchanan.

6.48 In accordance with the PPCA, the issuance of mineral exploration licenses was originally to be carried out through the compulsory competitive tendering process. However, the New Minerals and Mining Law used the “First come, first serve” system of allocation (section 5.3) which is generally considered to be best international practice. The MLME acknowledges that tendering for exploration licences is widely and successfully applied in the international petroleum industry, but has so far not been used with great success for undeveloped deposits in the solid minerals industry as it is generally time consuming, expensive and associated with only a limited chance of success. Thus an interim procedure has been put in place by the Ministry in agreement with the PPCC while the harmonisation of the laws is being prepared. The interim procedure reduces the time necessary to grant an exploration license to 2 months compared with 6 – 7 months under the PPCC procedure. However, this procedure is not fully in line with international practice and has not been used for new licenses in Liberia as of today. In general, the provisions of the PPCA and the New Minerals and Mining Law have to be harmonized as early as possible to ensure consistency of their respective rulings on concessions.

6.49 The PPCA allows that “the continued validity of any contract, order, decision or anything done or made by a body which was charged with the performance of the functions under the Public Procurement and Concessions Act until the coming into force of this Act violates any law, order, or decision the PPCC may take the appropriate steps to rectify the inconsistency”. The review of existing contracts and concessions based on the sole opinion of the PPCC – and not on the ruling of a competent court - is not in accordance with international practice. The review process was justified by the authorities because of the exceptional circumstances prevailing during the

civil war and the collapse of the rule of law, and they have insisted that it must be considered a one-time event which does not establish a precedent or legal justification for reviewing, rectifying or abrogation of contracts by successive Liberian governments. It will be important to honour this commitment.

Revenue and Investment Codes

6.50 The Revenue Code of Liberia approved 15 December 2000 contains fiscal and taxation rules of general application but explicitly reserves Chapter 7 for rules on the taxation of the natural resources industry to be included in Phase II of the Tax Reform Program. It is recommended that Chapter 7 be completed expeditiously in order to facilitate the harmonisation of the diverse laws governing the activities of the mining sector.

6.51 The Code currently in force was amended in 1973, but the Public Procurement and Concession Act superseded its provisions in 2000 preventing the grant of further incentives that are not specified in the Revenue Code. The NMML however still contains section 17.8 which refers to the availability of investment incentives for the mining industry. This clause should be deleted in the course of the harmonisation of laws impacting the mining sector.

Mineral Development Agreements

6.52 The New Minerals and Mining Law of 2000 require the Ministry of Mines to conclude either a Mineral Exploration Agreement (MEA) or a Mineral Development Agreement (MDA) with a future holder of mining rights prior to the issuance of either an Exploration or a Mining License. For the moment, both are covered under MDAs though it would be preferable to separate the two. Since the enactment of the PPCA, the provisions of the NMML governing the issuance of concessions/licenses are superseded by the provisions of the PPCA. In the case of a Mineral Exploration Agreement, the NMML does not require the inclusion of fiscal arrangements whereas the Mineral Development Agreement for a Class A Mining License must contain the mutual fiscal and tax obligations of the parties to the MDA.

6.53 A comprehensive regulatory framework for the mining sector would drastically simplify the role of the mineral agreement. All essential terms and conditions of regulatory, fiscal and legal character concerning either exploration or mining licenses would be contained in the Mining Law and its pertinent Mining Regulations. With the submission of an application for a mining title, the potential holder of the requested mining right would accept the obligations and rights connected with such exploration or mining license which would be equal for all applicants. The role of the State would evaluate whether or not the application was in compliance with the NMML and general legislation, and then focus on important non-financial matters – e.g. health and safety, social and environmental impact.

6.54 The instrument of a mineral agreement reduces the State's role from that of a regulatory Authority to that of a contractual partner of a private company, both partners being bound by the provisions of the country's civil law which could in the case of disputes lead to a confrontation in ordinary courts at equal level or arbitration proceedings involving an International Chamber of Commerce selected by the partners of the mineral agreement. Furthermore, as the MDA must be ratified by Parliament, even trivial amendments have to be submitted to the PPCC and Parliament for approval to enter into force.

6.55 However, as a result of the absence of specific wording of the stipulations contained in NMML and the lack of Mining Regulations clarifying and interpreting the clauses of the NMML,

the State is currently constrained to conclude agreements on a par with private mining companies applying for the issuance of mining titles in order to agree on regulatory, legal, fiscal, and financial issues (e.g. royalties, among others), not addressed in the current regulatory framework. The need to negotiate the conditions of practically every application for either an exploration or a mining license case by case leaves the Government with the requirements of a considerable and time-consuming administrative effort, of substantial negotiating skills, and the experience with and intimate knowledge of this kind of public/private partnership and its potential pitfalls which might hardly be available in Liberia after the long interruption of middle and large scale mining activities.

6.56 The public procurement and concessions review conducted under the Public Procurement and Concessions Act of 2005 only evaluated contracts concluded and concessions allocated under the transitional government in the years 2003 – 2006. Mineral Agreements concluded before that date were ruled valid. As a result 37 MEAs were confirmed to be valid, two MDAs for Class A mining licenses recommended for renegotiation and another four MDAs for abrogation. In the petroleum sector eight PSAs were concluded in 2004. PSAs for three blocks were successfully renegotiated in 2006 and two more in 2007.

6.57 After the successful renegotiation of the original ArcelorMittal MDA, the Government is currently faced with the recommended renegotiation of the MDA with Western Mineral Resources, the negotiation of two future successful awards resulting from the tendering process for the Western Cluster iron ore complex and the Bong Mine deposit, respectively, and the possible conversion into MDAs of a number of promising licenses in the exploration sector comprising currently 37 concessions. Furthermore in the oil sector three PSAs (Repsol and Woodside) have to be renegotiated.

6.58 The experience gained in the course of the successfully renegotiated ArcelorMittal MDA will undoubtedly facilitate the drafting of model MEAs and MDAs which is currently under way. As of November 2007, the model MEA was still in a very rough draft, while the model MDA not yet available. The fiscal terms referred to in Section 24.3 of the draft MEA had been deleted.⁴⁸

6.59 The legal evaluation of the draft model MEA showed that the provisions for the potential cases of Force Majeure are seriously deficient and have to be reworked by an experienced arbitration consultant (Section 18.0). This Section of the draft MEA only refers to the case of the operator suffering from a case of Force Majeure. It is however reasonable to assume that the Government might also find itself in such a situation. No procedure is established for the case that either partner to the MDA requests the other partner to agree that the contract is in a situation of Force Majeure or that such situation of Force Majeure no longer persists. Neither is a procedure established for dispute resolution if the partners disagree on either the emergence or the cessation of an event of Force Majeure. Unclear and/or incomplete Force Majeure rules in Mineral Agreements are likely to lead to lengthy arbitration processes, as in the case of Republic of Burundi vs. Argosy Minerals.

6.60 The procedure proposed for Arbitration (Section 29.0) cannot be considered to be best practice either as it does not establish a well-defined dispute resolution process below the level of either the arbitration tribunal (Section 29.3) or the so-called Single Referee (Section 29.4). Best practice agreements would, in contrast to the Liberian draft model MEA or MDA, provide that all

⁴⁸ Perhaps following the recommendations made by the IMF Fiscal Affairs Department in its aide-mémoire of September 14, 2007.

disputes – and there will be disputes practically almost every day over technical, financial, and administrative issues – be resolved by Dispute Resolution Boards (DRBs), the permanent members of which will be agreed upon and appointed by the partners to the Agreement. It is therefore recommended to have the proposed arbitration clause modified by an experienced dispute resolution specialist.

Liberia Extractive Industries Transparency Initiative (LEITI)

6.61 EITI is a global initiative which supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. The Liberian government has shown strong commitment for this initiative, and Liberia became an EITI candidate country in 2007. It is overseen by the LEITI Steering Group, chaired by the Minister of Finance, and contains representatives from Government, civil society groups, private sector and development partners. A memorandum of understanding was signed between these members in early 2008. The Government aims to include EITI in legislation governing the extractive industries, and is considering drafting a separate law to govern reporting requirements under EITI.

6.62 As part of its commitment to EITI, Liberia will publish, on an annual basis, all public revenues received by the government from mining, petroleum and forestry, verified against the payments that each company reports making to the government. This report will subsequently be vetted by civil society through stakeholder consultations.

6.63 The aim of this initiative is to improve the governance of extractive industries, particularly mining and petroleum, by demonstrating a national commitment to transparency, increasing public scrutiny of revenue collection, and helping to establish a constructive dialogue between the government, civil society and private sector around extractive industries.

6.64 Liberia's commitment to EITI and progress to date is commendable, and partners should continue to encourage strong progress on EITI. The IMF and World Bank have included a benchmark on LEITI progress as one of the HIPC triggers, which adds additional incentives for the Government to rapidly make EITI fully operational. However, the EITI mandate is narrow and focuses solely on reporting of revenues, which is one link in the longer resource management chain. Continued focus on the legal framework, monitoring of mining activities, and revenue management is necessary to ensure that the extractive industries contribute to sustainable development.

Regional Cooperation

6.65 Given the actual and potential development of large mineral projects in all the countries of the Mano River Union (Guinea, Sierra Leone and Liberia), there are important synergies and linkages to be achieved from coordination between these countries. Officials from the three countries have met as a follow up on the Regional Mining Forum in Conakry in February 2008 and agreed on a common approach to solving some of the challenges including: (i) the harmonization of fiscal, legal, and regulatory regimes to avoid unhealthy competition among the countries to attract mining investments and opportunities for arbitrage by mining companies given varying rates of royalties and other taxes on the same minerals, (ii) introduction of measures at the regional level to capture and promote cross-country synergies from mineral-sector driven infrastructure development and industrial service clusters, and (iii) the importance of transparency measures in the discussed reform agenda. It will also be useful to coordinate in the area of small-

scale diamond and gold mining in order to reduce smuggling and strengthen implementation of the Kimberley process.

SMALL-SCALE MINING

6.66 In the excitement over the relaunching of modern, large-scale mining and huge investment deals, it is essential not to overlook the needs of the artisanal mining sector which employs far more people, most of whom are very poor. A Poverty and Social Impact Assessment on Artisanal Diamond Mining has recently been completed and it offers a comprehensive strategy for addressing the key issues. While focused on diamonds, most of its recommendations are also valid for small-scale gold mining. Its conclusions are reprinted here in Box 6.2.

Box 6.2 : Poverty and Social Impact Assessment on Artisanal Diamond Mining

Artisanal diamond mining has potential to contribute to gainful employment and to increased foreign earnings. But viability is threatened by free-for-all illicit mining by Liberians and foreigners. There are technical and financial constraints, inadequate policy and legal framework on land and environmental management and lack of capacity to enforce regulatory guidelines. There are unmitigated environmental impacts and inequitable sharing of benefits. All these inhibit meaningful contribution of mining to poverty reduction.

Small-scale miners' concerns:

Capital

- Inadequate tools and equipments
- Unavailability of credit and other sources of capital to miners
- Affordability of license and survey fees due to war and sanctions

Benefit sharing

- Unfair trading practices by brokers - underpayment for stones; no independent or authorized standard of valuation; broker-determined pricing
- Limited knowledge of and access to mining law and other mineral policies
- Diamond theft by diggers/diamond boys
- Financial support received restricts miner's freedom to choose buyer

Technical know-how

- Limited entrepreneurial/managerial know-how for miners
- Unavailability of technical and financial assistance

Regulatory measures

- Shortness of license duration and dispossession of claims by foreigners
- License requirement as condition for compliance to KPCS indirectly encourages illicit mining and smuggling
- Difficulty in accessing some of the regional offices for authentication of diamond due to very limited flow of motor traffic and far distances
- Re-demarcation of claims already surveyed
- Threat of dispossession by large scale mining companies

Proposed strategy:

An immediate challenge is to improve participation in the Kimberley Process. The proposed Diamonds For Development (D4D) program can start with measures that facilitate compliance such as deputizing local buyers. Another is to respond to miners and diggers need for improved access to credit, technology, information, prices and markets. Support is leveraged to strengthen good practice among mining cooperatives and unions. In turn, these organizations provide a framework for transparency and good governance within the diamond industry.

Change needs to be facilitated. It can be difficult without external support due to various barriers to participation, lack of start up capital, and the low cost of non-compliance. This makes resource generation and coordination an important activity for D4D. Funds raised in coordination with donor agencies can be augmented with resources from existing programs – such as by integrating initiatives for miners and communities into existing plans and programs on poverty reduction, disarmament and environmental management. Low-cost investments can also be supported. An example is for improved technology for washing gravel which could double productivity. While new partnerships shall be developed such as with banks and non-traditional credit sources, more equitable sharing within the industry shall also be promoted.

Thus, development of sustainable mining shall be based on a shared vision. The strategy builds the stake of all concerned in the process of reform. It means institutionalizing social accountability and stakeholder participation in MLME's operating procedures. In turn, mining unions and cooperatives are encouraged to practice self-regulation. Coordination with local government, immigration and local police improves enforcement of mining, land management and immigrations laws. Cooperation with agencies, civil society and NGOs in the implementation of community development plans in areas where they operate empowers communities to address their needs. Moreover, recognition of land rights of tribes and landowners gives them a stake in helping implement environmental and mining laws.

Policy review shall treat the poverty/security/environmental linkages in mining. An updated Mining Code with implementing guidelines for small scale mining can clarify requirements and procedures for good practice in artisanal diamond mining. It can be a step towards coordinated management of competing land uses - for instance, between large and small scale mining and between mining and forestry or agriculture lands. On the other hand, agriculture plantations tend to result in the expansion of artisanal mining into environmentally critical areas such as in the Sapo National Park. These suggest the value of an integrated plan to also explore alternatives to artisanal mining.

Land tenure concerns can be addressed positively within the Mining Code and later through a Land Reform Law. A strategic plan for mining is ideal to deal with questions on the relationship between large and small scale mining.

Another item for review is how to maximize the contribution of mining to local and national development. There are indications that royalties and license fees may not be able to cover administrative, training, social remediation and environmental costs. While there is willingness by miners to contribute to a Community Development Fund and to pay increased mining contributions with improved capacity to pay, a challenge within the Mano River Union is to harmonize fiscal regimes by balancing international competitiveness with the region's and Liberia's development objectives.

As a sector that touches the lives of many Liberians, industry review is an opportunity for dialogue about poverty, sustainable mining and equitable development. Participatory assessment and planning, transparency and coordination, support for improved technology and benefits, recognition of rights – all build confidence in the prospect of change.

Source: UNDP Poverty and Social Impact Assessment on Artisanal Diamond Mining, 2008.

RECOMMENDATIONS:

To promote exploration activities and geodata collection

- Existing geological information needs to be digitized and organized to be made available to mining and exploration companies as well as other users (e.g. agriculture)
- Develop tools to enforce collection of new geodata from exploration and mining companies in accordance with the law
- Develop security system at the Geological Survey to store and safeguard geodata in line with industry requirements
- Assess additional needs for geodata/surveying (potentially at regional level)

- Provide basic geological training to formal small-scale and artisanal miners to improve outcomes of their operations

To ensure transparent non-discretionary granting of leases, encourage active exploration, and to attract world-class mining companies

- Finalize model mineral development agreement for large-scale mining operations (in line with recent Bong Mines Tender Amendment)
- Revise licensing procedures in line with international practices
- Revise law dealing with dispute resolution, arbitration and Force Majeure.
- Clarify basis for calculating and modifying royalty payments
- Develop and implement computerized mining cadastre system
- Amend relevant acts of legislation (PPCC Act and Mining Act) to reflect first-come-first-served principle of granting greenfield investment
- Make publicly available the procedures and implementation of known mineral assets tenders

To ensure that payments are in line with contractual obligations and applicable laws

- Finalize revisions to the Mining Act and Revenue Code in line with IMF-FAD recommendations
- Develop capacity of large tax-payers unit of Ministry of Finance and Bureau of Concessions to monitor and verify payments due from mining operations (technical audit functions)
- Link license fees and surface rents payments (handled through Geological Survey cadastre unit) into the tax payment system to ensure compliance and better monitoring of revenues
- Implement EITI

To ensure that tax revenues benefit the communities

- Develop system for managing revenues to benefit future generations
- Develop sustainable mechanisms for benefit sharing with local communities (to manage bilateral transfers from mining companies and other private contributions)
- Review Public Financial Management system so that mining areas receive additional benefits through public service delivery (due to higher environmental and social impacts of mining)

To ensure sustainable, responsible mining that contributes to community well-being

- Develop and adopt mining regulations on social and environmental issues
- Develop/strengthen enforcement of Environmental and Social Impact Assessments, including mine closure planning, land reclamation, community consultation and benefit sharing
- Develop functional conflict resolution mechanism at local and central levels
- Develop mechanisms and legal environment for large-scale mining to contribute to local infrastructure needs
- Develop community planning skills and implement community driven development programs
- Manage training and education programs sponsored by mining companies
- Promote value-added activities
- Strengthen capacity of mine inspectors, and provide them with necessary equipment – GIS units, communication devices, vehicles
- Require contractual obligations for mine closure planning, including implementation of diversification activities that will sustain mining communities beyond mine-life

To assist artisanal mining to operate in a sustainable, responsible and efficient manner

- Implement programs to formalize illegal miners
- Promote formation of mining cooperatives, including assistance to acquire tools and equipment for increased efficiency
- Develop special programs/ toolkits for extension services and facilitate short-term cash management and investment training courses
- Develop labor policy governing working relationship between miners and diggers
- Develop framework for cooperation with large mines
- Decentralize valuation facilities to foster transparent trade at every level
- Develop local mechanisms to manage influx of aliens in the artisanal diamond mining sector
- Provide for health-care and other welfare services

7. WOOD PRODUCTS

7.1 Liberia has the most extensive remaining tropical rainforest in West Africa, and its forestry potential is considered high. With the resumption of commercial forest logging in Liberia in 2008 following the lifting of UN sanctions, the forestry sector will be one of the country's engines of growth for many years to come. It is essential that the sector contributes its full potential to the objectives of development, employment and poverty reduction as laid out in the Poverty Reduction Strategy. The next 24 months are critical, as the Government needs to address key issues in both policy and fiscal frameworks and rebuild the required government capacity to manage the sector.

7.2 While much progress has been made in preparing for the re-launch of the forestry sector, the Forestry Development Authority (FDA) has acknowledged that a key element is still lacking – a strategy for the promotion of value-added wood products. In particular, a way must be found to make the domestic processing of logs into sawn timber and higher value products attractive to foreign and Liberian investors without coercive measures such as a log export ban. At the same time, the FDA must ensure an expanding tax base for government and equitable benefit-sharing that reaches rural inhabitants through employment and revenue transfers.

7.3 The forest processing sector should not be allowed to grow to a disproportionate size which cannot be supported by the productivity of the forest resource. This can be safeguarded on a case-by-case basis by matching investment plans with the results of the detailed inventories being carried out for forest concession prospectuses. While an Annual Allowable Cut (AAC) has not been established on a national level, Liberia's fairly recent forest inventory provides adequate data for planning purposes.

7.4 There are, however, many serious obstacles to revitalizing the forestry sector. The wood processing sector can not develop in isolation from various supporting institutions and economic facilitators, such as education, banking, insurance systems, rules of law and environmental regulations, good governance, investment protection and incentives, other supporting industries - in broad terms, the enabling economic and social operating environment. Many such crucial foundations do not exist, or are in disarray, in today's Liberia. The development of value added processing will have to start from the establishment of sustainable forestry and primary processing, and proceed gradually into higher levels of secondary and tertiary processed products.

7.5 This chapter does not deal with the thriving, but unregulated, pit-sawing business which is already serving the domestic market. While this component has limited potential to engage in exports, it does generate a significant number of jobs. It will be important to formalize pit-sawing and ensure its harmonious development alongside the export sector.⁴⁹ The formation of mobile sawmill companies is one solution to increase the formal sawing industry and widen the tax base.

ALTERNATIVE STRATEGIES FOR ADDING VALUE

7.6 The most compelling reason for Liberia to promote a controlled shift toward higher value added wood processing lies in its contribution to maintaining the forest cover and its productive capacity for present needs and future generations. Investors in a processing industry should become local advocates for sustainable forestry which ensures a reliable supply of raw material. However, this is a task where many of Liberia's neighbors have failed. In countries like Camer-

⁴⁹ A study of pit-sawing was being undertaken by IUCN in 2008.

oon and Ghana, the move to value added took place too late and then was poorly managed, resulting in over-capacity in wood processing which only reinforced the earlier depletion of the forest. This occurred in spite of a ban on log exports.

7.7 A wide range of policy instruments for promoting domestic processing have been tried in West and Central Africa. The approaches and experiences are varied, but in some cases industrial growth has taken place at excessively high economic and environmental cost. Perhaps the most worrying consequence of log export bans has been the rise of illegal activity to loot the forests. Logging export bans tend to be difficult to enforce and typically lead to alliances between illicit producers, buyers and traders. This has been the experience in Mozambique. Under such circumstances, an export ban can actually have the paradoxical effect of accelerating deforestation. In addition, a log export ban typically leads to a fall in government revenue, which sometimes results in a reversal of the policy. A ban also punishes local concessionaires who are relatively small compared to foreign ones with more ample resources to invest in processing from year one.

7.8 A total log export ban is an extreme measure which has seldom worked in other countries and should be avoided in Liberia. A gradually declining log export quota is recommended, as it would maintain government revenues from log exports while giving local processors the time to build up their capacity with the help of revenues from the sale of logs. This is the approach now being adopted in Gabon and Congo Brazzaville. Liberia would be advised to choose export taxation which diminishes with the degree of processing to encourage further value addition. Export taxes are the preferred instrument among the various policy options to restrict exports of an unwanted product. Taxes are a credible policy, yielding the government some revenue while being transparent and simple to administer.

7.9 Value-addition should start at the logging stage, by planning logging operations prudently, grading and pricing logs appropriately, and delivering them efficiently to buyers. There is a severe shortage of certified log graders in Liberia, as only one ATIBT (Association Technique Internationale des Bois Tropicaux) trained grader was active in 2007. As log quality and species mix are expected to show considerable variety, there is immediate potential to increase the value of log exports with small investments in the training of officers in proper measuring and grading skills. As FDA regulations state that their fees should be based on the log value by grade, this would also be a quick way to improve revenue collection. Improved log grading competence also serves the future processing industry by optimizing processing.

7.10 Efficiency improvements along the value chain provide another avenue for adding value in the early stages of industrialization. In many countries in the region, the processing industry tends to be notoriously inefficient with low labor productivity and obsolete technology, which render the output uncompetitive in world markets. Targeted training to eliminate bottlenecks would have a significant impact on profitability and value added. This is particularly important when exploiting lesser-known species. It is also important to locate concessions where they have the best chance of being financially viable, with the necessary access to roads and ports.

7.11 These two actions would not need massive investments, but could generate potentially high returns because they will help lay the foundations for sustainable forestry sector management. Roundwood production needs to be stabilized first before taking the next steps toward industrialization. In the current concession agreements, two years are allowed for the logging companies to concentrate entirely on log exports, before processing begins. This means that investment decisions need to be taken in the second year at the latest. FDA would be wise to monitor the concessionaires' operations in terms of forestry planning, log grading, pricing and efficiency in the initial two-year period to establish its credibility as a regulator and sector leader.

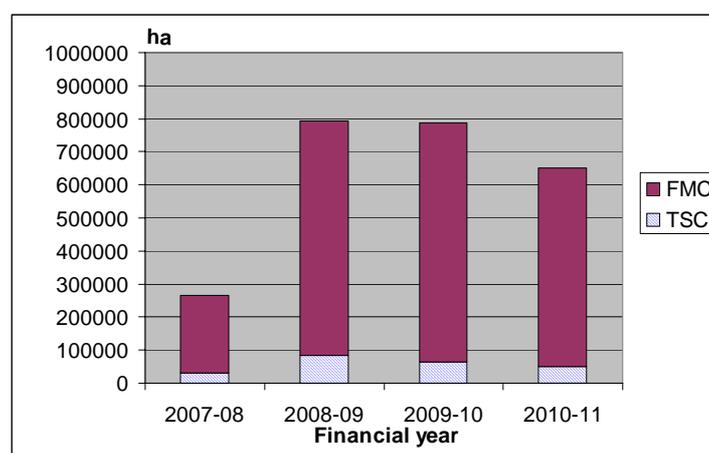
7.12 In the next phase, value-added wood products should be progressively developed by the concessionaires. Primary processing (sawmilling, plywood, peeling or slicing into veneer) comes first, and provisions should be made in the concession agreements to develop this without excuse. The highest level of value added should be defined as remanufacturing of primary processed wood into further processed products, starting with the treating of poles and posts, and kiln-dried and S4S (surfaced four sides) timber, and moving into edge-glued solid wood panels, laminated wood, mouldings, decking, flooring stock, windows, doors, frames, garden products, furniture components, and other semi-finished and finished products.

7.13 Secondary and tertiary processing stages (furniture-making in particular) are highly demanding in terms of quality standards, unit cost controls and technology. With its current, low skills pool and weak industrial infrastructure, Liberia is ill advised to target the very competitive markets of the highest levels of value addition in the near future. The entry of China, Malaysia and Vietnam into the global furniture trade has lowered prices and no sub-Saharan African country other than South Africa has been able to establish a furniture export industry. Domestic markets will serve as a training ground in this area, followed by the regional ECOWAS market. The development of value added processing will need to start from the establishment of dynamic, sustainable forestry and primary processing activities. Over time the sector can proceed gradually into higher levels of secondary and tertiary processed products - provided that skills, investments and markets allow.

THE ROLL-OUT PLANS FOR LOG PRODUCTION AND EXPORTS

7.14 The forestry sector is being relaunched in 2008 with the award of two types of contracts: Timber Sales Contracts (TSCs) for relatively small areas (approx. 5,000 ha.) and Forestry Management Contracts on much larger areas (50,000 ha. and more).

Figure 7.1 : Roll out Plans for the Forest Concession Areas in Liberia



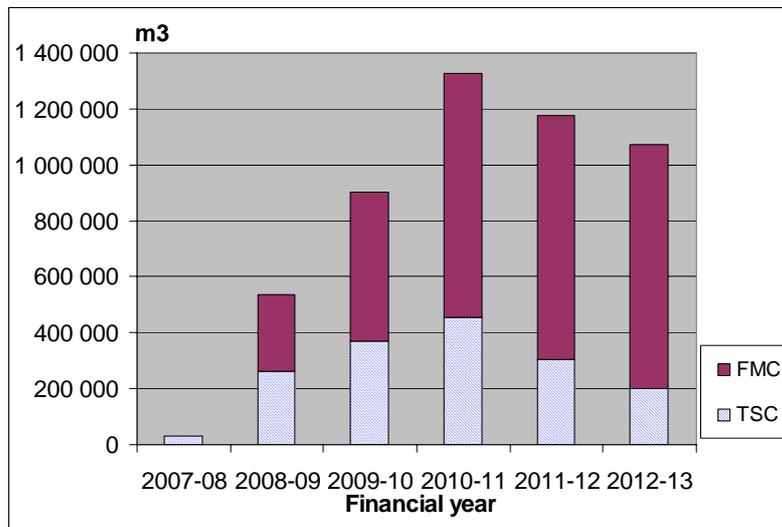
Source: Revised roll-out plans by FDA, 2008

7.15 Of the 2.5 million hectare area to be allocated for commercial development, approximately 2.27 million ha will be allocated to FMCs. Of this 80 percent is harvestable, as 20 percent is conserved around waterways, and for biodiversity and sacred sites, etc. The remaining 230,000 ha will be allocated on short-term leases under TSCs, which are subject to possible land-use change after three years. No log exports are foreseen from TSCs after the sixth year of operation.

Since TSCs are of lower timber value, there will be only limited opportunities for processing or value added. Due to the delays in preparations for tendering, the first FMCs are only expected to become operational in the 2008-09 logging season. The latest roll-out plans by FDA are presented in Figure 7.1. They serve as the basis for the projections of the potential of the wood industry and associated government revenue.

7.16 Selective logging intensity is expected to rise gradually from 7.5 m³/ha/yr on TSCs and 9.0 m³/ha/yr on FMCs to a level of 12 m³/ha/yr on all areas. By 2010-11, Liberia's logging volumes would reach a maximum of 1.3 million cubic meters per year. The projected increase in log production is shown in Figure 7.2.

Figure 7.2 : Roll-out Plans of the Commercial Logging Volumes in Liberia

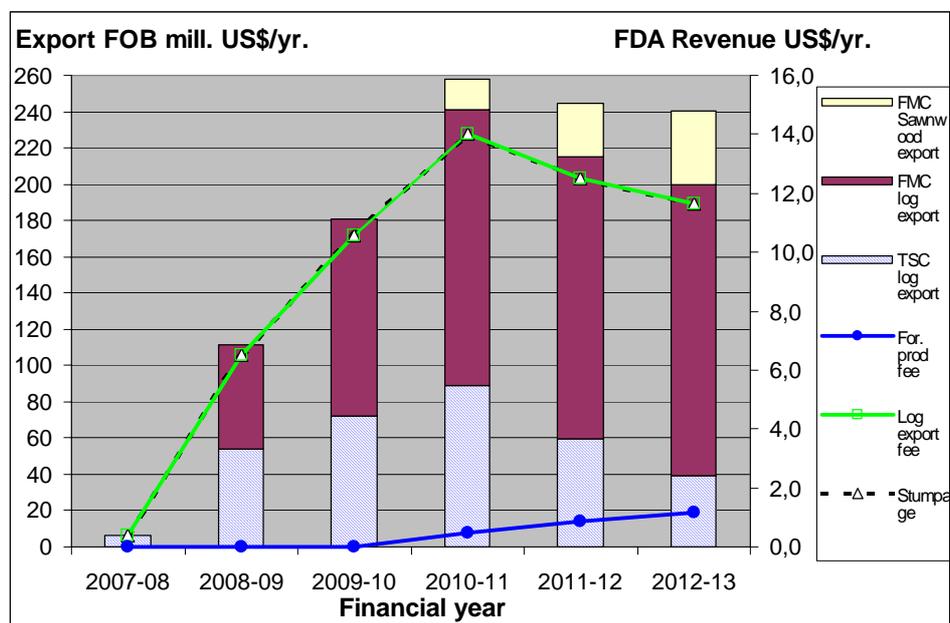


Source: FDA, revised roll-out plans, 2008.

7.17 Using an average US\$ 230/m³ export FOB value, the export value of Liberia's logs from TSCs would rise by the fourth year to US\$ 89.0 million and then subside (see bars in Figure 7.3). A much higher FOB value of log exports would be generated if FMC logs were sold entirely abroad (US\$ 160.4 million per year by the sixth year). Sawn wood production would reach US\$ 40 million in FOB value in the fourth year and start to compensate for log export decline.

7.18 A comparison of revenues from log exports and sawn wood exports is presented in Figure 7.3 in order to understand the early impact of value added processing on revenue streams. Revenues depicted by the three lines in Figure 7.3 include fees on stumpage and log exports, and forest products export fees. The first two lines are estimated by the FDA to be identical.

7.19 With log exports close to one million m³ the country would reap US\$ 240 million in export earnings in the peak year 2010-11, out of which government revenue would amount to US\$ 14 million per year in direct export fees. Additional revenues will accrue from stumpage, land rental and other types of fees - such that US\$ 35 million per year is set as the official revenue target.

Figure 7.3 : Estimated Log Export Value and FDA Direct Revenue in Liberia

Source: Revised roll-out plans by FDA, 2008.

A LONG-TERM VALUE-ADDED SCENARIO

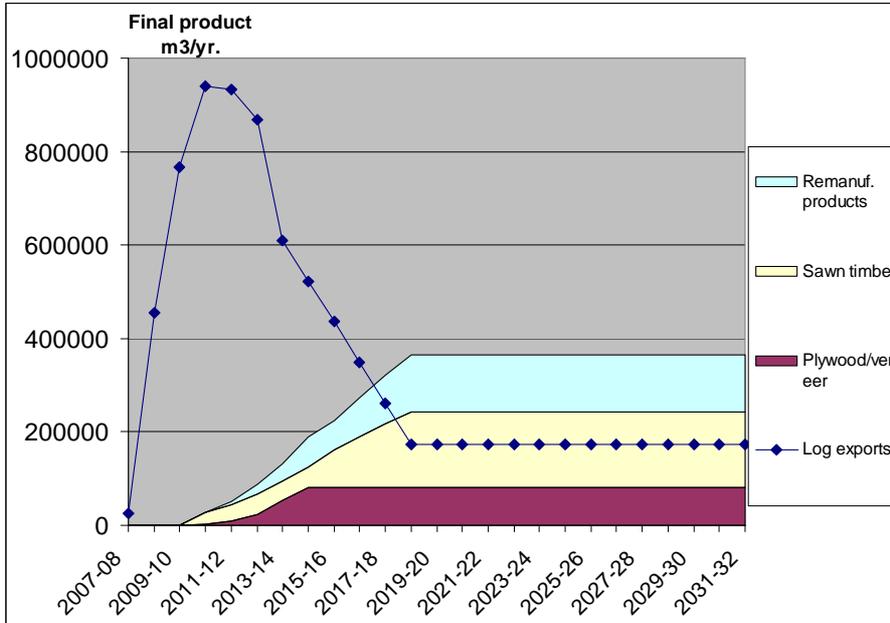
7.20 From this base, the challenge will be to establish an industrial fabric that is both viable for Liberia and optimal in terms of generating value-added and export revenue while ensuring sustainability. Based on the anticipated roll-out of commercial logging, this report outlines one possible forest industry scenario over the next 25 years. In this “ideal” scenario Liberia would see 3-4 integrated sawmill and plywood complexes, up to 7 major sawmills with integrated remanufacturing workshops, and a significant number of small rural sawmills based on TSCs. Smaller-sized remanufacturing units would logically arise adjacent to sawmills at a later stage. A value-added product mix is suggested to convert at least half of the sawn wood into remanufactured products like.

7.21 The sawmills would have a combined annual production of 324,000 m³ in sawn wood, while four plywood/veneer plants would produce 80,000 m³ annually. Half of the sawn wood would be further transformed into remanufactured items, whose volume could reach 122,000 m³ in full production, depending on the types of products (moldings, decking, flooring, spliced veneers or layons, furniture parts, etc). Reaching such a scenario would take at least one decade. After 25 years, 39 percent of cumulative logging volume would be exported as logs, and 61 percent in log equivalent as plywood, sawn timber and remanufactured products.

7.22 Thus a fairly sophisticated and dense tropical hardwood processing industry is being recommended. Ultimately, the selection of mill sites will be driven by the concession operators - guided but not stipulated by FDA through the concession agreements. The main criteria would have to be the viable industrial economics and logistics of the mills. These conditions should overrule political and geographical selection criteria, which might result in support for marginal areas that can not sustain a viable wood processing industry. Establishing an industry at any cost

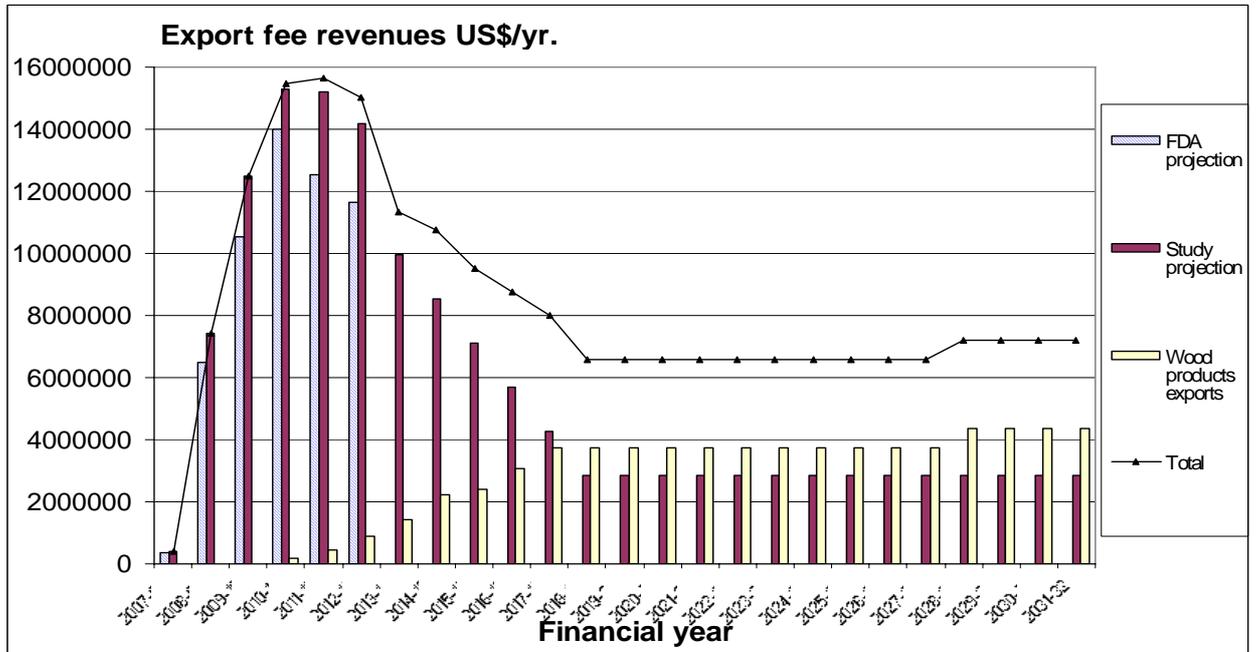
is not a viable strategy, and it will develop most sustainably through a gradual process. As the FDA designs its Forest Processing Strategy, it is of crucial importance to draft a realistic roadmap for value-added wood processing. A possible roadmap for strategy development is proposed in the full report in the second volume of this study.

Figure 7.4: Long term Projection of Output : Logs and Finished Products



Source: Author's calculations based on adjusted FDA production forecasts.

Figure 7.5 : Long-Term Export Fee Forecast from Logs and Wood Products



Source: Author's calculations based on FDA projections.

7.23 As shown in Figures 7.4 and 7.5, log exports and total revenues would fall dramatically after the fifth year. Revenues decline because the export tax on logs is much higher than that on processed products. Given the government's need for income, this provides another reason to move gradually into processed wood exports. On the other hand, the development of a processing industry would bring about multiple economic benefits:

- increased investments and fixed asset formation in processing capacity,
- increased direct employment in wood processing,
- service and local trade jobs generated,
- improved infrastructure and utilities,
- multiplier effects of local consumption,
- taxes on corporate incomes, wages and service fees,
- licensing fees for industrial operations.

Employment implications

7.24 Employment estimation is difficult as the future set-up of Liberia's forestry sector will be significantly different from the past, and assumptions about the division of employment between permanent and seasonal jobs are a subject for debate. This study draws together estimates from existing industries in the region, as well as recent investment projects in tropical wood processing. A tentative labor force estimate for the projected Liberian forest-based industry comes to around 10,000 jobs. Of this, 8,290 would be formal direct employment for the largest mills only. Small and mobile sawmilling on TSCs needs to be added, and also forestry and logging work to supply their logs. Not all these jobs would be fulltime however. The illegal pit-sawing sector is not included in this figure. Informal activities can not be eradicated, and they will add considerably to the total impact of the sector.

7.25 The move to value-added processing will happen in phases and so will employment creation. Value added processing tends to be more labor-intensive during its early phases (due to modest technology advancement). While processing companies will provide some training to workers, a study in Ghana revealed that the wood industry was severely constrained by the lack of professionals, skilled technicians and artisans. Most positions demanding skilled labor were occupied by unskilled labor trained on-the-job, leading to low efficiency, high waste, low income, less permanent employment, poor quality products and minimum returns on investment. To address the situation, the Wood Industries Training Center was established. Liberia should take advantage of this facility while it builds up its own training capacity.

7.26 To maximize the employment impact, it will be important for all concession agreements to clearly stipulate hiring practices. All unskilled labor should be local and it should also be compulsory for companies to train Liberians for supervisory and management positions over a suitable time frame. The use of local sub-contractors should also be encouraged.

Lesser-used Species

7.27 As many of Liberia's high-value species have been exploited in the past, forest output will have a higher content of lesser-used species (LUS) and marketing will be more difficult. Certification, direct species substitution and combining LUS wood in value-added products are the most promising strategies for accomplishing this task. Plywood core layers, furniture backs, laminated panels and moldings can all consume LUS which may not otherwise show commercial potential. A past study on LUS in Liberia concluded that most of the 19 species examined were

well-suited for general construction, interior joinery, parquet, simple furniture and heavy construction. On the other hand, only a few of them were considered fit for high-class furniture or sliced veneer.

7.28 FDA would be advised to become proactive in capturing the potential of LUS, establishing a reference library on on-going work on the commercialization of LUS in different parts of the world, and assessing market demand in Asia in particular. FDA should link up with international experts and European and West African timber trade promotion organizations working with LUS.

7.29 There are some imminent opportunities for commercializing LUS in Liberia. Mittal Steel may be preparing to import steel and concrete ties to upgrade the railway between its mining concession (Yekepa) and Buchanan. A better solution would be to use Liberia's under-utilized *ekki* or *dahome* logs for wooden ties. Abandoned logs are already available in Buchanan port, though access to them would require an agreement with the National Port Authority. This would help kick-start the sawmilling sector, with the creation of one sawmill at each end of the railway.

7.30 Rubberwood must not be overlooked either. A pilot sawmill has been established at the Firestone rubber estate to explore various possible products. But for the moment, the main use appears to be bio-fuel wood chips for both export and local electricity generation.

NON-TIMBER FOREST PRODUCTS

7.31 Non-timber forest products (NTFPs) are of great importance in both urban and rural Liberia. Notable among them are bushmeat, materials for traditional and religious ceremonies, fruits, nuts, traditional medicines, and materials for construction. Typically NTFPs can yield a significant share of their total value to local communities, and are an important channel for rural development. They also tend to be primarily of benefit to women. TSC and FMC concession agreement models clearly stipulate that contractors are allowed to utilize only timber, and not NTFPs, from the areas granted to them. The government reserves the right to allow access by NTFP collectors to the timber sale area for traditional or customary community uses, but without unduly interfering contractor's operations or prejudicing their rights.

7.32 Bamboo and rattan (cane) appear to offer the largest potential for commercialization. Bamboo's appearance, strength and hardness combined with its rapid growth cycle and sustainable harvesting make it an increasingly attractive wood substitute. The outlook for bamboo exports looks strong, driven by world economic growth and demand for sustainable wood-replacement products. The international trade in bamboo products is estimated above US\$ 7 billion p.a. (US\$ 5.6 billion in China) with a wide range of products traded. Bamboo and rattan typically yield a higher portion of value to communities than timber, because local farmers can be actively involved in the cultivation and harvesting phases.

7.33 However, the knowledge base is a major constraint to efficient management, utilisation and conservation of the bamboo and rattan resource in Liberia. Better coordination is required between FDA and MoA, and with international NTFP networks and agencies such as INBAR (International Network on Bamboo and Rattan), and Flora and Fauna International, etc. Even the most basic equipment and skills for splitting, slivering and weaving bamboo and rattan are not yet readily available to start meaningful processing in Liberia. However, a two-year training program on bamboo and rattan processing has been launched through the Ministry of Agriculture (MoA), funded by the Chinese government. These courses are paving the way for new technologies and semi-industrial processing.

7.34 NTFPs - including but not limited to bamboo and rattan - can become a leading industry for rural industrialization and poverty reduction in some regions. Much of the NTFP collection and pre-processing still happens at the local community level. Government and local authorities must provide sustained and consistent leadership to develop NTFP value chains. FDA is the logical host of NTFP development in Liberia, and should have a special unit dedicated to this subject.

POLICY, REGULATORY AND FISCAL FRAMEWORKS

Law, Policy and Regulation

7.35 The revision of the forestry policy of Liberia began with the “*Forest Policy Review: vision 2024*”. In 2006, the *National Forestry Policy and Implementation Strategy* was endorsed. This document is considered to represent state-of-the-art quality in forest policy, and is built on the principle of balancing the three uses of forests, i.e. community, commercial and conservation, also known as 3Cs. The goal of the FDA is to maximize economic benefits through sustainable management, conserve biodiversity and empower communities to ensure equitable benefit sharing and democratization of the sector. FDA is committed to community forestry by awarding concessions and licenses to local communities and local, small-scale enterprises, empowering local communities to identify opportunities, and providing extension and technical assistance in community forest management.

7.36 The National Forestry Reform Law of 2006 has been passed by the legislature. It provides the basic provisions for forestry activities in Liberia. The forest resources are held in trust by the Republic for the benefit of the people. Exceptions to this rule are communal forests and forests that have been developed on private or deeded lands through artificial regeneration. The Law governs the prospecting, use, transport, processing and trade of all forest products. All forest operations must comply with the Forest Management Guidelines and the Liberian Code of Forest Practices (issued in June 2007). The latter is referenced in full in all concession contracts.

7.37 The National Forestry Reform Law called for the drafting of a Forest Management Strategy, which has yet to be produced as a Policy Document. It does not address the issue of a Forest Processing Strategy, the development of a national forestry master plan, or the management of private and deeded lands. Implementation of forestry policy will require the strengthening of financial, human and technical capacity among stakeholders and institutions. It would be helpful to appoint one Deputy Managing Director in FDA for each one of the three Cs.

7.38 In the wake of the civil war, when logging served to finance rebel forces, a Chain-of-Custody (CoC) process was proposed to ensure that all logs originate from authorized operators. SGS was awarded a contract to act as an “arms-length” independent body to build a CoC system, train and manage its operations, and ensure that forest-related taxes, charges and fees are duly collected.

7.39 Activities concerning the modernization of the wood processing industry are clearly defined in the implementation strategy of the policy document. Responsibilities are logically shared between the private sector (*as investors*) and the government (*as supporter and regulator*). The government reserves the right to negotiate international market access matters on behalf of the sector. This is welcome in light of the possible implications of the FLEGT (Forest Law Enforcement, Governance and Trade) initiative and the related VPAs (Voluntary Partnership Agreements). Private and government sides would contribute funds to train formal and informal wood processors, but no dedicated fund is planned.

Fiscal Frameworks and Incentives

7.40 The current fee structure has three rates which are the same for both stumpage and log export charges: 10 percent for prime Class A species, 5 percent for Class B, and 2.5 percent for low-value Class C varieties. This raises several questions. High-value trees have been heavily harvested in the past, such that they now make up a small portion of the total timber stocks. Thus, imposing lower fees on lesser-used species to encourage their exploitation may be pointless, as concessionaires will have to use them anyway. The current fee structure may not yield the optimal revenue for the FDA and the Ministry of Finance. The similarly graduated fee system for wood product exports (2.0, 1.5, and 1.0 percent) may suffer the same defects. Revenues could be higher with one flat rate across species. The spread between Class B and C logs and wood products is relatively narrow, and the log export fee is low by international standards.

7.41 Furthermore, the fee rates do not distinguish between different types of processed products. This provides no incentive to move into higher value addition. The processing cost and marketability of species within the classes, and between products, can differ greatly. Fiscal incentives need to be properly defined by degree of processing: It is recommended to:

- Determine export prices by product and species from reliable sources;
- Study the costs of production at various levels (logging, primary and secondary processing) to understand the competitiveness and profitability of Liberian producers;
- Introduce a more diverse fee structure that takes into account different stages of value added processing and sets a fee progression, without compromising government revenue;
- Follow international prices and market developments and adjust taxes accordingly.

7.42 An Act amending the Revenue Code is now being finalized. Under the proposed modifications, manufacturing investments like those in wood processing would be eligible for special tax incentives if they exceed a minimum value of US\$ 1 million. These are additional to any capital incentive deduction already allowed. The incentives are established by three criteria, namely by sector, location and employment generation. They do not take into account the level of value added created, and therefore fail to provide direct impetus for moving higher in the value chain. That is left for the market forces to decide.

7.43 It is unclear whether the bio-fuel rubber wood chips currently being exported from Liberia are exempt from the Wood Product Export Fee. This could be counter-productive for the development of value added processing of solid wood products. Rubber wood can be a major source of furniture raw material if properly treated and dried.

7.44 Informal wood processing must be brought under the legal framework to avoid its criminalization. This requires registration and product standardization of their business, to provide a basis for taxes. The current flat 0.60 \$/piece entry fee for sawn timber entering the market - irrespective of species or dimension - should be replaced by appropriate volume or value-based fees.

Improving the Concession Allocation Process

7.45 Some possible adjustments in the process of allocating concessions might encourage value added activities. The majority of TSCs have had their high-value trees heavily cut in the past. Some are, however, well stocked with valuable timber, but due to their remote locations cannot be combined with larger TSCs to allow a feasible processing base. Given the small size and three-year duration of TSCs they are unlikely to stimulate investments in value added proc-

essing. The grouping of 2-3 TSCs to supply one central sawmill - or a larger FMC processing base – may be a viable solution in the short-term.

7.46 Other possible improvements could be considered on the following issues:

- The tender process effectively shuts out those industrialists who do not wish to engage in forestry, but would rather establish a processing facility;
- The margin of preference to be allowed for domestic bidders is not clearly defined;
- It is questionable whether the CoC contractor can efficiently monitor all the volumes and species of timber harvested, processed and exported, as called for in the TSC model;
- The contract text is silent about any other forms of processing except “lumber”. Plywood mills are not mentioned, nor are any remanufactures from sawn wood specified.
- The five-year forest management audit is not required on TSCs.
- Neither the Social Agreement draft, nor the TSC draft, specifies any fixed percentage of the Annual Contract Payment or stumpage for community development;
- Utilization of Non-Timber Forest Products (NTFP) is strictly prohibited and access by local communities is protected by the government, but logging will undoubtedly degrade them. The Social Agreement should specify rates for damage caused to NTFPs;

7.47 So far three FMCs are being prepared for contract bidding. Their areas are roughly 60,000 ha on two blocks in River Cess county, and 120,000 ha at Gbarbolu. FMC contractors are allowed a two-year grace period of logging for export before starting up processing facilities. Achieving this will require early commitment to start erecting processing capacity already in the first year. The contractor has to commit himself to the processing requirements as demanded in Part A - Special Conditions of the FMC agreement. Processing facilities will have to be listed and a minimum expenditure on them specified. FDA must acquire proper understanding of the investment costs associated with serious processing facilities to avoid overly relaxed conditions. Under “Action”, the intended timeline and milestones of bringing the processing facilities on stream should be defined. There should preferably be a clause for agreeing on a percentage or volume-based target for the gradual move from log exports to wood products in the course of the contract period. Otherwise the matter may become subject to lingering differences of interpretation. A typical result of undefined processing targets may be a minimal “operational” or “business development” investment to meet the letter of the contract, while log exports continue unabated.

RECOMMENDATIONS

7.48 While the development of a value-added wood products industry will necessarily be driven by the private sector, there are a variety of measures which should be taken by the public sector to ensure a healthy expansion of the industry.

7.49 A Forest Processing Strategy is needed to provide a roadmap for foreign and Liberian investors and the Government on the desired format of the wood industry, and NTFP commercialization. The ultimate goal should be maintaining Liberia’s forest cover, and its sustainable utilization for value-added products. The main elements of the strategy would be:

- A set of quantitative targets for value added wood processing and NTFP manufactures for the next 5, 10 and 15 years;
- Institutional and human resource capacity building needs clearly spelled;
- Harmonization between wood industry capacity and sustainable forest management;
- Targets for employment and Government revenue;

- An organizational structure to oversee the strategy implementation.

7.50 Also needed are a variety of policy and legislative reforms, feasibility and market studies, and training and education.

Policy, regulatory and legislative reform

- The National Forestry Reform Law of 2006 should be amended to include fiscal incentives for investing in value-added wood products. Adopt ATIBT grading rules on all logs for exports and, eventually, for processing.

Feasibility and market studies

- Conduct a feasibility study of a sawmill to repair the Yekepa - Buchanan railway with locally sawn *ekki* sleepers; obtain access to abandoned *ekki* logs in Buchanan Port.
- Study the profitability of wood and NTFP processing at different levels of value addition, so that policymakers can understand where profits are made along the wood and NTFP processing chain to steer industry development proactively. The study methodology could be re-used periodically as operating conditions change.
- Conduct market studies on main value-added wood products in Africa and overseas. Focus on pre-identified buyers and importers and their quality and commercial requirements.
- Establish a network with African, European and Asian market information providers and timber laboratories on lesser-used and lesser-known tropical timbers relevant to Liberia, to take stock of promotional work and results achieved. Also cover key NTFPs.

Training and education

- Train foresters in ATIBT log grading and environmental impact assessment. Support the College of Agriculture & Forestry at the University of Liberia and rehabilitate the Forestry Training Institute (FTI) in Tubmanburg.
- Restore a wood industry training facility and develop a modernized training curriculum. Start regular training of machine operators, kilns, production managers, maintenance, etc., according to industry demand.
- Organize marketing courses for company sales staff and managers in order to upgrade market access and the practical application of market information systems.

8. FISHERIES

8.1 Liberia has a wide range of fish resources including large pelagics, small pelagics, demersal fish, and shrimp/lobster, which can be exploited for domestic, regional and international trade. If carefully managed, this trade has the potential to make significant contributions to both poverty alleviation (in the form of poverty reduction and poverty prevention) and food security at the household level, in local communities, and at the national level for Liberia as a whole.

8.2 Increases in fisheries trade in the future will take place against the background of some important developments with regards to the regulatory framework for trade and trends in demand/supply. These include various initiatives to support trade from developing countries (for example through duty-free imports to developed country markets), strong international demand (especially from the EU/USA/Japan), a growing share of global fisheries trade being made up of exports from developing countries, increasing demand for fresh/chilled products, and increasingly stringent standards required by both regulators and fish buyers in developed country markets with regards to quality, hygiene standards, and traceability. The move towards greater Corporate Social Responsibility (CSR) evident in many sectors is also impacting on fisheries, and there is a growing demand by retailers/wholesalers in developed countries for fish that can be shown to have originated from sustainably managed fisheries. Within domestic and regional markets, demand for fish is high because of current levels of food insecurity, the importance of fish as a source of animal protein and important micronutrients, and its potential availability/cost compared to other sources of animal protein.

8.3 After the long period of civil instability in Liberia, and in common with almost all other sectors of the economy, the fisheries sector now requires a huge amount of support if it is to realize its potential. At the present time, legal exports of fish products are virtually non-existent.

8.4 In planning for a future with enhanced fisheries trade, it is useful to consider first the current constraints impacting on the sector, and then how these constraints might be reduced. Current factors limiting trade and the potential of the sector to contribute to poverty alleviation and food security can be grouped into four main areas. They are:

- A lack of recognition of the importance of the sector;
- Weak sector governance and management;
- High levels of illegal, unregulated and unreported (IUU) fishing; and
- Factors which have a detrimental impact on trade and the generation of value added.

8.5 Some comment on each of these areas is provided below, along with some suggested actions. As can be inferred from the list above, while some of the key issues of concern and their related solutions relate specifically to trade, others relate to overall issues of sector management; without improved management, sustainable exploitation of resources will not be ensured, and thus fish resources will not be available for trade. Likewise, trade and value-added creation are closely linked; trade can directly lead to the creation of value-added, but businesses also need to remain cost/price competitive if they are to compete in, and sell to, overseas and domestic markets.

ENSURING INCREASED RECOGNITION

8.6 The fisheries sector in Liberia already contributes significantly to food security and poverty alleviation, and if adequately supported could make even greater contributions. But despite these important contributions, the sector's importance is not well recognised.

8.7 The I-PRSP and initial work on the PRS was largely silent with regards to the fisheries sector, but this has been somewhat corrected in the final version. There is currently no fisheries-specific budget for fisheries. Government expenditure on the sector through the operations of the Bureau of National Fisheries (BNF) is covered under the budget for the Ministry of Agriculture (MoA). A fisheries-specific budget should be allocated both to demonstrate the importance of the sector, and to provide for better planning and management of BNF activities.

8.8 Finally, the draft amendments to the Liberia Revenue Code currently before the legislature mention agriculture but not specifically the fisheries sub-sector. The draft text before the legislature (section 4.2 bullet (i)) should be amended to read 'agriculture and fisheries'.

IMPROVING SECTOR GOVERNANCE AND MANAGEMENT

8.9 Sector governance is currently weak. There is (as yet) no formally agreed fisheries policy, and current fisheries legislation has many deficiencies, including: low and inappropriate licence fees and penalties; no support for community-based management organizations (CBMOs); weak and poorly articulated powers for monitoring, control and surveillance (MCS); and no references to transparency, participation and other wider issues of good governance. Current national law also fails to provide adequately for specification of the Liberian territorial sea and Exclusive Economic Zone (EEZ) in accordance with the 1982 United Convention on the Law of the Sea (the Convention). A new fisheries policy, and related legislation to address current weaknesses, are currently being prepared with the assistance of FAO and should be finalized as a matter of priority. The Government of Liberia should ratify the Convention, and conduct a baseline survey, with charts and geographical co-ordinates given due publicity with respect to the proposed territorial sea and EEZ, and deposited with the Secretary General of the United Nations.

8.10 For understandable reasons, the current capacity of the Bureau of National Fisheries (BNF) to manage the sector is very limited. Capacity is undermined by both the technical skills available, but also by limited financial and physical resources. The result is that while staff is keen to learn and to contribute to Liberia's reconstruction, their ability to support, engage with, and manage the marine sub-sector, aquaculture, and inland fisheries, is extremely limited. An institutional assessment is urgently required that would result in a) specification of capacity development needs and solutions so as to ensure effective implementation of proposed policy, b) consideration of the advantages and disadvantages of providing the BNF with greater autonomy from the MoA, potentially in the form of a Fisheries Authority, and c) an implementation plan for the BNF/Authority to act as a road map to ensure implementation of policy and agreed actions specified under the policy development process.

8.11 An important recommendation of this study is the creation of, and support for, CBMOs, which could serve a variety of functions in improving sector governance and management including: regulation of fishing activity; management of landing sites; data collection; fisheries management/policing; economic/financial functions e.g. credit, marketing, savings; social benefits (e.g. rescue at sea, financial assistance during ill-health, etc); and political negotiation or lobbying. A program to support and develop CBMOs should be developed and initially tried on a pilot basis in one or two locations/landing sites, before wider replicated within the country.

8.12 A potentially promising possibility for revenue generation from the sector is recent interest shown by the EU in signing a Fisheries Partnership Agreement (FPA) with Liberia. Such an agreement would provide an immediate way of providing much needed increases in revenue and foreign exchange to the government. Revenue would be provided in the form of compensation by the European Commission for access to fish resources and to improve/support fisheries policy and its implementation in agreed areas, as well as from license fees from vessels operating under the agreement. Even if fish is not landed in Liberia, such payments can be considered 'export revenue', and fish caught as a form of 'exports'. Potential revenue could be in the order of \$750,000 to \$1-2 million per year depending on the species and quantities provided for in an agreement. Such an agreement, while offering potential benefits, would however need to be carefully structured to include appropriate zoning, species, fishing methods, vessel numbers/GRT, and tonnages, so as to prevent any negative impacts on catches made by local fishers. The Government in Liberia is not well-equipped to deal with an FPA and requires urgent support to prepare for a potential agreement, so as to maximize its benefits and minimize any negative consequences (such as conflicts with and impacts on the domestic small-scale sector). Necessary preparation involves both being ready for the negotiations, and being ready to handle the obligations that would result from an agreement. The former should be achieved through a regional study tour to other countries that have already signed FPAs. The latter requires careful analysis of the obligations involved and appropriate planning for how to deal with them; the institutional assessment of the BNF proposed above would contribute significantly in this regard.

8.13 Other issues related to sector governance that require attention and action include:

- The need for the BNF to develop management plans for some selected key fisheries. The selection of fisheries should be based on a consultative process, and co-management should be a fundamental principle of such plans;
- The need for a fisheries sector research strategy to be completed to address the fact that virtually no fisheries research is currently conducted;
- The need to increase license fees. These could conceivably be increased ten-fold so as to be comparable with fees in Sierra Leone, raising license fee revenues immediately from \$113,000 to \$1+ million per year; and
- The need for a specific development plan for inland fisheries and aquaculture focusing on economic viability of different production systems and species, and extension services and technological transfer.

REDUCING ILLEGAL, UNREGULATED AND UNREPORTED (IUU) FISHING

8.14 There is currently no effectively monitoring, control and surveillance (MCS) of fishing activity in Liberia's waters, with no regular surveillance taking place by air, through shore-based inspection, through Vessel Monitoring Systems (VMS), or through administrative checks on reported catches and fishing activities. Surveillance at sea is not conducted from fisheries patrol vessels, and is restricted to the presence of observers/inspectors onboard some fishing vessels. Such a presence is reported to be almost completely ineffectual. A very significant level of IUU fishing is taking place, with estimates of between 60-250 vessels operating illegally in Liberian waters. Illegal activity impacts negatively on fish stocks and results in current revenue generation from the sector that is only a tiny fraction of that which could be obtained, and takes three main forms:

- Illegal/unreported transshipments at sea and misreporting of catches/exports by licensed vessels. Current exports from by foreign industrial vessels are reported as being almost zero. While actual exports/transshipment are not known, 3,500 tonnes per year of high value fish and shrimp at an average value of \$3,500/tonne would equate to an illegal export value of around \$12 million per year⁵⁰. If export duties (2 percent) were collected on these exports, annual revenue generation to the government would be in the order of \$250,000;
- A complete failure to pay for or report any catches by those vessels fishing in Liberian waters about which the authorities are not aware. If an assumption is made that 50 of the illegal vessels operating in Liberian waters would pay for licences as a result of improved MCS, and at rates comparable with those in Sierra Leone, vessel licence revenue per year would be increased by approximately \$1 million per year; and
- Negative impacts of IUU and inshore fishing by industrial vessels on the value-added made by the domestic small-scale sector, due to competition for catches. Total value-added (i.e. wages plus profits) in small-scale fisheries in Africa are typically in the order of 50 percent of total sales values⁵¹, but value-added in Liberia is likely to be lower at around 35 percent due to the numerous factors currently limiting value added (see discussion below). Artisanal catches in Liberia are estimated at around 7,700 tonnes per year. Assuming an average domestic price of \$1.5/kg⁵², and an increase in small-scale landings of 10 percent following improved control of industrial fishing activities, value-added generated by the small-scale sector could increase from around \$4 million/year to \$4.5 million per year.

8.15 The lack of effective MCS in Liberia's waters is perhaps the single most important issue with regards to the sector at the present time, whether it be from the perspective specifically of enhancing trade (by ensuring the long-term sustainability of catches) or of improving management of the sector to alleviate poverty and ensure food security.

8.16 A private sector proposal has been made by Marine Protection and Rescue Services Limited (MP&R), currently based in Sierra Leone, for an initial 60-day trial followed by a five year agreement if the trial is deemed successful and additional finance can be obtained. This proposal may well be a sensible way to proceed, at least in the short-term in the absence of any other realistic MCS possibilities. However, the government should carefully conduct the due diligence necessary on this proposal, and as well as ensuring best practice with regards to the governance of any funds generated. If a decision is taken to proceed, a carefully constructed MoU must be prepared and agreed which specifies more detail than is currently contained in the proposal made by MP&R. If a decision is not taken to proceed with the MP&R proposal, the Government should investigate the potential for UNMIL to conduct additional surveillance in the short term.

8.17 In the longer-term, the Coastguard provides the most obvious mechanism for marine platforms for fisheries inspection activities. The Coastguard will not be operational until at least 2010, but assessment and training planned for 2008 and 2009 provides a good opportunity for the BNF to liaise with those involved with its establishment, to ensure that fisheries patrol and inspection activities are suitably incorporated into the workings of the Coastguard. Concrete steps to be taken should include:

⁵⁰ Figures purely speculative, but 3,500 tonnes represent around 50% of total reported industrial catches

⁵¹ Based on costs and earnings models available to the consultant from previous work

⁵² Actual average prices are not available

- Training of Coastguard staff and fisheries inspectors in boarding procedures and protocols, Standard Operating Procedures for inspections, fisheries specific regulations, etc; and
- Preparation of an MoU between BNF and the Ministry of Defense, and between BNF and other relevant parties with respect to working relationships, obligations and commitments, including specific targets related to the time provided for fisheries specific patrols, numbers of boardings/inspections, and location of patrol activities at specific times of the year to target fisheries/areas perceived to be a high risk in terms of illegal activity.

Other steps that need to be taken, and which should be linked with the institutional assessment of BNF, include:

- Specification of separate duties and responsibilities of fisheries inspectors and fisheries observers, and provision of associated training and capacity development; and
- The establishment of a VMS operational centre.

8.18 Reducing IUU will also be greatly served by promoting sub-regional, regional and international cooperation, for example on issues such as hot pursuit agreements with both Sierra Leone and Cote d'Ivoire, and perhaps joint deployment of inspection means. This may apply especially to aerial surveillance which is particularly suited to collaboration between countries due to the costs of such surveillance. Other areas of potential collaboration include joint training programs, regional fishing vessel registers, and harmonization of legislation. Liberia should engage with both the Fishery Committee for the West Central Gulf of Guinea (of which it is a member), and the Commission Sous-Regional des Peches/Sub-Regional Fisheries Commission on such issues.

ELIMINATING FACTORS DETRIMENTAL TO TRADE AND VALUE ADDED

8.19 The EU funded a range of technical assistance activities (2004-2006), which provided training to staff from various Ministries in health and hygiene conditions and regulations required to export fish to the EU. This support also resulted in a draft harmonization dossier, and draft Fishery Product Regulations which would have established a Competent Authority (CA). The draft regulations have not been enacted due to disagreement over which Ministry should house the CA. Resolving this *impasse* is crucial in moving towards exports of fish landed in Liberia. The failure to agree on which Ministry should take responsibility for the CA, is a constraining factor to trade that is hugely important. Not until the CA is agreed and provided for in legislation, can the real work begin of equipping testing facilities/laboratories and training CA inspectors. In the absence of a CA there is little point in encouraging any local producers to consider exports to either the EU or the USA. An agreement must be quickly reached by the three Ministries which are making competing claims for the CA, and if it can not be, then the Governance Commission should make a binding decision by which all Ministries must abide, with appropriate legislation being enacted. Thereafter, continuing efforts must be made to support training of CA staff, and on training and awareness programs for private sector stakeholders on issues of health and hygiene requirements, and best practices. Improving the status of both the facilities and capacity of the CA, and of the private sector, is likely to take several years. It should not be expected that exports to the EU will take place in the immediate future; this is especially so given the current state of infrastructure discussed below, and the time that will be required to improve it.

8.20 Current infrastructure in the sector is very limited. In the artisanal sub-sector (both marine and inland) there are effectively no small-scale landings facilities, no chill stores, and virtu-

ally no use of ice. Beach landing places are not managed, frequently also used as rubbish dumps, and there is a mix of fishing and non-fishing activities that is not acceptable. Almost all canoes are beach-landed, and there is a very low degree of motorization in the small-scale sector (around 8 percent) with many canoes being of the traditional 'dug-out' variety, with obvious limitations on their fishing range. There is very limited (if any) capability and expertise in fiberglass or planked small boat design in Liberia.

8.21 The industrial sub-sector is also poorly provided for with no dedicated landing quay, instead sharing the Bong Mines quay in Monrovia with non-fisheries users. Infrastructure owned and run by cold store companies operating as local agents for foreign fishing vessels, and those just importing fish, is typically of poor condition and not of a standard sufficient to meet EU HACCP requirements. In addition, there is no chill storage/holding facility at the international airport; one of many factors limiting fresh exports of fish by air, along with a road distribution system that results in considerable time being required to travel small distances. These infrastructure and equipment deficiencies require immediate attention as the first step in a longer term process to increase trade.

8.22 In support of the small-scale sector, the first step should be to obtain some donor interest to prepare/specify a project to support a number of Community Fisheries Centers, to be run and managed by the CBMOs to be established. Use rights over such Centers should be assigned to the CBMOs. The project should include a mix of hard infrastructure development (fish receiving halls, ice plants, chill storage, etc), and 'soft' support in the form of capacity development of the CBMOs on issues such as management, revenue generation, etc. The project design should focus on one or two demonstration sites to learn lessons, with other sites to be supported later on. Special care must be taken to size the facilities appropriately given vessel numbers and potential fish landings, and particularly to ensure appropriate levels of management and cost recovery so as to ensure that such facilities are sustainable in the long-term.

8.23 Assisting the small-scale sector in moving towards motorization and the use of more effective/larger canoes, could be achieved following a study into the feasibility of establishing a viable small-scale boatyard and engine import business to cater for local demand, with specification of appropriate training that would be required in vessel construction.

8.24 Facilities available for the industrial fleet also require addressing as a matter of priority so as to assist with efforts to bring product ashore rather than being transshipped, thereby helping to generate greater landings fees and value-added in Liberia. Consideration should be given to accessing donor support for the preparation/specification of a fishing harbor development project. Again, project preparation should take great care with regard to appropriate scaling of an investment, its location, associated capacity building that should be included to ensure good management, and issues of cost recovery.

8.25 The BNF should engage with the Civil Aviation Authority on proposed plans for airport developments to ensure that appropriate consideration is given to chilled holding facilities at the airport; potentially of benefit to both small-scale and local industrial vessels in the future.

8.26 Current awareness of the importance and benefits of proper handling of fish and fish products is limited, with the generation of value-added constrained by both processing and handling methods. Donor support should be provided for a technical assistance project to establish the feasibility of an inland distribution system for fresh fish, so as to facilitate private sector developments that would both generate value-added and contribute to food security. At the same time, support could be given to a project to assist traditional small-scale processors with improved

processing methodologies and storage/handling practices so as to reduce post harvest losses. Such a project could focus on fish smoking/drying technologies, the use of ice, and storage and handling improvements.

8.27 Finally, it is noted that the business environment generates significant constraints to trade and the generation of value-added in terms of problems related to inputs, a lack of credit, and the overall conditions of doing business in the country. Input problems relate to the reliability and costs of electricity and fuel (both critical input factors to fishing and cold/chill storage), as well as limited suppliers of inputs such as fishing gear and engines. In solving these problems, further investigation is required into whether there might be potential for the proposed CBMOs to import equipment duty free. The BNF should also monitor any micro-finance developments in the country, and collaborate with international and local NGOs that may be providing credit in order to promote the inclusion of fisheries in their programs.

RECOMMENDATIONS

8.28 There are many challenges facing the fisheries sector in Liberia. However, it is possible to identify clear steps and actions that can be taken to minimize current constraints. The vision for the fisheries sector should be one of improved sector governance based on an agreed fisheries policy, improved legislation, some form of co-management, regional collaboration, better planning and research, and significant institutional strengthening of the BNF, with all these improvements helping to ensure that the sector realizes its potential to contribute to trade, poverty alleviation and food security at the household, local and national levels.

8.29 The future of the small-scale sector depends on effective MCS of Liberian waters, and control of Community Fisheries Centers by CBMOs, allowing inshore resources to be exploited by the artisanal sector using improved and motorized vessels, both for supplying the domestic market and eventually for the export of high value products. Improved product handling, and health and hygiene standards, would provide for increased value-added from both domestic and export sales.

8.30 In the industrial sub-sector, the vision for the future should include improved MCS of foreign vessels to minimize negative impacts on the domestic sector and generate significant levels of revenue in exchange for access (including through an FPA with the EU), followed by the landing of product in the local market based on improved infrastructure, and eventually the participation of Liberian interests.

8.31 To realize these objectives, many actions need to be taken. Perhaps the most important are:

- Providing greater recognition of the importance of the sector for Liberia's economic revitalization;
- Putting in place effective MCS;
- Finalizing the establishment of a CA and provision of appropriate support for its capacity development, along with training of private sector stakeholders in handling and hygiene improvements;
- Preparing for a FPA with the EU, so as to maximize benefits in terms of immediate revenue generation while minimizing any potentially negative impacts;
- Establishing CBMOs and a system of co-management of resources and small-scale landing facilities; and
- Infrastructure provision for both the artisanal and industrial sub-sectors.

8.32 While the long-term nature of the support required for the sector must be recognized, certainly in the short term, it should be possible to bring back some discipline into the industrial sector fairly quickly through improved MCS, and allied to an FPA with the EU this would serve to quickly generate benefits in terms of revenue to the government, sustainability of fish stocks, and better protection of small-scale fishing interests. However, it is likely that realizing the vision for the small-scale sector is one that will not be achieved quickly given current conditions and practices; a long-term commitment must therefore be provided by both government and donors.

8.33 A summary of potential benefits from the actions proposed is provided in Table 8.1 below. It should be noted that all figures should be considered as approximations and are hypothetical only; in some cases they are difficult to justify. Nevertheless, the table suggests that benefits generated for Liberia by the fisheries sector could be increased by around \$5.5-7 million per year, if the actions recommended are successfully implemented.

Table 8.1 : Summary of potential annual benefits of proposed actions

Benefit	Current benefits / value-added	Future benefits	Benefits beginning ^{/1}	Beneficiaries
Vessel license fees	\$113,000	\$2+ million ^{/2}	2008	Gov't.
Fisheries Partnership Agreement	\$0	\$750,000 - \$1.5 million ^{/3}	2009	Gov't.
Export duties	\$0	\$250,000 ^{/4}	2009	Gov't.
Fines/penalties for illegal fishing	\$0	\$200,000 - \$1 million ^{/5}	2009	Gov't.
Benefits/value-added to domestic sector following introduction of MCS, and actions to reduce factors constraining value-added ^{/6}	\$4 million	\$6.4 million	2009 for improved catches, and 2011 for higher domestic and export prices	30,000+ small-scale fishers and processors/ traders
Annual Total	\$4.1 million	\$9.6-11.2 million		

/1 If actions taken based on the timeframe proposed in the action matrix

/2 Approximately \$1million from vessels currently paying license fees but at increased rates, and \$1million from vessels currently fishing illegally but paying for licenses once MCS improved.

/3 Depends on quantities and species included and the level of compensation agreed for any non-tuna species (tuna almost certain to generate Euro 100/tonne as per other FPAs in the region).

/4 almost impossible to accurately estimate export duties that would result due to the absence of data on current industrial catches exported illegally. But estimation based on a 2 percent duty on 3,500 tonnes of exported fish/shrimp at an average price of \$3,500 per tonne.

/5 Almost impossible to accurately estimate fines/penalties that would result, but these would be expected to be significant at first and then decline as discipline is restored to the sector

/6 Current benefits estimated based on an average annual landings of 7,700 tonnes, \$1,500/tonne, and value-added of 35 percent. Future benefits based on an improvement of 10 percent in landed quantity due to stock improvements following introduction of MCS, and an increase in value-added to 50 percent of sales values (based on improved efficiencies, reduced input costs, and increased sales values in export and domestic markets following improvements in quality). Estimation does not take account of the future reduction in value-added by the domestic sector that could occur as a result of declining fish stocks if current levels of IUU fishing are not reduced. It is not possible to accurately estimate how many of those engaged in the small-scale sector could be engaged with export trade in the future, through either catching or processing/handling prior to export.

9. TRADE POLICY AND INSTITUTIONS

9.1 The Government of Liberia is faced with an overwhelming array of trade policy issues and initiatives. At the sub-regional level, there is interest in revitalizing the 3-member Mano River Union (MRU) with Sierra Leone and Guinea. Liberia is re-engaging with the 15-member Economic Community of West African States (ECOWAS) which is in the process of defining a Common External Tariff (CET) as well as promoting regional free trade. ECOWAS is also negotiating an Economic Partnership Agreement (EPA) with the European Union, which requires the active participation of all its member countries. Liberia is developing its trade and investment relations with the United States in the context of the Africa Growth and Opportunities Act (AGOA). And, at the global level, Liberia has applied to the World Trade Organization to begin the process of accession. Meanwhile, the Government is grappling with various national trade policy issues that generally have the most immediate impact on domestic stakeholders and therefore require the most urgent attention. Typically these have to do with the price of key imported products such as rice or cement.

IMPORT AND EXPORT POLICY

9.2 The Government is confronted with pressure from domestic producers to limit competition, while consumers, retailers or industrial users push to keep prices down. In addition, some policy makers may be concerned to help domestic industry get back on its feet, or to promote self-reliance, while others are focused on revenue generation. The situation is complicated by the fact that international prices may vary significantly over time due to factors beyond the Government's control. The recent rise in world food prices is a case in point.

9.3 While the tariff regime normally defines the level of protection accorded to any one import good, Government may be tempted or pressured to adopt one or more forms of intervention. There is always the possibility to change the tariff, at least until the CET is formally in place. If the objective is to raise the import price, there is also the option of applying a temporary surtax, which may be permitted for a while even after adoption of the CET.⁵³ A range of other more dubious measures may also be considered – changes in the reference price at which imports are valued for duty purposes, detailed physical inspection of all incoming containers, “strict” enforcement of standards, and the application of temporary import bans. The allocation of import licenses is another key decision – a domestic producer will be well-placed to limit the impact of foreign competition if given the sole right to import the product in question. Most of these practices are, for good reason, frowned upon in the WTO as they reduce the transparency of the trade regime, exposing exporters to potential losses and/or encouraging the protection of inefficient local producers.

9.4 Lowering the import price is more difficult but not impossible. Duty rates can be lowered or temporarily waived altogether. Promoting greater competition among importers through the issuance of more import licenses can also help. Government price controls have been tried in many countries in the past but rarely with success, and often with disastrous consequences. Typically supply is curtailed, rationing begins and pressure builds to remove the controls, at which point prices rise dramatically. Even before that point, a black market may develop. However,

⁵³ A number of temporary import taxes are currently being considered by the ECOWAS Member States in relation to the CET. These include a Decreasing Protection Tax, an Import Safeguard Tax, and a Countervailing Duty.

where conditions only allow for one importer, the Government has a role to play in regulating the price, to ensure that the importer does not exploit the situation while ensuring that costs are covered and reasonable profits can be made.

9.5 Government will need to have the capacity to distinguish between legitimate policy instruments and those which are likely to undermine its longer-term objectives. It will also need to develop the capacity to monitor the impact of policy changes and to remove temporary interventions when the job has been done. Perhaps most importantly, Government must be able to explain to the public what is driving prices, what is within its powers, and what is not in the best interests of the country.

9.6 At present, MCI is overwhelmed because there are too many products considered as essential and therefore subject to price monitoring. There should be greater reliance on competition among importers to ensure a fair price for consumers, along with a focus on two types of products:

- Products for which the potential for monopoly pricing exists because the market can only support one importer (cement, flour, petroleum products);
- Highly sensitive products which can have a significant impact on poverty (rice).

9.7 There is little evidence of substantial monopoly profits being made by importers. On the contrary, there is evidence of losses, which is one of the reasons why there is a shortage of some products such as cement. The analysis suggests that MCI tends to lag behind the market in its estimation of costs, and in some cases to overlook some costs. Importers also report substantial delays in getting new prices approved by the MCI, by which time these prices may be out of date given rapidly changing market condition.

9.8 The case of rice is especially complicated, posing both long-term challenges and an immediate crisis as world prices climb to historic highs in mid-2008. The latter is treated in more depth in Annex C. The recommended short-term response is the negotiation of a long-term supply agreement with the Government of China, given the popularity of Chinese “butter rice” in Liberia and the interest that country has in strong relations with Liberia.

9.9 The longer-term challenges of the rice sector are shared with many other countries in the region. As a staple food, the Government has a keen interest in keeping its price down for the urban consumer, and most of their rice is imported. On the other hand, rural rice production needs to be revitalized and low prices could undermine the incentives facing farmers. The situation is further complicated by the fact that some locally-produced rice is exported across the border into Guinea, even as imports dominate the market in Monrovia and other major towns.

9.10 Some observers argue that local rice should be diverted to Monrovia in order to reduce imports. However, although local rice is actually preferred by urban consumers, normal market forces result in exports. This is because traders can obtain a better price this way. This is not surprising since the transaction costs are lower when transporting across the border than when navigating the poor road infrastructure to sell in Monrovia. Furthermore, the price of competing imported rice is higher in up-country Guinea than in Monrovia due to the higher transaction costs required to penetrate the interior.

9.11 Transaction costs are generally absorbed by the farmer in whole or in part. Lower transaction costs will generally mean a higher price for the farmer. Thus the option of exporting rice to neighboring Guinea translates into better incomes for Liberian rice farmers. Somehow restrict-

ing this flow, and redirecting it to Monrovia, would ultimately penalize poor rural farmers by driving down the price they receive in order to cover the high cost of transport.⁵⁴ Any benefits would accrue to consumers in Monrovia, where poverty is less widespread than in the rural hinterland, while discouraging local production.

9.12 Rather than block exports, a better policy would be to reduce transaction costs to Monrovia and improve productivity and processing of local rice production so that it can eventually compete with imported rice. Given Liberia's historical record as a rice producer, and existing taste preferences, this approach would appear eminently feasible.⁵⁵ This remains the preferred strategy in spite of the recent rice crisis, and even though several major rice exporters have blocked their sales, which has only served to aggravate the situation.

ECOWAS AND REGIONAL INTEGRATION

9.13 Liberia is committed to adopting the Common External Tariff (CET) proposed by ECOWAS, which is based on the WAEMU tariff. The current proposal for 4 tariff bands (0 percent, 5 percent, 10 percent, 20 percent) would represent an important simplification over the current regime which features 10 ad valorem rates as well as a number of specific duties. It would mean a moderate liberalization as the existing regime includes tariff rates of 25, 45 and 50 percent, though the last two bands are little used. Equally important, it would lock in the tariff structure, preventing the Government from succumbing to the pressures for tariff adjustments described above, and thereby improving the predictability of the business climate.

9.14 The introduction of the CET may have a somewhat greater liberalizing impact on the few products which enjoy specific duties (e.g. x\$ per unit). The equivalent ad valorem rates for some of these products are significantly higher than the maximum rate of 20 percent envisaged under the CET: 97 percent in the case of beer, 59 percent for detergents, 52 percent for confectionary and 32 percent for soap.⁵⁶ Local producers need to be advised of this change, the impact assessed, and potential adjustment measures considered if necessary. On the other hand, prices in the local market suggest that imported products are not paying such high duties in practice, so the change in actual protection may prove minor.

9.15 The ECOWAS CET negotiating process called for gradual implementation over a three-year period culminating in full implementation by January 2008. Liberian officials joined the process late and so another few years will be needed to complete it, but they have been actively engaged in recent discussions and appear to be well-prepared to undertake the necessary steps.

9.16 There has been some concern that a proper study of the impact on revenue of adoption of the CET has yet to be conducted. However, the IMF has recently contributed a preliminary analysis which suggests that the impact will probably be very modestly negative and possibly even neutral.⁵⁷ The authors were appropriately cautious given the poor quality of the available data, and did call for a more comprehensive review. Yet it may not be worthwhile to pursue this further. Imports are growing rapidly from year to year as the economy picks up, and the IMF predicts they will grow annually by about 15 percent over the next four years, which will substan-

⁵⁴ It would also run counter to the ECOWAS policy of free trade between member countries in primary products – a sound policy which is unfortunately often ignored by members.

⁵⁵ The Comprehensive Agriculture Assessment Study for Liberia estimates the domestic resource cost of different types of rice production and shows that at least some are competitive with imports.

⁵⁶ IMF, Liberia: Tax Reform and the ECOWAS Common External Tariff, July 2007.

⁵⁷ Ibid.

tially increase tariff revenue. In addition, there is undoubtedly much room for improvement in customs administration to reduce losses through fraud and corruption. The plans for outsourcing of customs, together with the simplification of the tariff regime through adoption of the CET, should also generate a significant increase in revenues. Together growth in import volumes and customs reform should more than compensate for any small loss resulting from the lower average tariff rate.

9.17 At the same time, finalization of the CET has been delayed within ECOWAS due to reluctance on the part of Nigeria. Most of the other non-WAEMU members (Ghana, Guinea, Sierra Leone and The Gambia) were on track to complete implementation on time. However, in early 2008, Nigeria was insisting on the addition of a fifth tariff band of 35-50 percent for some products deemed sensitive. This proposal should be reviewed carefully as it would represent a significant reversal of the trade liberalization agenda for the rest of ECOWAS, raising prices to consumers, encouraging investment in import substitution rather than export-oriented enterprise, and possibly discouraging regional trade to the extent that regional free trade policies have yet to be implemented. An alternative to be considered would be the application of a temporary surtax with a pre-defined phase-out over time, such as the one used by WAEMU when it adopted its CET in 2000. This would be country-specific, so that no other country need apply it, and limited in time, so that Nigeria could not use it indefinitely.

9.18 Another important dimension of the ECOWAS customs union is internal free trade, which is much further away from completion than the CET. The ECOWAS Trade Liberalization Scheme (ETLS) aims to promote intra-regional trade through the elimination of duties on all primary products and traditional handicraft products as well as industrial goods from approved factories which meet minimum rules of origin criteria. Liberia has one soap company with products approved for duty-free treatment within the ETLS, but it has not yet tried to export. In practice, several countries have not yet agreed to implement the ETLS and others do so only partially. Trade in primary products is still not free in the sub-region. Nigeria has bans on several such products, though they are due to be removed. Various countries place unofficial barriers on trade for food security reasons, which may seem to increase local availability when neighbors suffer shortfalls, but can backfire when one's own country is in need.⁵⁸

PREFERENTIAL AGREEMENTS

9.19 Developing countries have long been granted special access to the markets of developed countries, starting with the Generalized System of Preferences (GSP), adopted by UNCTAD in 1968. This was followed by the Lomé and Cotonou Conventions for relations between the European Union countries and their former colonies in Africa, the Caribbean, and the Pacific (APC). Recently, the EU approved the Everything But Arms Initiative (EBA) for Least Developed Countries (LDC), and the United States responded with the Africa Growth and Opportunity Act (AGOA), which is accessible to all African countries that meet specific criteria. Liberia, as an ACP, LDC and African country, has been eligible for all these agreements.

9.20 The EBA is the most generous and arguably the most important of these agreements. It is offered by the closest large industrial market for West African countries, and it liberalizes all imports of products from LDCs, with the exception of arms and munitions. Three sensitive agricultural products—rice, sugar, and bananas—have faced some continued restrictions, but their full

⁵⁸ The 2004 famine in Niger was partially the result of informal bans on cereal exports from Nigeria and to a lesser extent, Burkina Faso.

liberalization is expected to be complete by 2009. However, the EBA has quite strict rules of origin, which can limit its usefulness to some African countries.⁵⁹

9.21 The African Growth and Opportunity Act (AGOA), signed into law in 2000 by the United States Congress, grants eligible sub-Saharan African countries duty-free access to US markets for a number of products. The problem is that the American market is relatively open, and AGOA does not touch most of the products where protection remains significant. The level of preference offered by AGOA is therefore low. It is mainly in clothing where tariffs remain high, and where AGOA offers major concessions. Not surprisingly, therefore, it is primarily countries which already had a clothing export capacity which have benefited from AGOA. For the other products, a few percentage points of preference are soon offset by the cost of production and transport, shortcomings in quality, quantities, and reliability, etc. AGOA may help raise the profile of Liberia in the United States, and attract some additional investment, but its impact is likely to remain limited until major supply side constraints are addressed.

Economic Partnership Agreement (EPA)

9.22 Up to the end of 2007, trade relations between the EU and ACP countries (Africa, Caribbean, and the Pacific) were governed by a system of non-reciprocal trade preferences under the successive Lome and Cotonou Conventions. However, these conventions were deemed not to be in compliance with WTO regulations because they discriminated between developing countries without being regional and reciprocal agreements. Discrimination is only allowed under WTO rules if it applies to all LDC countries together (e.g., EBA), to all developing countries together (e.g., GSP), or in the context of a reciprocal regional trade agreement aimed at liberalizing internal trade (e.g., ECOWAS). The EU also insisted on the need to revisit its relations with ACP countries given the small impact of preferential agreements according to its analysis.

9.23 Thus, the Cotonou Convention of June 2000 provided that, starting in early 2008, trade relations between the EU and the ACP countries would be governed by the principle of reciprocity. That is, most products from the EU would enjoy duty-free access to the markets of ACP partners, and vice versa. According to WTO regulations, customs duties would need to be eliminated on 'substantially all trade' between the EU and its partners; in line with practice, this could involve the liberalization of roughly 85 percent of its African partners' imports providing the EU committed to full liberalization of its market. There could also be a transition phase of 10 years or more. The EU preferred to negotiate with groups of ACP countries, both to simplify the process and in order to promote regional integration. ECOWAS was identified as the appropriate negotiating partner in West Africa (with the addition of Mauritania).

9.24 As with the other LDCs of West Africa, Liberia will gain no additional market access from an EPA since it already benefits from trade preferences under the EBA.⁶⁰ Consumers and traders and/or enterprises that use European imports could benefit from lower prices.⁶¹ In contrast, the liberalization of the Liberian market will have at least three negative impacts: (i) a loss in tax revenues on products from Europe, and on a number of imports diverted from third countries in favor of the EU; (ii) the erosion of the level of protection for its producers who sell on the

⁵⁹ Negotiation of more flexible rules of origin under EBA should be pursued by the LDCs.

⁶⁰ The rules of origin may be slightly better under an EPA, but primarily for clothing which is not relevant to Liberia at this time.

⁶¹ The impact on prices will depend on the level of competition among European exporters and among Liberian importers. It is not guaranteed that consumers will necessarily benefit.

local market; and (iii) increased competition from the EU for Liberian exports in other markets in West Africa.

9.25 While the third issue is probably insignificant for the moment, the first two are not. Since some 30 percent of Liberian imports comes from the EU, and import duties are a major source of government revenue, the potential revenue loss is important. At least some of Liberia's weak productive capacity would clearly have trouble competing with duty-free EU imports. However, a more detailed impact assessment is difficult as it depends very much on the choice of the 15 percent of trade that would (perhaps) be excluded from the liberalization process. Should the focus be on the most important products, in terms of revenue (gasoline, cigarettes, and vehicles), or rather on sensitive sectors that provide more jobs (beer, beverages, and soap)? And how will the 15 ECOWAS countries reach consensus on this choice?

9.26 It is therefore not surprising that the ECOWAS countries were unable to reach an agreement by the December 31, 2007 deadline. Instead, the two non-LDCs with the most to lose, Ghana and Côte d'Ivoire, signed interim bilateral agreements. Without the option of using the EBA, they needed to preserve their preferential access to the EU. While ECOWAS continues to work towards a regional EPA, LDCs such as Liberia will need to consider whether this or the EBA alternative is in their best interest. They should also explore the option of designing a regional EPA in which some members can opt out of the trade chapter.⁶² This would only make sense if progress can be made on other dimensions of the EPA agenda (trade in services, investment, trade facilitations, etc.). The prospect of funding for trade capacity building has been held up as another reason to sign an EPA, but it does not appear that there will be much additional money provided apart from what is already available through the 10th EDF.

ACCESSION TO THE WORLD TRADE ORGANIZATION (WTO)

9.27 Liberia applied to the WTO to begin the accession process in June 2007. This is a logical step in the country's process of re-engaging with the international community. The WTO represents the international forum for establishing and policing the rules of the game for international trade, and is currently serving as the secretariat supporting the Doha Development Agenda negotiations. The WTO Agreements include those covering trade in goods, both agricultural and non-agricultural, and services such as banking, transport, tourism and telecommunications. It also includes an agreement on trade-related intellectual property rights. The accession process is summarized in Box 9.1.

9.28 There are a number of potential advantages for any country acceding to the WTO. The application process itself – both the preparation of the Memorandum on the Foreign Trade Regime (MFTR) and the subsequent negotiations – will contribute to domestic transparency and a wider and more open discussion of trade-related issues. It will require a compilation of all relevant laws, the elimination of inconsistencies, and the preparation of new laws to ensure compatibility with WTO regulations. The subsequent negotiations provide a basis for debating the role of liberalization in development, across government and with other national stakeholders.

⁶² This was the approach adopted by Zambia in the Eastern and Southern Africa EPA grouping as the December 2007 deadline approached.

Box 9.1 : The process of accession to the WTO

Working Party: After a country applies to the Director-General of the WTO, the General Council establishes a working party to examine the application and submit recommendations which may include a draft Protocol of Accession. Any member of the WTO can join the working party. The Chairperson of the working party is selected after consultations with WTO Members and the applicant.

Memorandum: The applicant then provides a Memorandum on the Foreign Trade Regime (MFTR) describing in detail its foreign trade regime, including the current tariff schedule and copies of relevant laws and regulations. Among other things, this must cover regulations affecting foreign investment in all service sectors.

Questions: Following circulation of the MFTR, members of the working party ask questions and request more information about the applicant's trade regime. The first meeting of the working party examines the Memorandum, questions and answers, and studies the conformity of the regime with the requirements of the WTO Agreements. Additional questions, replies and information papers are then exchanged.

Bilateral negotiations: The negotiating phase and the fact-finding work on the foreign trade regime usually proceed in parallel. The negotiating phase commences either by the applying government tabling its initial offer on goods or services or by interested WTO members submitting their request lists. The negotiations on market access constitute the most critical element of the accession process as they usually require some significant liberalization of the economy, notably in the services sectors. The resulting market-access commitments of acceding governments can be considered to be the payment for the entry ticket into the WTO.

Report, Protocol of Accession and Entry into Force: The summary of the discussions in the working party is contained in its report together with a draft Decision and Protocol of Accession. The Protocol contains the terms of accession agreed by the applicant and members of the working party. Following the conclusion of bilateral negotiations, the Schedule of Concessions and Commitments on Goods and the Schedule of Specific Commitments on Services are prepared and annexed to the draft Protocol. Following the decision of the General Council to adopt the package, the Protocol of Accession enters into force. Thirty days after acceptance by the applicant, it becomes a WTO member.

This process can easily last 5 years or longer. Cape Verde, the newest member of the WTO, required 7 years. The length of time depends largely on the current openness of the applicant's economy and their willingness to make further concessions. However, the process also demands considerable administrative capacity to assemble and organize all the necessary information and laws, and some new laws may have to be drafted and approved. The WTO members have offered to give LDCs a more lenient treatment but there is little evidence of this to date.

9.29 The process of reaching agreement on this important statement of trade policy, and then locking it in, is a practical way of encouraging investors, both domestic and foreign. The WTO provides an internationally monitored anchor for credible and appropriate domestic trade-related policies. Once commitments are made to the WTO, it is assumed that a Government is unlikely to renege on them. This helps to insulate the Government from protectionist pressures, increasing policy transparency and reducing uncertainty.

9.30 Subsequently, membership ensures access to the markets of other members through the guaranteed application of most-favored-nation (MFN) tariff rates and other WTO principles and instruments. It also allows participation in ongoing policy debates and negotiations at the WTO, as well as access to its powerful dispute settlement mechanism.

9.31 Because of these undoubted advantages, Liberia should proceed with WTO accession. However, it should also recognize the costs involved and take the time necessary to complete the process without disrupting the many other competing priorities. Indeed, it is not clear whether WTO accession should be a high priority at this time. Its trading partners are unlikely to impose higher non-MFN rates. Indeed, thanks to its LDC status and close trading relationship with the US, it enjoys the benefits of preferential access to both the EU, through the Everything But Arms (EBA) agreement, and the US through AGOA. Its principal exports face low or zero tariffs in most markets.

9.32 As for the impact on foreign investment, it is impossible to know what impact WTO accession might have. Liberia's rich natural resources are attracting great interest from abroad, and its democratically-elected and development-oriented government would already appear to provide some reassurance to many investors. Their key concerns are likely to lie in areas such as peace and security and infrastructure. Furthermore, WTO accession will probably take at least five years to complete, whereas the need for foreign investment is now.

9.33 There are other arguments or concerns typically raised by acceding countries. First, accession countries are generally expected to commit to further liberalization of their economies. This can pose problems both for domestic producers, and for government revenues. Given its membership in ECOWAS and the advanced stage of negotiations for a common external tariff, there should be no further pressure on Liberia to lower its tariffs.

9.34 However, there will undoubtedly be pressure to open up trade in services, which means, among other things, better access for foreign investors. This should, in principle, be very positive. It would help reduce costs for consumers and producers, including exporters of goods, and it would reduce both the possibility and the temptation to grant exclusive market access to a single provider. On the other hand, liberalizing services is a complicated process which must be accompanied by sound regulatory policy, an area in which Liberia is only starting to build its capacity. Furthermore, given current laws which favour Liberian citizens – and the limitations placed on access to citizenship – this will require careful preparation and internal debate within the country. While this is a discussion that needs to happen, the Liberian Government will want to choose the appropriate time and place.

9.35 Liberia will also be obliged, within a certain number of years following accession, to implement fully the provisions of the Agreements on Sanitary and Phytosanitary Measures (SPS), Technical Barriers to Trade (TBT), Trade-Related Intellectual Property Rights (TRIPS), and Customs Valuation. All these Agreements have positive aspects, and important institution-building dimensions. Their implementation is not, however, cost-free, especially for a country like Liberia which would be starting virtually from scratch. National regulations would need to be modified where necessary to embody international standards, or else justified where they are more stringent. They would also need to be designed so as to minimize their restrictiveness on trade. These Agreements would involve reforms of existing institutions, and the creation of some new ones. This would cost money and absorb scarce human resources, even when appropriate technical assistance is provided by the WTO or other bilateral and multilateral sources.

9.36 Members are required to notify the WTO of all standards which affect trade and to set up an Enquiry Point where such information can be obtained. They are required to notify others when developing new SPS measures which may affect another WTO member's exports. While all of this is useful in principle, it will take time and effort to implement in practice. With regard to TRIPS, Liberia would have to design and implement a national intellectual property regime. The challenge would be to develop a regime which meets the requirements of foreign interests while also protecting Liberia's own intellectual property. A hasty process driven by the objective of WTO accession would run the risk of satisfying the former while neglecting the latter.

9.37 The Customs Valuation agreement is based on the principle that the declared value of imports should be the basis for valuation, and a series of demanding steps must be followed before the use of a different price can be justified. This will require extensive training for Customs officials in valuation methods, and access to data bases with the needed pricing information⁶³. The experience in many other African countries suggests that it will be difficult to implement this agreement effectively, due to the high level of fraud and capacity limitations.

9.38 Liberia's human resources for the formulation and application of trade-related policies are spread very thinly. The Ministry of Commerce and Industry has very little capacity to deal with trade policy at the moment. The WTO accession process will require participation from a number of other ministries and agencies, most of which are also ill-equipped for the work required and overwhelmed with day-to-day responsibilities. A foreign consulting firm could be hired to help drive the process, and indeed a resident foreign advisor has often been recruited by other acceding LDCs. However, this can not substitute for much of the work which must be done by nationals, and it would be important to use this process to build capacity.

9.39 Completion of the WTO accession process would be complex, with both costs and benefits. It would stretch the country's scarce human and administrative resources. Although the WTO members have pledged to simplify the accession process for LDCs, the recent experience of Nepal and Cambodia has not demonstrated a significant shift in practice⁶⁴. Liberia should proceed with the accession process as a means of building its trade policy capacity and eventually rationalizing and improving that policy. But it would be unwise to rush the process any faster than national capacity allows, as this will likely lead to unexpected obligations without compensatory gains, and neglect of more urgent needs.

THE INSTITUTIONAL STRUCTURE FOR TRADE POLICY

9.40 The Ministry of Commerce and Industry (MCI) is formally responsible for trade policy work. However, like the rest of Government, it has suffered from poor governance and disruptions resulting from the many years of war. Its primary activities remain those which preoccupied such ministries 20 years ago, the issuing of permits and the monitoring (and attempted control) of prices, particularly of imported consumer products. It has yet to shake off the legacy of the war years, when price controls and standards enforcement were used as a basis for raising revenues from private business. Thus, the ministry has little or no capacity to undertake analytical work on regional or international trade policy. It is struggling to cope with the national import policy concerns outlined above, but here too the analytical skills are lacking.

⁶³ Article VII of the GATT requires WTO members to apply customs duties on the value of an imported item based on the price paid or payable in the market, known as the "transaction value." The rule is meant to block the use by governments of artificially high or low "reference" prices.

⁶⁴ Vanuatu halted its accession process for a while out of frustration over the complexity of procedures.

9.41 The current MCI focus on price controls over imported goods makes little sense. It is clear, for a start, that it is ineffective. Officers within the ministry report that almost no cases are ever brought against traders who charge prices over those specified, even though 17 officers are involved in monitoring, and they regularly find prices that exceed specified levels. Even if price controls were properly enforced, they would make little sense. Price controls tend to discourage new entrants into a market, and thus hamper competition in importing. The focus instead should be to work on all constraints facing new entrants into import markets, and to ensure that rules against cartels and price collusion are properly enforced. The challenge in a small economy such as Liberia's is to make sure there are enough independent players in import markets to ensure real competition, such that competitively-set international prices are fully reflected in local prices.

9.42 The Ministry has an annual budget of around US\$900,000, and a staff of roughly 400. The revenue-raising departments have been loaded with staff placed there because of political connections and loyalties, rather than competence. Only about 5 percent of the staff has been educated to university degree level. Many of these degree-holders received their education within Liberia during the disrupted years of the conflict, when university standards declined substantially. With a small budget and large staff, salaries remain very low. Internal services available to support meaningful activities are either poor or non-existent. Copying machines, telephones, email access, secretarial services and the like are inadequate.

9.43 Other ministries have some involvement in trade policy work, notably the Ministry of Planning, arising from its role as the link to ECOWAS. Since the latter deals with much more than trade, the Ministry of Planning plays the necessary role of providing a single point of contact. Given the lack of capacity in MCI, the Ministry of Planning has stepped in to fill this gap with regard to the CET. It has participated in regional ECOWAS meetings and has taken the initiative to set up the National Coordinating Committee (NCC) for the CET. More recently, the Ministry of Finance has become actively involved in CET matters, driven by its concern over the possible impact on revenue. The Ministry of Finance has taken over the chair of the NCC, but it will require continued support from the Ministry of Planning and, ideally, from MCI.

9.44 Significantly, it would appear that no ministry is yet taking an active role with respect to the possible impact of the CET on protection, as opposed to the impact on revenue. As of November 2007, leading manufacturers had not been alerted to the likely impact, which could be significant in individual cases. This would seem to be a logical role for MCI.

9.45 Under the ECOWAS Trade Liberalization Scheme (ETLS), qualifying manufacturers must be registered by a national authority for preferential treatment in other member countries. Here again, the Ministry of Planning has filled the gap, even though this should strictly speaking be the area of responsibility of MCI. A National Approvals Committee has been established and, in 2007, the first Liberian company was registered as meeting the rules of origin criteria.

9.46 It would appear that no ministry has been monitoring developments related to the EPA. Now that the end-2007 deadline has passed, it is possible that nothing more will happen. However, ECOWAS remains committed in principle to pushing ahead with the negotiations. There is clearly a need for some agency of government to take the lead in assessing the pros and cons of an EPA, and making recommendations as to what should be Liberia's position.

9.47 As the agency of government that manages overseas embassies and consulates, the Ministry of Foreign Affairs, implicitly becomes involved in issues of trade policy. However, it would appear that there is currently little or no active involvement in trade policy issues at the embassy

level.⁶⁵ Previously, trade attachés were seconded to key embassies from MCI; shortage of budget meant that this practice was discontinued. However, the current Minister is exploring low-cost mechanisms to locate trade officers in key embassies.⁶⁶ There is probably not yet enough trade policy work at any one location to justify a full-time specialist within an embassy. However, if a low-cost option can be identified, and appropriate training provided, a few carefully targeted officers could play a useful role in trade and investment promotion.

9.48 The weaknesses in MCI are not limited to this ministry. There are serious capacity problems across most ministries and government agencies. In recognition of this, the Government has launched a number of important initiatives. First is the Civil Service Capacity Building Project which has just started.⁶⁷ The focus of this project is to draft a Civil Service Reform Strategy, to drive the process over the coming years. The first draft of this policy is due by March 2008.

9.49 The Government has also initiated a “Senior Executive Service,” a top-level stream of around 100 well-educated individuals, predominantly recruited from returnees, with remuneration to match. This new stream is intended to take Deputy Minister and other leading roles in ministries, and to drive change within these ministries. In parallel, the Government is carrying out a Review of Mandates and Functions, to ensure that ministry mandates are clear, unambiguous and mutually exclusive.

9.50 Such initiatives aimed at building capacity within the civil service as a whole are welcome. Presumably the review of mandates will confirm that MCI is to be the ministry expected to take the leading role in matters of trade policy. An exception would be where issues of revenue are paramount (such as the CET). Here, the Ministry of Finance would take the lead.

9.51 For MCI to grow into this role, however, it is clear that radical institutional change is required. The current focus on price controls and permits 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.

9.52 Following the Review of Mandates and Functions, an international consultancy firm should be brought in, specializing in change management in the public sector. Over a period of two to three years, this firm would drive a process of change and capacity-building within MCI, which would cover all the ministry’s newly-defined mandates and functions, including trade policy work. This process would build on the work of the IFC in reducing the administrative barriers to doing business.

9.53 The model proposed is to have, within the revamped MCI, a small unit of two or three economists, preferably with post-graduate qualifications related to trade economics, who would be responsible for all analysis, monitoring, advisory and other work required to carry out this leading role in trade policy work. This new Trade Policy Unit would have at its disposal a budget for studies, to be contracted out to specialists. It would also have to establish some clear priorities given the wide array of issues facing the ministry. A rolling work plan would need to be developed, planning forward for twelve months, but update every six. Travel to meetings and workshops should be driven by this work plan to ensure that staff has enough time in the office.

⁶⁵ At Abuja, the embassy staff does include one person looking after trade issues.

⁶⁶ One possibility is to use the UN TOKTEN program designed to encourage persons in the diaspora to return home.

⁶⁷ This 30-month project is funded by DfID, and implemented by Adam Smith International.

EXPORT PROMOTION

9.54 There is no separate export promotion agency in Liberia. Within the Bureau of Foreign Trade of MCI, one of its three divisions is the Trade Promotion Office. As a result of the years of conflict, there are currently no internal activities within this division aimed at export promotion or development.

9.55 Liberia is just starting to re-build export flows in the key commodities that have proven export potential – rubber, palm oil, cocoa, iron ore, diamonds, gold, fisheries and forestry products. These will be the basis for export development for several years ahead. There is much to do, but it is not really in the field of what is thought of as “export promotion,” or “export development.” There are infrastructure and regulatory constraints to deal with, but the build-up of exports will depend primarily on attracting foreign investors, who will take care of their own “export promotion” activities.

9.56 However, within these primary export flows, as time goes on, there could be opportunities for “export development” activities, for instance, to develop organic or Fair Trade cocoa, or to develop “wild forest palm oil.” These are small niche markets, but which command premium prices. As to the development of “non-traditional exports,” such as chili peppers, these certainly can have local developmental impact for the farming communities involved. However, the government’s main focus should be on expanding the overall export and import flows for the whole economy. Non-traditional exports should not divert attention from more important activities which MCI needs to develop, to support the broad economy-wide development of trade flows in the key commodities that have proven export potential.

9.57 The absence of a separate export promotion agency is probably appropriate for Liberia. The limited export promotion and export development activities that are justifiable can probably be handled by a small section within the ministry, consisting of one or two professionals, with most of the detailed implementation work carried out by outside specialists, working under contract, and funded by donors, primarily within the proposed ITC program and the Integrated Framework.

QUALITY AND STANDARDS

9.58 One of the three bureaus within the MCI is the Bureau of Commerce and Trade, and one of its four divisions is the Division of Standards. This is the main government entity with specific responsibility for quality and standards, although the Liberia Produce Marketing Corporation (LPMC) is also supposed to set and enforce standards for cocoa and coffee. This Division has a large staff complement of 24, but there is currently no capacity to carry out any meaningful services. The private sector complains of harassment and rent-seeking from standards inspectors. Management is aware of the need for reform, including the transfer or retraining of a substantial proportion of present staff.

9.59 Preparations are underway to establish a Bureau of Standards, to be an autonomous agency under the MCI. It would serve to coordinate across the various ministries and agencies which would be responsible for different aspects of the standards agenda according to their areas of competence. An MoU has been signed with Nigeria to provide technical assistance for the establishment of this new body. The initial focus will be the domestic market.

9.60 A new standards laboratory is being established, to be housed at the Ministry of Public Works buildings, but operated by the Bureau of Standards. It is expected to be operational by

March 2008. The initial priority will be to establish a capacity to maintain statutory standards in matters of health and safety. For this reason, the laboratory will initially focus on micro-biology and chemistry. Later, capacity will be extended, so as to maintain standards in the area of weights and measures. However, there is also a suggestion that the new laboratory should be able to assist in current efforts to develop exports to the USA of food items such as chili peppers, possibly by certifying to USDA standards.

9.61 An ECOWAS regional project is under preparation with UNIDO on “Competitiveness Support and Harmonization of TBT and SPS Measures”, with EU funding expected to be Euro 8m. This project follows a similar earlier project that covered the WAEMU group of countries from 1999 to 2005. The intention is that this second project should extend the WAEMU approach to eight more ECOWAS countries, including Liberia. The project is ambitious, seeking (i) to accredit laboratories and inspection agencies to international standards; (b) to build capacity in national standards organizations; (c) to upgrade metrology labs to ISO 17025; and (d) to build capacity within inspection agencies, particularly covering plant and animal health matters. The MCI hopes to obtain one-eighth of the total regional funding (Euro 1m.), in particular, to help fund its new laboratory, but this may be unrealistic as much of the budget will go to regional project costs.⁶⁸

9.62 The initial focus of the Bureau of Standards is sound, namely to concentrate on the domestic market, starting with health and safety matters, and then following with weights and measures. With respect to exports, much of the expected growth is likely to be from foreign operators, who will require little or no direct support from the standards bureau. They will either export to international commodity standards, or to specifications agreed with customers, and will probably use commercial inspection agencies specified by large and sophisticated customers. Cocoa grading will be handled by private, up-country buying centers and again by exporters, with perhaps a light monitoring role played by a new regulatory agency. The current enthusiasm with chili peppers and the like should not drive major investments within the new bureau. If and when such new export flows become a significant component of total exports, this can be reviewed.

9.63 The one exception may be fish products. An appropriate Competent Authority (CA) is urgently needed before exports to the EU can restart. A previous EU project spent considerable time and money training the Division of Environmental and Occupational Health in the Ministry of Health (MoH) to prepare them to be the CA, but the required legislation was never enacted. It is possible, though not necessarily ideal, that the new laboratory could take on the responsibility to serve as CA as well. Another option being considered is the Ministry of Agriculture. The important thing is that a decision be made soon and the legislation prepared and approved. The degree to which the different bodies are ready to assume this function should clearly be an important criterion.

9.64 MCI should clarify as quickly as possible what financial support it can realistically expect from the ECOWAS project, to establish its new bureau and lab. Supplementary funding is almost certain to be required. In addition, the ECOWAS project provides a potential opportunity to agree on regional arrangements, so as to share expensive and specialized investments between a number of countries. This should be explored.

⁶⁸ Line items for country-level support appear to be modest, for instance Euro 3,000 per country for IT support to standards bureaus, and Euro 30,000 per country to provide materials for documentation centers within these bureaus.

9.65 Liberia should take advantage of having to start again, almost from scratch, and should learn the lessons from elsewhere. A national standards bureau has a vital role to maintain proper standards in health, safety and metrology. However, MCI planning should recognize that many other quality-related services can be most effectively provided by a competitive market supplied by competing private service providers, appropriately accredited to international levels. The Ministry would do well to obtain the best possible advice on international practice, when planning its investments in quality-related services.

COORDINATING MECHANISMS

9.66 Perhaps more than any other issue, trade policy suffers from a fragmented policy-making process because a wide array of ministries develops policies that affect international trade, and trade agreements are becoming increasingly broad in their coverage. Most constraints on integration into the international trading system stem not from traditional trade policy issues but rather from domestic weaknesses in areas such as transportation, customs procedures, quality and standards, and the domestic business climate. An important function of the trade ministry is therefore to coordinate across government seeking input on technical issues which lie outside its competence and serving as a champion for trade issues, pushing other officials to address key problems.

9.67 In addition, the private sector must be closely involved, as they are ultimately the ones doing the trading. This is where most of the information lies on which trade policy must be based. The private sector can not be allowed to drive the process on the import side, as the interests of consumers must also be considered, and there may be competing interests within the private sector (e.g. between importers and producers). On the export side, listening to the private sector will be critical to identify binding constraints. However, labor and community groups must also be heard, notably where exports are natural-resource based as in Liberia. Thus civil society must also be engaged.

9.68 Well-informed private sector and civil society organizations should, in principle, also help the government reach out to broader society as it tries to explain trade policies – though trade reform tends to be controversial even in the most advanced countries. It will be necessary to promote policy-relevant research in the university or consulting firms to supplement the government's limited capacity. Such independent analysis can also serve to build public understanding of and support for action on key trade issues.

9.69 Liberia has several nascent coordinating mechanisms which could support trade policy and export development if strengthened. The NCC for the CET has the minimum requisite representation from the public and private sectors and is already developing some familiarity with the complexities of tariff reform. It also has the advantage that it is not associated with any one Ministry – its is chaired by the Ministry of Finance, supported by a secretariat in the Ministry of Trade and Industry, but the driving force to date has been the Ministry of Planning. This bodes well for building a sense of joint responsibility and ownership. It would make sense to maintain this committee after the CET is finalized and expand its mandate and membership to cover the EPA negotiations, and eventually WTO accession.

9.70 The Liberia Better Business Forum is gaining credibility as a venue for dialogue between the public and private sectors, and it enjoys technical support from the IFC. One of its sub-committees is focused on trade and export development, but it is still trying to define its objectives and work program. This forum is intended to be driven by the private sector so it can not play the coordinating role on its own, but it should be an important source of information. The

private and public sector co-chairs of the trade sub-committee should probably be key actors in the NCC or other coordinating mechanisms.

9.71 Some trade issues will require attention at the ministerial level, and the trade agenda must be part of the national development strategy. Consequently, it will be important to engage the Economic Revitalization Committee (ERC) of the Liberia Reconstruction and Development Committee (LRDC). The ERC is chaired by the Minister of Finance and has led preparation of the economic growth component of the Poverty Reduction Strategy (PRS). It reports to the LRDC which is chaired by the President. The ERC represents the primary basis on which different ministries with an interest in trade issues come together to co-ordinate their planning. The structure appears to work reasonably well, and is widely supported. Something akin to this structure should be continued beyond the finalization of the PRS in order to monitor its implementation and provide continuing inter-ministerial co-ordination on the broad agenda of trade and export development.

9.72 Whatever mechanism is set up to monitor implementation of the PRS, it should also be responsible for overseeing the Integrated Framework program as it moves beyond the study phase. However, a separate sub-committee of senior technical staff should be established to provide regular support and guidance to the Integrated Framework secretariat.

RECOMMENDATIONS

9.73 The Government of Liberia generally, and the Ministry of Commerce and Industry in particular, are confronted with a daunting number of challenges related to trade policy, trade negotiations, and export development. Some tough choices will have to be made based on where decisions and reforms are most likely to generate the jobs, incomes and revenue so desperately needed, as well as those questions which most preoccupy the citizenry. At the same time, there is an urgent need to build analytical capacity to tackle the various issues.

- Import policy on key goods of interest to consumers appears to be the number one priority. The Government needs to build its capacity to analyze the costs, benefits and distributional implications of intervention, identify appropriate measures, and explain the final action – or inaction – to stakeholders. This issue should decline in importance once the CET is in place and the role of government in the market place has been better understood by all, but it is unlikely to go away.
- The ECOWAS CET will also require immediate attention, notably with regard to the intransigence of Nigeria to accept the WAEMU tariff structure. Public education on the reform will be important, and possibly some temporary assistance to affected enterprises, if analysis shows that the actual level of protection will in fact decline significantly.
- The EPA negotiations being coordinated by ECOWAS are probably next on the list of priorities, though the final decision may be to live with the status quo. But Liberia can not afford to let others make decisions which will ultimately be imposed on them.
- The ECOWAS trade liberalization scheme (ETLS) should be improved through more rigorous implementation, but it may not be of much short-term benefit to Liberia, since most Liberia exports will leave the sub-region. Nonetheless, any domestic exporters who are interested in exploring the regional market should be supported through appropriate certification and backed up diplomatically in the target market to ensure that their duty-free privileges are honored.

- AGOA does not appear to pose any trade policy concerns at present, and its short-term potential is probably even more limited than that of the ETLS. However, any exporters who think they have a chance of competing in the US market should be encouraged within the limits of the Government's mandate. There may eventually be negotiations for a free trade agreement with the United States which will require extensive preparation.
- WTO accession is a long-term challenge which may have to wait until more immediate concerns are addressed and capacity is built. Training offered by the WTO should be explored, providing it does not divert key analytical staff from more urgent dossiers.
- The Ministry of Commerce and Industry is in need of a major overhaul to shift its focus from controls and revenue generation to facilitation and policy formulation. It will require outside, professional advice, financial resources, capacity-building and lay-offs. This will be a lengthy process but it must begin soon. On trade policy, a small unit of 2-3 persons with background in economics is needed.
- While most of the measures needed to promote exports will fall outside the purview of MCI, it should do whatever it can to simplify procedures and serve as a catalyst for export development. Its responsibility for the Integrated Framework should be used to this end. However, a separate export promotion agency is probably not warranted at this time, and a small unit within the ministry should suffice.
- The proposed approach for the new Bureau of Standards is sound. It should begin by dealing with domestic health and safety issues, followed by weights and measures. Regional cooperation and private sector capacity should be called upon wherever possible. Standards conformity for exports should not be a priority for the new laboratory at this time, with the possible exception of fish products.
- A structure for coordination across ministries and consultation with the private sector and civil society must be established. One option would be to have the deliberations of the Liberia Better Business Forum feed into an expanded National Coordinating Committee for Trade, building on the latter's initial work on the CET. This committee would need some civil society representation along with its private sector membership. It could then report to the ERC for overall strategic guidance.

Annex A: Full Action Matrix
(*priority actions in bold italics*)

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST (US\$)	PARTY RESPONSIBLE	PERFORMANCE INDICATORS
Macroeconomic policy				
Move forward with tax policy and administration reforms	Implement the tax reforms: i) reduce corporate income tax rate and highest marginal personal income tax rate to 30%; ii) raise GST to 10% by 2010; iii) establish headquarters in charge of policy formulation and field offices for implementation; iv) further reduce tax exemptions by strictly applying LRC; v) reduce Minimum Turnover Tax to 1.5% on firms with turnover less than LD 5 million.	3 years Cost uncertain	MoF	Tax reforms implemented via laws or executive orders; reforms are understood by stakeholders
<i>Resolve domestic debt situation</i>	<i>Develop mechanisms for the treatment of contestable and rejected claims and conclude agreements with the commercial banks on restructuring the debt owed to them</i>	<i>1 year, No cost</i>	<i>MoF</i>	<i>Mechanisms in place and agreements signed</i>
Manage dual currencies	Monitor the evolution of the money supply and promote use of Liberian dollar without regulatory interventions	5 years, No cost	CBL	Exchange rate remains stable; demand for LD increasing
Financial Services				
<i>Improve understanding of the finance sector</i>	<i>Undertake detailed financial sector assessment to identify the major constraints, its internal organization, and options for development</i>	<i>1 year, \$100k</i>	<i>CBL, MoF</i>	<i>Study completed and report with detailed recommendations issued</i>
<i>Strengthen micro-finance and non-bank financial in-</i>	<i>Pass a separate microfinance law or amend the existing New Financial Institutions Act of 1999; ensure legislation is in place for establishment of microfinance banks</i>	<i>1 year, No cost</i>	<i>CBL, Parliament</i>	<i>Legislation passed</i>

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST (US\$)	PARTY RESPONSIBLE	PERFORMANCE INDICATORS
<i>stitutions</i>	Review legal structure for NBFIs to ensure proper regulation that protects deposits and avoids unfair competition	2 years, \$50k	CBL	Report with detailed recommendations issued
	<i>Strengthen the capacity of the CBL to extend its supervisory and regulatory operations to microfinance and other non-bank financial institutions</i>	<i>2 years, \$100k</i>	<i>CBL</i>	<i>Capacity strengthened</i>
<i>Strengthen commercial banks</i>	<i>Pass legislation to define better legal procedures for loan recovery and enforcement of loans regarding collateral.</i>	<i>1 year, \$30k</i>	<i>CBL, MoJ, Parliament</i>	<i>Legislation passed</i>
	Invite Liberian citizens, outside banks, etc. to participate in equity capital of commercial banks. Raise their required capital adequacy ratio to level necessary for the riskier loans needed for broad-based Liberian development	1 year No cost	CBL	Capital position of commercial banks strengthened
	Move towards settlement of all non-performing loans, including past debts and arrears of the government.	1 year, \$50k	CBL	All non-performing loans fully settled
Improve services	Encourage the establishment of branches of international and regional banks consistent with the capacity of the CBL to supervise and regulate the banking system	3 years, no cost	CBL	Branches of international and regional banks established in Liberia
<i>Implement Financial Inclusion Strategy</i>	<i>Implement The Liberian Strategy for Financial Inclusion (2008-2012)</i>	<i>4 years, Cost uncertain</i>	<i>CBL, MFIs commercial banks</i>	<i>Strategy implemented</i>

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST (US\$)	PARTY RESPONSIBLE	PERFORMANCE INDICATORS
Investment Climate				
<i>Improve road access to the interior</i>	<i>Rehabilitate and rebuild rural road network giving priority to regions with major smallholder tree crop activity</i>	<i>5 years, > \$50m.</i>	<i>MPW</i>	<i>Number of miles of road built and usable in rainy season</i>
<i>Rehabilitate Port of Monrovia</i>	<i>Prepare for PPP, as per December 2007 MoU</i>	<i>3 years > \$5m.</i>	<i>MoF; NPA</i>	<i>PPP contract or contracts signed</i>
<i>Improve land tenure conditions for investors</i>	<i>Set up Land Commission, with an initial focus on fast-track approaches providing sufficient security of tenure to promote investment in tree crops</i>	<i>3 years <\$1 m.</i>	<i>MoF, Justice, Cabinet</i>	<i>Land Commission established</i>
	Begin public debate on discriminatory land tenure provisions of Constitution	5 years \$0.1 m.	Cabinet	Press coverage of active debate Date set by Cabinet for decision on Amendment[s]
Develop supply of serviced industrial land	Establish infrastructure for first new industrial estate, to be privately managed	5 years \$ 5-10m	MCI	First industrial estate up and running, with first tenants established
<i>Reduce administrative barriers</i>	<i>Continue IFC Investment climate project</i>	<i>3 years funded</i>	<i>MCI</i>	<i>Annual Doing Business Survey shows major improvements</i>
Improve debt recovery	Undertake major review of debt recovery and debt court system	5 years \$3-5m	MoJ	Doing Business Survey shows improved performance
Improve electricity supply	Let first major PPP contract, for greater Monrovia, with IFC as advisor	3 years \$1-3m	LEC	PPP contract let
Improve water supply	Begin re-establishment of public water supply to some of greater Monrovia	5 years Funded	LWSC	Mains supply re-established to some areas
Improve internet access	Set up improved data links within greater Monrovia	5 years \$10-30m?	LTC	Fast, reliable, competitively-priced internet access comes on stream in some areas
Improve Investment Code	Draft Investment Code presented to Parliament	1 year none	Office of President	Code approved by Parliament
Improve Revenue	Consider further improvements in the amendment currently before	1 year	Office of	Revised amendment approved

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST (US\$)	PARTY RESPONSIBLE	PERFORMANCE INDICATORS
Code	Parliament	\$0.1 m.	President	by Parliament
Improve performance of NIC	Re-establish NIC as semi-autonomous agency, with mixed public/private board	5 years <\$0.5m	Office of President	NIC re-established
Customs and Trade Facilitation				
<i>Make immediate reductions in the cost of importing</i>	<i>Reduce fees for special services and PSI, eliminate PSI for essential goods and use DI, reduce security apparatus at the port, reduce number of signatures for IPDs and eventually eliminate document</i>	<i>1 year No cost</i>	<i>MoF, NPA, NBI, MNS, Coast Guard</i>	<i>Fees rationalized, 2 security agencies operating at the port, IPDs eliminated</i>
<i>Simplify export procedures</i>	<i>Remove MoF Excise Tax Division and Bureau of Concessions from export declaration process; confine export clearance functions to Customs at the port; eliminate EPDs</i>	<i>1 year No cost</i>	<i>MoF</i>	<i>Export clearance process takes less time</i>
<i>Undertake major reform of customs</i>	<i>Automate customs clearance by implementing ASYCUDA</i>	<i>2 years \$2.5m</i>	<i>MoF</i>	<i>ASYCUDA operational and used</i>
	Improve collaboration between agencies; delegate more responsibilities to Customs; create a one-stop shop	2 yrs	MoF, MCI, MoH, MoA	One-stop shop in place
	<i>Adopt Single Administrative Document based on ECOWAS model, to be employed by all relevant agencies</i>	<i>2-3 years \$100k</i>	<i>MoF</i>	<i>SAD adopted</i>
	Introduce risk management by all border agencies	3-4 years	MoF, Customs	Number of inspections falling while revenues rising.
Agriculture				
<i>Establish efficient value chains</i>	<i>For each of the value chains (rubber, oil palm and cocoa): i) Preparation of an operational development strategy; and ii) Implementation of medium-term action plan</i>	<i>1 year \$150k; 2-5 years (cost tbd)</i>	<i>MoA, MoF, MCI, stakeholders</i>	<i>Operational strategy and medium-term development programs approved by main stakeholders & Government</i>
	<i>Establish three permanent stakeholder (“Inter-professional”) bodies.</i>	<i>1 year, \$50k</i>	<i>MoA, Stakeholders</i>	<i>Stakeholder body established with clear mandate, statutes and operational policies.</i>
<i>Establish legal and</i>	<i>Comprehensive review of laws and regulations on: (i) introduc-</i>	<i>2 years,</i>	<i>MoA, MoF,</i>	<i>Legal and regulatory frame-</i>

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST (US\$)	PARTY RESPONSIBLE	PERFORMANCE INDICATORS
<i>regulatory framework.</i>	<i>tion of new genetic material; (ii) grades and standards; (iii) SPS policies and traceability; (iv) farmers associations, (v) exit and entry of new operators; and (vi) export requirements</i>	<i>\$100k</i>	<i>MCI, MoH</i>	<i>work overhauled</i>
Improve access to market information	Establish an agricultural price information system (in particular for cocoa)	1-5 years, \$500k	MoA, MCI	Agricultural price information system operational in all districts
Strengthen producer associations	Develop strategy and program for facilitating the establishment and activities of grass-root producer associations	5 years, \$100k	MoA	Producer associations active, competitive in all 3 value chains
Improve access to credit	Design and implement a pilot inventory credit operation;	2 years, \$100k	MoA, MoF	Pilot scheme operational
	Support the development of rural financial institutions.	5 years, cost tbd.		Extension of the rural outreach of financial institutions
<i>Provide small-holders with improved planting material</i>	<i>Mobilize industrial estates and specific development projects such as the STCP; Implement “smart subsidy schemes” including: (i) an efficient targeting mechanism; (ii) an exit strategy for transferring service delivery to private operators; and (iii) a reliable and equitable funding mechanism.</i>	<i>5 years, \$100k</i>	<i>MoA, estates; stakeholder bodies</i>	<i>Mechanisms/schemes operational</i>
Promote private input supply	Prepare strategy for the production of foundation genetic material, and commercial multiplication and distribution systems.	5 years, \$100k	MoA, estates; stakeholders	Program launched
Prevent importation of disease	Conduct review of the existing phytosanitary policy and genetic material import system, and make recommendations for reform.	1 year, \$50k	MoA, MCI, MoH	New legislation/regulation enacted and implemented
Re-building of the National research system	Prepare and implement a program for rebuilding the national agricultural research system, based on partnerships with users (producers, processors), other research centers and regional networks	5 years, \$200K to prepare	MoA, MoSR, stakeholder bodies	New research system able to generate well suited technologies
Cocoa				

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST (US\$)	PARTY RESPONSIBLE	PERFORMANCE INDICATORS
<i>Establish new regulatory agency</i>	<i>i) Review options for responsibilities and institutional structure of new regulatory agency; ii) Undertake audit of LPMC and liquidate it; iii) Establish new, efficient regulatory agency.</i>	<i>1-2 years, \$150k</i>	<i>MoA, MoF, MCI</i>	<i>LPMC liquidated; New regulatory agency established and operational</i>
<i>Create competitive and efficient marketing channels</i>	<i>Establish a “best practice channel” through buying stations up-country to purchase cocoa at a price reflecting quality and marketing costs; Assist cocoa traders and exporters to access market information and finance, and invest in infrastructure.</i>	<i>1-5 years, \$2.5m.</i>	<i>MoA, stakeholder body</i>	<i>Best practice/fair trade channel operational; Program launched</i>
Rehabilitate and extend existing smallholders plantations	Improve cocoa yields through: i) Implementation of a training program for farmer groups in proper replanting, husbandry techniques and cocoa pest control; ii) Promoting high yielding hybrid varieties through clonal seed gardens and private nurseries.	5 years, \$1 m.	MOA, stakeholder bodies	Extension programs implemented; Clonal gardens and private nurseries established and operational
Improve quality	Improve cocoa quality through i) Aligning grades and standards to international practices; ii) Implementing training program for farmers for proper fermentation and drying, pest control and post-harvest treatment of cocoa	5 years, \$2.5 m.	MOA, stakeholder bodies	New grades and standards enacted; Techniques adopted
<i>Oil palm and Rubber</i>				
<i>Develop industrial estates and out-grower schemes</i>	<i>i) Design a new, best practice “Concession Policy”, addressing economic, social and environmental issues; ii) Review existing concessions to align them with new policy, iii) Design a contract farming policy (access to inputs and services, pricing).</i>	<i>2 years, \$250k</i>	<i>MoA, MoF, MoJ</i>	<i>New concession policy adopted; All concessions renegotiated and aligned with new policy; contract farming arrangements signed with 75% of estates</i>
<i>Privatize existing State-owned oil palm plantations</i>	<i>Technical, financial and social audit of existing state-owned plantations; Preparation of detailed bidding documents for privatization of plantations; Implementation of transparent bidding process.</i>	<i>2 years, \$400k</i>	<i>MoA, MoF, MoJ</i>	<i>State-owned plantations privatized</i>

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST (US\$)	PARTY RESPONSIBLE	PERFORMANCE INDICATORS
Support value added	Design of produce trade/export policy conducive to local processing/value added.	1 year, \$30k	MoA, MoF	New trade/export policy enacted
Promote oil palm processing	Review of small-scale oil-palm mills available on world market; Design and implement a program with importers, traders, and financial institutions to make these available within Liberia	5 years, \$100k to prepare	MoA, MCI	Substantial private investments in efficient oil palm processing equipment and extraction ratio at industry standards
<i>Rehabilitate and extend existing small-holder plantations</i>	<i>Agreement with industrial estates (and inclusion in concession agreements) for the provision of planting material and agricultural advice to smallholders; Implement training courses for farmer groups (FFS) in rubber oil palm rehabilitation.</i>	<i>5 years, \$300k</i>	<i>MoA, estates</i>	<i>Agreement with estates reached and mechanism operational; Training programs implemented and techniques adopted.</i>
Mining				
Promote exploration activities	Collect, organize and disseminate geological information to large and small-scale miners	5 years, >\$10m.	MLME	Reliable geological data readily available
<i>Improve legal and regulatory framework</i>	<i>Revise mining law and develop mining sub-chapter of Revenue Code, develop mining regulations, harmonize laws with other legislation, adopt model MDA,</i>	<i>2 years, >\$600k</i>	<i>MLME, MoF, parliament</i>	<i>Clear set of consistent laws available for all interested parties</i>
Improve fiscal impact and transparency	Develop large taxpayers unit to carry out technical audit of extractive industries, link fees into tax payment system, implement and expand EITI	2 years, >\$1 m.	MLME, MoF	Revenues increasing, information publicly available
<i>Ensure equitable sharing of benefits</i>	<i>Develop mechanisms for sharing financial benefits with local communities, while minimizing and compensating for negative social and environmental impacts; promote regular consultation</i>	<i>2 years, \$500k</i>	<i>MLME</i>	<i>No major tensions between large mines and communities</i>
<i>Support small-scale mining</i>	<i>Formalize illegal mining, create mining cooperatives, introduce more efficient technologies, provide social programs</i>	<i>5 years, >\$5m.</i>	<i>MLME</i>	<i>Small-scale miners enjoying higher living standards</i>

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST (US\$)	PARTY RESPONSIBLE	PERFORMANCE INDICATORS
Wood Industry				
<i>Develop strategies and incentives to promote value-added</i>	<i>Re-write Chapter 13, Section 13.3 of National Forestry Reform Law on Processing of Timber Products; Build into Law decreasing export taxes with degree of processing.</i>	<i>1 year, \$20K</i>	<i>FDA, MoA, MoJ, MoF, NIC</i>	<i>Incentives for investors clearly set out; no disputes on definitions and associated regulations.</i>
	<i>Draft Forestry Processing Strategy with Roadmap of quantitative targets for value-added products for 5, 10, 15 yrs.</i>	<i>1 year, \$60K</i>	<i>FDA, NIC, LTA, MPEA</i>	<i>Strategy published; vision is understood by stakeholders.</i>
<i>Promote value added quick wins</i>	<i>Adopt ATIBT grading rules on all logs for exports and later processing.</i>	<i>1 year, \$200K</i>	<i>FDA</i>	<i>Percentage of log harvest graded.</i>
	<i>Strike a deal between FDA & NPA on abandoned ekki logs in Buchanan Port and study feasibility of a sawmill to produce railway sleepers.</i>	<i>1 year, \$160K</i>	<i>FDA, NPA, MLME</i>	<i>Feasibility and agreement established.</i>
Improve industry and market knowledge base	Study West African profitability of log exports, sawn timber and its remanufactures, furniture components. Taxes and fees set on the basis of economic returns.	2 years, \$80K	FDA, MPEA, MoF	Study completed; taxes and fees adjusted according to results of study.
	Conduct survey of the regional West African, Maghreb and South African markets for value-added wood products	1 year, \$80K	FDA, NIC	Potential buyers identified and sales contacts initiated.
	Establish a network with market information providers and timber laboratories on lesser-used tropical timbers to take stock of promotional work and results achieved.	1 year, \$40K	FDA, NIC, MoF	Number of LUS species referenced with testing, end-use study, promotion.
	Conduct market research for identified Liberian value-added wood products that would be exported to the major overseas markets (Asia, Europe, US).	1 year, \$50K	FDA, MoC, LTA	Number of potential buyers and importers identified; Number of sales contacts initiated.
Improve skills of foresters	Enroll Liberian foresters in ATIBT log grader diploma courses.	1 year, \$16K	FDA, ATIBT	Increased number of Liberian certified log graders.
	Enroll Liberian foresters/engineers into EIA training abroad or with EPA (Environmental Protection Agency)	1 year, \$30K	EPA; FDA	Number of Liberian EIA inspectors increased.

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST (US\$)	PARTY RESPONSIBLE	PERFORMANCE INDICATORS
	Support the College of Agriculture & Forestry at the University of Liberia; strengthen the UofL Fendall Campus; rehabilitate FTI.	4 years, \$340K	FDA, MoE, educational institutions	Forestry college system and higher education brought back into operation.
Increase availability of skilled labor	Restore a wood industry training facility and develop a modernized training curriculum driven by industry needs.	1 year, \$160K	MoE, MoL, FDA, LTA	Number of operators and skilled laborers increased; skills up-graded.
Improve marketing	Organize 3-4 day marketing courses for company sales staff & managers with exercises pertaining to their priorities in marketing.	2 years, \$15K	LTA, ALL	Number of sales staff & managers attended the courses.
<i>Protect and develop use of NTFP</i>	<i>Conduct study of NTFP potential and formulate policies to ensure their sustainable development; create NTFP unit in FDA</i>	<i>2 years, \$50k</i>	<i>FDA</i>	<i>Study completed; unit established</i>
Fisheries				
Raise profile of fisheries sector	Allocate dedicated budget for BNF; Mention fisheries in Liberia Revenue Code	1 year, no cost	MoF, MoA	Separate budget line for fisheries, code amended
Improve sector governance and management	Finalize and adopt sector policy, new Act and regulations	1 year, no cost	FAO, MoA, BNF	Policy, Act and regulations adopted
	Ratify UNCLOS, baseline survey and deposition of charts on EEZ, territorial sea etc with UN	1 year, \$65k	MoFA	UNCLOS ratified
	Institutional assessment and planning for BNF, including review of institutional relationship to MoA	1 year, \$50k	MoA/BNF	Institutional assessment completed
	Prepare research strategy and its implementation	1 year, \$35k	CARI, BNF	Strategy in place
<i>Prepare to negotiate a Fisheries Partnership Agreement</i>	<i>Conduct study tour to other African countries with FPAs to learn lessons; prepare action plan for negotiations and implementation</i>	<i>1 year, \$15k</i>	<i>BNF, MoA, MoF, MFA</i>	<i>Study tour completed; action plan in place</i>
<i>Reduce illegal, unregulated and unreported (IUU) fish-</i>	<i>Conduct due diligence on MP&R proposal and, if cleared, prepare MoU specifying activities, reporting requirements, and transparency for revenue generated from fines; otherwise inves-</i>	<i>1 year, \$15k</i>	<i>MoA, BNF, MFA, MoD, MoJ</i>	<i>MoU/agreement signed with MP&R, or UNMIL</i>

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST (US\$)	PARTY RESPONSIBLE	PERFORMANCE INDICATORS
<i>ing</i>	<i>tigate potential for UNMIL to conduct MCS activities.</i>			
	<i>Train Coastguard and fisheries inspectors/observers to operate from coastguard marine platforms or fishing vessels in the future</i>	<i>2-3 years, \$100k</i>	<i>MoD, BNF, MoA</i>	<i>Coast Guard performing effective MCS</i>
	<i>Specify and implement: i) Operating Procedures for marine and shore-based inspections, inspection protocols, duties of observers and inspectors; ii) MoUs between BNF, MoD/Coastguard and other parties for patrol activities; with reference targets for fisheries surveillance and boardings, and aerial surveillance if funds available; iii) VMS system and operations, and subsequent training and capacity development</i>	<i>2-5 years, \$350k</i>	<i>MoD, BNF, MoA</i>	<i>Procedures and protocols defined; MoUs signed; VMS system operational</i>
	Sign FAO Compliance Agreement	2 years, no cost	MoFA, BNF	FAO records
	Join the Sub-Regional Fisheries Commission (SRFC) and engage in other regional coordination on IUU fishing and MCS activities	1 year, \$50k	MoFA, BNF, CSRP, SRFC	BNF active member in SRFC
Build local capacity	Establish CBMOs in small-scale fisheries, with legislative backing, and develop Community Fisheries Centers (CFC) run by CBMOs; develop mechanisms for reporting of IUU fishing	5 years, >\$3m.	BNF, LMTI, MCS operators	Several CBMOs and CFCs active
Promote value added activity	<i>Agree on Competent Authority, enact legislation, train relevant staff and private sector stakeholders on best practices and potential for improved quality and health and hygiene conditions</i>	<i>1 year, \$100k</i>	<i>MoA, MCI, MHSA, EU SFP project</i>	<i>CA established; fish exports meeting EU standards</i>
	Study viability of small-scale boat building and outboard engine business, and mechanisms for training/recruiting boat builders	1 year, \$25k	BNF	Feasibility study done
	Construct a dedicated industrial fishing harbor	4 years, cost tbd.	BNF	Project preparation documentation
	Upgrade airport to provide for export of fresh fish by air	5 years, cost tbd	CAA/BNF	Meeting notes/agreements

OBJECTIVE	ACTION TO BE UNDERTAKEN	TIMING & COST (US\$)	PARTY RESPONSIBLE	PERFORMANCE INDICATORS
	Negotiate with foreign fleet to supply small pelagics for freezing, and conduct feasibility study of inland distribution	1 year, \$50k	Private sector	MoU between foreign boats and local company
	Support small-scale processors/traders to reduce post harvest losses through improved processing technology and better storage	4 years, \$200k	BNF	Project/training records
Trade Policy and Institutions				
Develop trade policy capacity	<i>Conduct functional review of MCI; develop and implement plan to restructure Ministry, retrench or retrain staff, hire new staff</i>	<i>3 years, \$1m.</i>	<i>MCI</i>	<i>Review and restructuring completed</i>
	<i>Build capacity on import policy to identify appropriate instruments, monitor selectively and communicate with the public</i>	<i>2 years, \$200k</i>	<i>MCI</i>	<i>New staff hired, quality of public information improved</i>
	Define trade policy and create a unit to handle trade negotiations and WTO accession	2 years, \$200k	MCI	Policy approved; unit established; 2-3 new staff hired.
	<i>Establish unit for Integrated Framework to promote exports through implementation of DTIS action matrix in collaboration with other Ministries, private sector and civil society</i>	<i>1 year, \$200k</i>	<i>MCI, other Ministries, private sector</i>	<i>Unit established guided by inter-ministerial steering committee</i>
	Establish consultative mechanism to coordinate across Ministries and with private sector and civil society	1 year, no cost	MCI	Coordinating committee created and meeting regularly
<i>Adopt simplified, liberal tariff regime</i>	<i>Engage in ECOWAS CET negotiations, resist pressure for a higher 5th band, assess impact on domestic industry, implement new tariff</i>	<i>1 year, \$30k</i>	<i>MPEA, MCI</i>	<i>CET implemented</i>
Promote import competition	Develop simplified competition policy to encourage competitive imports and exports	3 years, \$100k	MCI	Competition policy designed and adopted
Join the WTO	Proceed cautiously to join the WTO as capacity improves and more pressing matters are resolved.	5 years, \$2 m.	MCI	Liberia becomes a WTO member
Protect consumers through standards enforcement	Establish Standards Bureau with realistic agenda focused on health and safety issues, and weights and measures; develop strategy for coordination across Ministries, with private sector and regional institutions	2 years, \$500k	MCI, MoA, Ministry of Health	Bureau functioning and collaborating effectively with other actors

Annex B: Cocoa and the Role of the Public Sector

1. Institutional options for the management of the sector.

There are basically three kinds of activities to be performed: (i) pure public good activities such as licensing, export monitoring, enforcement of grades and standards, data collection... (ii) Commercial activities; and (iii) activities that requires collective actions among stakeholders. It is important that these activities be clearly separated to avoid conflict of interests and foster transparency and accountability. Accordingly, the management of the sector would require:

- A regulatory body in charge only of delivering public goods to avoid the typical conflict of interest and crowding out which have plagued most Marketing Boards/ parastatals and led, in many cases, to their demise;
- A crop board (inter-profession) in charge of (i) discussion of industry's problems, (ii) advocacy for the sector and (iii) managing the sector's common goods (pricing policy, quality and standards, research...). This Crop Board needs to have strong ties with the industry, and should be purely led by producer/industry associations. It can possibly manage a development fund to finance critical activities (production of planting material, research, advisory services...), largely out of resources coming from within the sector through voluntary levies, to avoid interference from/allegiance to the Government.

This institutional set-up and the details of its design should come out of the value chain analysis/design exercise to be undertaken by the sector stakeholders, as proposed in the DTIS.

The temptation of recreating a hybrid institution like the Ghana Cocobod should be resisted for three reasons:

- (i) Cocobod is an oddity in the African institutional landscape. According to all sources, it does work more or less efficiently because "Ghana is Ghana", i.e. on the basis of many years of operations which have shaped a specific cocoa culture among Ghanaian producers and staff of government services. It is unthinkable to create this kind of culture in the Liberian environment;
- (ii) Cocobod efficiency is rather relative: there are many criticisms about its internal efficiency in either ensuring a reasonable pass-through to farmer; promoting on-farm productivity (yields not higher than in Côte d'Ivoire) or even enforcing quality (which appears to be deteriorating). In addition, there are clear signs that the continuation of Cocobod is preventing the emergence of a real private sector. Farm-gate prices are now around 70 percent of international prices at least at the time when the season price is fixed (less at the end of the end of the season taking inflation into account), and this is far from the 90 percent of Indonesia/Nigeria and 80 percent of Cameroon. On the quality side, there are many which are contending that it is an overkill that is not to the advantage of the producers but of the consumers/international grinders who are benefiting from a quality they would be unwilling to pay for and are thus subsidized by farmers (see below).

- (iii) The cost of establishing a Liberian Cocobod, in terms of human and physical would be prohibitive, clearly impossible to bear by the government, and doing so would both divert public resources from other priority activities (infrastructure, social sectors) and largely substitute scarce public funds for private investments (storage, transport...).

It will take some time to fully operationalize the recommended institutional set-up (a regulatory body and a functional crop-board): (i) the regulatory body, either as an autonomous institution or as a department of the Ministry of Agriculture can be immediately established; (ii) the establishment of the crop board (objectives and operational policies) should be one of the main outcomes of the participatory preparation of a development strategy and medium-term action plan for cocoa sector. However, making this inter-professional crop board fully operational will be achieved only in the medium-term. This institution-building process will need to be supported in the medium-term under a specific project/program.

The proposed Regulatory Agency. LPMC is for all practical purposes non-functional. A credible regulatory body is urgently needed and should be immediately established on the basis of an institutional audit sharply focused on key responsibilities of and resources (human, processes..) needed for their delivery (it is unlikely that the new agency would need more than 20 professional staff). Given the very poor reputation of LPMC, and because the “culture” of its current staff is not in line with Government’s new vision, it is advisable that the new regulatory agency be clearly dissociated from LPMC. For that, LPMC would need to be liquidated with the new agency staff being recruited on the basis of clear job description and through an open competitive process.

The new season will start in October 2008. This leaves enough time to establish a small, focused regulatory body –either autonomous or within the Ministry of Agriculture -- in time for the new season if the process is started immediately. LPMC should then be immediately put under liquidation. If it is deemed to be impossible to establish the new regulatory body in time for the new season, LPMC should be operated one more season under a caretaker management with responsibilities strictly limited to essential activities (announcement of the producer price, monitoring of export activities...). Again, the immediate disappearance of LPMC and a temporary regulatory vacuum would not make things any worse for the sector since, by all accounts, LPMC’s activities are more detrimental than beneficial to the development of the sector. .

2. Cocoa quality.

There is an internationally accepted simple grading system with two grades: “good fermented” and “fair fermented” (and then sub-grades). Cocoa quality also includes other factors such as the size of beans (number of beans per kg). The testing/grading is done through a simple cut-test (physical inspection). It will thus be easy for Liberia to officially adopt this grading system for export procedures, for exporters/traders to carry out the tests and for a regulatory agency and/or BIVAC to enforce this grading system.

The quality of Liberian cocoa is very bad, probably a bit worse than that of Sierra Leone, and results in a discount on the international market (US\$300/ton or about 15-18 percent of the international price for “fair fermented”). This is due to the lack of proper fermentation and drying at farm level. This lack of proper on-farm processing is particularly severe in Liberia, although not specific to that country. Indeed, in all West African countries the quality of cocoa has decreased after liberalization. Many argue that this decline is in fact dictated by the market and due in part to the development of bulk transportation of beans and advances in processing technologies that could compensate for lower quality. The result was a shift of the demand by the grinders toward a

homogenized “fair fermented” quality instead of “good fermented” and a fall in the premium paid for high quality cocoa. Cocoa has now become a bulk commodity and with the standardization of cocoa quality (around “fair fermented”) requested by international grinders, the quality premium/discounts for good quality cocoa are relatively low compared to say tea or coffee where there exist a multitude of grades and flavors.

The decline in quality was thus a normal response to market signals that Marketing Boards had failed to respond to. These parastatals, by insisting instead on excessive quality, were in fact forcing producers to expand unnecessary resources and so doing subsidize consumers unwilling to pay the full cost of that level of quality (indeed it is questionable that the US\$100/ton premium fetched by Ghana cocoa on the international market more than compensates farmers, in terms of return per man day, for the extra time and effort).

Finally, market liberalization induced a different repartition of post harvest processing, based on comparative advantage: farmers being better placed for fermentation and intermediaries/exporters better placed for drying. Traders/exporters have an incentive to do the drying themselves and to mix good beans with less good quality ones to achieve the “fair quality” requested by grinders. And producers can now choose how far or how well they will process their crop, based on the net price they will receive for different degrees of processing and on the corresponding return to their labor.

3. Improving the farm-gate price for Liberian farmers.

The adjustments described above are based on efficiently functioning markets, which is not the case in Liberia. Although it is very difficult to ascertain the degree of competition that exists at each level of the chain among buyers in Liberia, it is safe to say there are major failures in the input and output markets. The extremely poor state of rural roads clearly induces both a severe fragmentation of the market and extremely high real transport/bulking costs. Competition at farm gate is thus very low. There is also an obvious lack of competition among Liberian exporters and their related regional traders and, while there also appears to be some competition at district level from intermediaries that buy and export through Guinea, monopsonistic forces are at work, and traders are extracting too large a margin, either at farm gate or in district towns, and paying a low price irrespective of cocoa quality. This is thus a vicious circle that needs to be broken by immediately increasing competition among buyers at least at regional/district trading centers to ensure that export prices and quality signals are adequately reflected at least at that level of the chain. Part of these higher prices should then percolate up the marketing chain as the road network improves.

This increased competition will not happen by itself. It needs to be jump-started through a publicly supported, structured operation that will also ensure close coordination between the various levels of the value chain to provide clear quality incentives to producers. To do so, a “fair trade” channel should be established under a specific project with a clear and time bound exit strategy for government intervention (as mentioned above, the temptation to set-up a parastatal should be resisted). The project, which would also be the instrument for establishing an efficient Inter-professional crop board (see above), would include the following components:

- (i) partnership between an international buyer, an exporter(s);
- (ii) buying centers established at district level;

- (iii) exporter(s) providing assured market and remunerative prices for specified quality cocoa and assistance to exporter and buying centers for establishing the necessary quality mechanisms;
- (iv) exporter(s) paying agreed upon prices at district regional centers according to quality and reflecting reasonable marketing costs;
- (v) buying centers buying at prices reflecting quality differentials and reflecting a reasonable margin for their operating costs; and
- (vi) buying centers working with producer groups to train them for producing good quality cocoa and sending agreed upon quality cocoa to port already bagged, thus permitting traceability.

This operation would be along the line of the Pilot Cocoa Supply Chain Management Project implemented by the International Cocoa Organization in Cote d'Ivoire since 2001 which had for central objective to develop a supply chain delivering a "total quality" cocoa, i.e. including food safety, environmental and social considerations. Such an operation would be implemented essentially by private operators - international buyer, local exporter(s) and traders, buying centers operated by a contracted party (STCP) on commercial/viable lines and gradually transferred to private operators or producer cooperatives. Quality mechanisms would be implemented as a commercial issue, under commercial contracts. The government would focus on enforcing the agreed upon regulatory framework (in particular export procedures possibly including respect of grading standards).

There are willing partners for implementing such a project in Liberia:

- The STCP which is already working with cocoa producers and is pushing to get involved in down-stream activities since their efforts for improving on-farm productivity will come to very little if the right incentives are not given to farmers.
- There is an already stated interest from USAID and the Mars Company for providing assistance to cocoa supply chain in Liberia (see recent discussions with IFC) to develop alternative supply sources and moving rapidly toward certified cocoa purchasing (presumably easier when starting from scratch than trying to do something in an already well established system like in Cote d'Ivoire).
- International Cocoa Organization may also be willing to support the project.

Annex C: The Import Trade Regime and the Food Price Crisis

Successful integration into the world economy requires both strong export performance and wise use of imports. A sound import trade regime (both taxes and regulations) is critical to a country's acceptance of the important role of imports. This acceptance may be put to the test at a time of rising international prices of sensitive products such as basic foods. Liberia, and many other developing countries, is experiencing such a crisis in confidence today. Led by the price of petroleum, the prices of food and raw materials have been rising at record rates. The world market for rice, upon which Liberia is heavily dependent, has experienced not only sharply rising prices but also declining availability such as has not been witnessed since the international food crisis of 1973-75. This has led to serious concern regarding the effects of these market gyrations on poverty reduction at a time when Liberia is just beginning to recover from years of devastating internal warfare. In addition, Liberia has just put in place its Poverty Reduction Strategy (PRS), which threatens to be compromised unless something is done to mitigate the effects of these disturbances.

More broadly, the import trade regime plays an important role in establishing the competitive environment in which local production takes place. In the past there has been a tendency to protect local industry from competing imports. But this can give rise to monopoly and inefficient production. On the other hand, local firms need to be assured of a relatively stable environment in which to undertake risky investments. One way of doing this, and at the same time avoiding excessive protection, is to link trade policy with competition policy -- that is to establish an import trade regime that is conducive to maintaining a stable but competitive environment. This is especially important in industries where there are natural monopolies -- a particular problem because of Liberia's small size and low current level of development. An excellent example is the cement industry, which will be discussed later in this paper.

The Ministry of Commerce and Industry is today heavily involved in implementing the import trade regime because of the role it plays in monitoring trade flows and controlling prices of a few essential products. Some have suggested that the Ministry should play a stronger role in regulating prices and assuring competition. Yet this could easily contradict Liberia's new broad-based strategy, reflected in the PRS, of maintaining a liberalized economy open to foreign trade and investment. The challenge, then, is to see how the problems associated with global price variations and the relationship between world markets and Liberia's industrial structure can be mitigated in ways that do not distort incentives for expanded growth and employment.

This paper examines these issues in several ways. First, it looks at the variations in prices that have been taking place on the international market and how these variations have been reflected in local prices changes. Second, it looks at what the impact of these changes has been on poverty. Third, it examines several of the critical import marketing chains in terms of their costs relative to marketing margins to see if there is evidence of excessive pricing, or, on the other hand, if controlled prices do not allow a reasonable profit to be made. Fourth, it looks at the structure of the import marketing chains to see how competitive they are and if there are serious distortions that can be overcome so as to reduce the effects of rising world market prices on domestic prices within Liberia while at the same time maintaining a stable competitive environment that will encourage investment. Fifth, it sets forth a number of policy options, along with their pros and their cons, which might serve to mitigate the impact of rising world market prices on the local population and especially the poor. Finally, it suggests what particular role might be played by the Ministry of Commerce and Industry.

Changing International and Domestic Prices

There is abundant evidence of the changes that have been taking place in international prices. One of the best sources of data is the commodity price information produced regularly by the IMF and the World Bank. This information is summarized in Table C.1 for a few important commodities.

Table C.1: Commodity Prices (US\$ per metric ton unless otherwise noted)

Commodity	QTR2 2007	QTR3 2007	QTR4 2007	Jan 2008	Feb 2008	Mar 2008	Apr 2008
Rice, Thailand 35%	289	298	328	362	--	--	--
Wheat, US, SRW	187	268	326	344	389	420	348
Palm Oil	762	822	928	1,059	1,160	1,249	1,174
Sugar, world (c/kg)	20.9	21.9	22.6	26.4	29.8	29.1	27.82
Crude Oil, average spot (\$/bbl)	66.1	73.5	87.6	90.7	93.4	101.8	108.8

Source: World Bank Commodity Prices, May 2008

Although Thailand 35 percent broken rice is not the japonica (butter) rice that is most consumed in Liberia, its quality and price are fairly similar so it can be used as a benchmark. As of January 2008, its price on the international market had increased by about 25 percent over the previous year. Thereafter there are no data, perhaps reflecting its lack of availability on that market. However, the price of the higher quality Thailand 5 percent broken rice continued to increase, reaching \$907 per metric ton in April 2008 – nearly three times its price a year earlier. In April 2008, it was reported that Chinese short-grain rice had been trading in March at around \$970 per metric ton.⁶⁹ The international market for rice has always been volatile -- partly because the market is thin, with total world rice trade accounting for only about 6 percent of total production and consumption. But, in addition, the rice market is peculiarly subject to the vagaries of national policy. For example, the current shortage is being exacerbated by the embargo placed on rice exports by several exporting countries such as India and Vietnam, and by the changes in and uncertainty associated with China's export policy. Discussions with importers suggest that they are quite fearful that they may soon not be able to find rice available on the international market at any price.

The price situation is also severe for wheat, the price of which rose by 225 percent from the second quarter of 2007 to March 2008. This appears to be due to a combination of factors, one of which is the shift of farmers out of wheat and into maize in order to take advantage of the growing market for bio-fuels. Also important for both rice and wheat is the rising demand for these cereals in rapidly growing developing countries such as India, even as rice land is going out of production to make way for urban expansion. Depreciation of the US dollar has been another contributing factor. However, unlike the rice market, the wheat market may have turned the corner, with prices dropping in April relative to those in March.

A similar situation exists, albeit to a less alarming extent, for palm oil and sugar. Although Liberia is a potential exporter of crude palm oil, it presently imports refined palm oil from Malaysia, which competes to some extent with the red oil that is produced domestically. The price of palm oil on the international market has increased in the last year by 54 percent. That for sugar has risen by 33 percent, and for this product there are no good domestic substitutes. Finally, the

⁶⁹ "Chinese Trader Says Rice Exports to Continue", Reuters, April 22, 2008.

world market price of crude petroleum oil has increased by 65 percent, which not only makes gasoline, diesel, and fuel oil more expensive in Liberia but also increases the cost of producing and transporting imports.

Over the next year or so, according to the World Bank forecasts shown in Table C.2, prices are expected to remain higher than they were at the beginning of 2007 but not nearly as high as they were in the late spring of 2008. These forecasts, however, were made in

**Table C.2: Commodity Price Forecasts in Real Terms
(US\$ per metric ton unless otherwise noted)**

Commodity	2007	2008	2009	2010	2015	2020
Rice, Thailand 5%	290	303	310	316	290	266
Wheat, US, HRW	226	259	221	202	188	167
Palm Oil	702	803	776	750	640	541
Sugar, world (c/kg)	20	20	21	22	22	22
Crude Oil, average spot (\$/bbl)	64	75	69	64	45	45

Source: World Bank Commodity Price Forecasts, December 2007

December 2007 and do not take into account the unexpected steep rise in prices that occurred over the ensuing months. They do suggest that the problem may be more one of large, unexpected fluctuations in international prices rather than their permanent increase. On the other hand, the steady and rapid rise in petroleum prices has been such as to cause considerable concern regarding the permanence of the increase in prices for many commodities. This is because the price of petroleum has a major impact on the prices of other commodities due to its effects on transportation costs, the cost of inputs such as fertilizer and machinery services used in production, and the profitability of growing crops as bio-fuels rather than food.

Table C.3: Consumer Prices for Sensitive Products (LD per unit indicated)

Commodity	Quantity Unit	QTR2 2007	QTR3 2007	QTR4 2007	Jan 2008	Feb 2008	Mar 2008	Apr 2008
Rice, parboiled	14 oz cup	18.8	21.1	20.6	30.5	28.6	23.4	20.0
Rice, country (or butter rice) ^a	14 oz cup	13.6	14.5	15.4	15.7	16.0	16.1	15.0
Wheat flour, yellow	14 oz cup	11.1	18.6	10.6	10.2	13.2	10.7	15.0
Vegetable oil	1.5 l bottle	250.0	175.0	179.2	180.0	180.0	180.0	170.0
Sugar, granulated	1 pound	50.0	50.0	53.3	55.0	55.0	55.0	55.0
Diesel fuel	1 US gal	197.2	198.3	218.3	255.0	265.0	255.0	272.8

Source: Central Bank of Liberia, Consumer Price Index data; prices collected in Monrovia in April.

Notes: ^a Very little country (domestically produced) rice is found in the Monrovia markets, in which case prices of butter (Japanica) rice from Asia are collected instead.

Thus far, these large increases in prices on the world market have not been transmitted in any very significant way to the Liberian consumer goods market. Table C.3 shows the evolution of consumer prices corresponding more or less to the products listed in Table C.1. While the price of parboiled rice, which is something of a luxury good, rose by 62 percent from the second quarter of 2007 to January 2008, that of butter rice, which is consumed to a greater extent by the poor, rose by only 18 percent during roughly the same period. Furthermore, the price of parboiled rice dropped substantially during February through April 2008; the price of butter rice also fell in April but not by nearly as much.

All this is not to say that there is not a pending food crisis in Liberia. Although we have no reliable international price data for butter rice or its close substitutes since January 2008, the price of higher quality rice has risen to astronomical levels on world markets. Furthermore, there is anecdotal evidence -- from Senegal, for example -- that rice is sometimes not to be had at any price. As evidence of the price increase facing Liberia, one importer bought butter rice from China earlier in the year for \$330 per metric ton FOB while others were paying \$380. Furthermore, transportation costs had risen to the point that the CIF cost of butter rice landed in Liberia was \$490 per metric ton. More recently, the Ministry of Commerce and Industry reported that the CIF price had risen to \$640 per metric ton. Importers are at present very concerned about being able to replenish their stocks.

The other major price rise shown in Table C.3 is for diesel fuel, the price of which increased by 38 percent from the second quarter of 2007 to April 2008. A similar increase in prices occurred for other petroleum products. This will have a serious impact on the cost of transportation and other fuel consuming activities, which will contribute to general inflation. In addition, imported products that are of low value in relation to weight, such as cement, are also becoming much more expensive because of the rising cost of their transportation by sea.

Impact of Price Increases on Poverty

It is possible to measure the impact of the price increases that have taken place or are likely to take place on poverty using the Comprehensive Food Security and Nutrition Survey conducted in March-April 2006 as well as the Core Welfare Questionnaire Indicator (CWIQ) survey implemented in 2007 by the Liberia's Institute of Statistics and Geo-Information Services (LISGIS). These surveys provide information on the breakdown of household expenditure and on-farm consumption by income class.

The CWIQ survey has already been used to look at the effect of a rise in rice prices on poverty. The study shows that an "increase in the price of rice, whether imported or locally produced, will tend to result in higher poverty in the country as a whole (even if some local producers will gain from this increase), while a reduction in price will lead to a reduction in poverty. Furthermore, because rice represents such a large share of the food consumption of households, any change in its price is likely to have a rather large effect on poverty measures. Using data from the 2007 CWIQ survey, the study finds that an increase or decrease of 20 percent in the price of rice could lead to an increase or decrease of three to four percentage points in the share of the population in poverty."⁷⁰ This is the order of magnitude of the price increase for butter rice that had taken place in Monrovia, at least up to March 2008. It remains to be seen what the increase has been upcountry. A FAO/WFP bi-weekly Market Price Monitoring survey is being put in place in 22 market centers throughout the country, which should supply this information and assist in designing effective interventions to mitigate the impact of these price increases on poverty.

The large impact of rice prices on poverty results from the importance of imported rice in the diet of all income groups including the poor. According to the 2007 CWIQ survey, 30 percent of daily household calories are provided by purchases of imported rice and 5 percent by purchases of locally produced rice, the price of which is linked through the market to the price of imported rice. The poorest households rely less on rice than on cassava and wheat bulgur, the latter being furnished as food aid, but even households in the bottom quintile consume over half as much rice as the average household and of this 53 percent is imported. Thus the impact of a rise in the price

⁷⁰ "Rice and Poverty in Liberia" 2007.

of butter rice of another 30 percent, based on current information regarding CIF prices, could lead to a total increase in the incidence of poverty of as much as 9 percentage points.

Import Marketing Chains

Between the CIF price and the consumer price are the import marketing chains. These involve port and customs clearance, storage, transport, financing, and commercial overhead and profit. Data on the costs and prices related to these chains are available from a number of sources, including importers, wholesalers, retailers, the Chamber of Commerce, customs, BIVAC (Liberia's pre-shipment inspection agency), and the Division of Marketing and Price Analysis of the Ministry of Commerce and Industry. Some of the price data were collected directly from several Monrovia markets in late April 2008.

There are several reasons for collecting this marketing chain information. One is to see if price margins are unreasonably wide in relation to costs. If so, this suggests the presence of monopoly or other market distortions. On the other hand if the price margins are too low to cover costs, the implication is that prices are being maintained at levels that are insufficient to act as an incentive for trade and marketing.

Table C.4 presents data on a number of selected import marketing chains: butter rice, broken long-grain rice, wheat flour, refined palm oil, cane sugar, cement, and diesel fuel. In several instances alternative estimates are presented using different data sources, e.g., importers, Ministry of Commerce and Industry (MCI), or MCI coupled with market price information.

For rice, there is a substantial disparity in the cost of sea transport and insurance depending on whether the data come from the importers or the MCI. This may be because the Ministry has not fully taken into account the steep increase in transportation costs that has occurred recently because of rising petroleum prices. Although the two sources differ little with respect to the landed CIF price of rice, the MCI tends to understate the costs, compared with the importers, associated with landing shipments of rice and clearing them through the port and customs. Thus the profit reported by importers tends to be only about one-half that found in the MCI data. Despite this, the profit is positive but not very high in either case, suggesting that there are not any important distortions or monopoly elements in the chain.

The same may be said for imports of wheat flour. Despite some variations in costs, depending on the activities involved, the importers and the MCI are very close to each other with respect to the total cost of delivering flour to the distributors. The main difference at this point is in the price that the importer charges the distributor. The MCI estimates that price to be about \$50 per bag whereas the price observed in the market in April 2008 was about \$43. At this latter price, profits are positive but low.

Table C.4: Import Marketing Chain Data for Selected Sensitive Products)**Table 4: Import Marketing Chain Data for Selected Sensitive Products**
(prices in US Dollars except where indicated)

<u>Product</u>	<u>Customs</u>		<u>Transport</u>			<u>Customs</u>	<u>Customs</u>	<u>ECOWAS</u>		<u>BIVAC</u>	<u>Port</u>	<u>Breakage</u>	<u>Transport to</u>	<u>Port</u>	<u>Total Cost</u>	<u>Total Cost</u>	<u>Storage/</u>	<u>Bank</u>	<u>Profit before</u>	<u>Sales Price</u>	
	<u>Code</u>	<u>Units</u>	<u>FOB Price</u>	<u>Insurance</u>	<u>CIF Price</u>	<u>Duty Rate</u>	<u>Duty Value</u>	<u>GST Value</u>	<u>Tax Value</u>	<u>Levy</u>	<u>Handling</u>	<u>Charge</u>	<u>& Waste</u>	<u>Warehouse</u>	<u>Storage</u>	<u>Per Unit</u>	<u>Per Bag, etc</u>	<u>to Buyer/</u>	<u>Charge</u>	<u>Income Tax</u>	<u>to Distributer</u>
Butter Rice (importers)	1006.30.00	metric ton	330.00	160.00	490.00	0.00	0.00	0.00	4.90	1.00	3.50	3.00	0.50	4.25	1.25	508.40	23.06	2.22	0.72	26.00	
Broken rice (MCI)	1006.40.00	metric ton	417.00	68.01	485.01	0.00	0.00			0.66	2.20	1.76		3.31		492.95	22.36	1.50	1.48	26.00	
Wheat flour (importer)	1101.00.00	20' container			16500.00	0.05	825.00	1212.75	165.00	202.50	100.00	235.00		100.00		19340.30	38.68	3.30	1.02	43.00	
Wheat flour (MCI)	1101.00.00	20' container	13205.00	2960.00	16165.00		810.00	1200.00	161.65	195.00	10.00	100.00		300.00		18941.65	37.88	3.23	0.97	50.14	
Wheat flour (MCI+market)	1101.00.00	20' container	13205.00	2960.00	16165.00		810.00	1200.00	161.65	195.00	10.00	100.00		300.00		18941.65	37.88	3.23	0.97	43.00	
Palm oil, refined (MCI)	1511.90.90	20 liter can	20.29	2.71	23.00	0.10	2.30	1.19	0.23	0.30	0.04	0.08		0.23		27.46	27.46	2.30	0.69	6.53	36.97
Palm oil, refined (MCI+market)	1511.90.90	20 liter can	20.29	2.71	23.00	0.10	2.30	1.19	0.23	0.30	0.04	0.08		0.23		27.46	27.46	2.30		-0.75	29.00
Cane sugar (MCI)	1701.99.10	25 kg bag	15.85	4.27	20.12	0.20	4.02	1.70	0.20	0.24	0.09	0.19		0.55		27.30	27.30	2.01	0.60	3.34	33.26
Cane sugar (MCI+market)	1701.99.10	25 kg bag	15.85	4.27	20.12	0.20	4.02	1.70	0.20	0.24	0.09	0.19		0.55		27.30	27.30	2.01	0.60	1.08	31.00
Cement, Portland (importer)	2523.00.00	metric ton			134.00	0.00	0.00	9.38	1.34		10.70	4.19	6.25	4.00		169.86	8.49	0.70	0.13	-0.13	9.20
Cement, Portland (MCI)	2523.00.00	metric ton	59.96	37.56	97.52	0.00	0.00	6.80	0.96		8.93	3.37		2.30		119.88	5.99		0.13	2.19	8.31
Diesel fuel (LPRC)	2710.00.51	gallon	3.08	0.21	3.29		0.20	0.20				0.02	0.03		0.20	3.94	3.94	0.16	0.13	0.02	4.25
Diesel Fuel (MCI)	2710.00.51	gallon	2.64	0.20	2.84		0.20				0.21	0.02				3.27	3.27	0.20	0.11	-0.18	3.40

(a)

(b)

Notes:

(a) One importer of flour and sugar quoted overhead costs as 10% of the CIF price on products that move rapidly. This would amount to \$.22/100 bag. Another large rice importer quoted \$30/metric ton or \$1.36/100 pound bag. MCI uses \$1.5/ bag for storage and overhead but adds \$.66/bag for finance. Thus a figure of 10% of the CIF price seems reasonable and is used where other data are not available.

(b) Calculated as a residual. Note that profit depends very much on the price at which the importer can purchase the product overseas, which can vary widely.

A similar story can be told for refined palm oil, only here we have no direct data from importers on their costs. We do have the estimates of the MCI, and these suggest very substantial profits of \$6.53 US per 20-liter can, compared with a CIF price of \$23. However, this is only because the sales price is estimated at \$36.97 whereas the purchase price quoted by wholesalers in the market in April was \$29. This yields a negative profit of -\$0.75, though this is at the CIF price estimated by the MCI, which may not correspond to the same shipment as the wholesaler purchase price. A similar situation exists with sugar, in that the profitability of imports depends on the sales price to the distributor. Once again, the MCI estimate is somewhat higher than the price quoted in the market.

For cement we have both the data of the only importer, CEMENCO, and the estimates of the MCI. The two do not correspond very well in time, since the CIF price paid by CEMENCO was \$134.00 per metric ton, whereas that estimated by the MCI was \$97.52. However, the import marketing cost structure may still be valid, though, in general, costs estimated by the MCI are considerably below those presented by CEMENCO. Furthermore, there are items included within CEMENCO's costs, such as breakage and waste as well as overhead, which are not taken into account by the MCI. There is also a substantial difference in the sales price, which presumably represents a difference in the time period covered since in each case it is the controlled price that is presented in Table C.4.⁷¹ The bottom line is a substantial profit according to the MCI estimates and a loss of \$0.13 per bag according to CEMENCO.⁷²

The last product presented in Table A.4 is diesel fuel, which here represents a number of petroleum products. Data in this case are from two sources: the MCI and the Liberia Petroleum Refining Company (LPRC), which does not do any refining but has a monopoly on bulk imports of petroleum products. Once again, there is a significant difference in the CIF price, probably due to the timing of the purchases upon which it is based. The cost as stated by the LPRC are also somewhat in excess of those given by the MCI, primarily because they include a \$0.20 GST and excise tax in addition to the customs duty. The net result is a \$0.02 per gallon profit according to the LPRC and a \$0.18 loss shown by the MCI, though the latter probably reflects the lower prices that prevailed earlier rather than the ceiling prices announced on March 20, 2008.

In summary, there is little evidence of substantial monopoly profits being made by importers. On the contrary, there is evidence of losses, which is one of the reasons why there is a shortage of some products such as cement. The analysis in fact suggests that the MCI tends to lag behind the market in its estimation of costs, and in some cases to overlook some costs reported by the private sector. Importers also report substantial delays in getting new prices approved by the MCI, by which time these prices may be out of date given rapidly changing market condition.

There are a number of other costs, not referred to explicitly by the importers, which may be incurred. These include additional port charges, processing of paperwork, costs of container escort, association fees, and the like. These are presented in detail for containers in a report of the Working Committee of the Stakeholder's Consultative Meeting on Prices.⁷³ Other excessive marketing

⁷¹ In CEMENCO's case, the price is a weighted average of the distributor price and the end user price.

⁷² CEMENCO claims the loss is somewhat greater, but this is because they include among costs a turnover tax of 2 percent. However, this tax is in fact an advance on corporate income taxes, which are not taken into account in Table 4, which looks at profit before income taxes.

⁷³ "Report of the Working Committee of Stakeholders' Consultative Meeting on Prices," February 28, 2008.

chain costs that have been identified are related to inefficient operation of the port, a high PSI levy, and other similar areas where the public sector is involved. Although reforms in these areas will speed shipments and lower their costs, the impact on marketing margins will not be very great in relation to the price rises that are occurring on the world market.

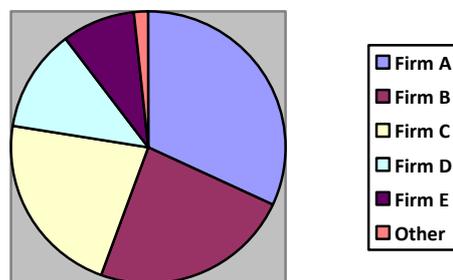
Import Marketing Structure

A major purpose of the analysis in this paper is to see how well competition operates within the import marketing chains. Competition is an important alternative to price controls, which often lead to serious market distortions and corruption. Full and open competition, on the other hand, encourages business to seek out lower-price sources of supply, to cut costs wherever possible, and to provide better service to their customers. On the other hand, where there are natural monopolies or other market imperfections, some oversight of prices may be required.

One way of assessing the importance of competition in a given marketing chain is to look at the number and size distribution of the firms in the chain: the more numerous and equal in size are the firms, the greater the degree of competition is likely to be. Another way of assessing competition is to examine the barriers to entry. For example, if any firm can obtain an import license with ease, then none are likely to be able to monopolize the industry. Government can play a major role in assuring that the rules are the same for all players and that public policies are not used to discriminate in favor of a few selected firms. Such would be the case, for example, if limited issuance of import declaration forms was used to protect domestic industries from import competition. Although this would benefit a few local producers, it would raise prices to consumers and reduce fiscal revenues from import taxes. Preliminary analysis of the marketing chains suggests that there is substantial competition in most industries, but that there may be a few areas in which monopoly elements prevail.

One very important marketing chain is for imported rice. An analysis of the import data for 2007 suggests that there are five companies that dominate the rice import trade. Out of total rice imports valued at \$42,331,635, these firms account for \$41,630,943. The size distribution of the firms is presented in Graph C.1. The three largest importers together share over three-quarters of the total market. Although this could present some opportunities for collusion, there is no evidence that this has been the case or that it has resulted in prices above the competitive level. The same is true of importers of wheat flour, palm oil, and sugar.

Graph C.1: Shares of Five Largest Rice Importers



This is not true of cement and petroleum products. Although the only cement manufacturer in Liberia, CEMENCO, is also the only importer at the present time, this is not because of restric-

tions on who can import. Rather it is because, at currently controlled prices, it is not profitable for other firms to import cement. CEMENCO has an advantage over other firms because it has a substantial amount of handling equipment, which it uses for clinkers as well as for finished cement. Other firms do not have this equipment and thus are at a competitive disadvantage. But on top of this, the price is set too low for even CEMENCO to make a profit on imported cement. While CEMENCO recognizes the need for some controls on prices because of its unique position in the market, it would like to see these controls exercised in a more transparent and expeditious manner. For, example, the Managing Director suggested that a formula be established that would allow domestic prices of cement to be varied automatically as a function of changes in the world price of crude oil (which is critical to the cost of delivering cement), the exchange rate between US dollars and other major currencies, taxes assessed on imports of cement, port charges, and the price of diesel fuel.

The importation of petroleum products in bulk is undertaken by a state enterprise -- the Liberia Petroleum Refining Company (LPRC) -- that has a monopoly due its ownership of the necessary offloading equipment and storage tanks. Some petroleum products are also imported in drums, but this is minor compared with bulk imports. Prices ceilings are set jointly by the Minister of Commerce and Industry and the LPRC every two months primarily in relation to variations in the FOB price in Italy (Platts). This procedure is transparent and seems to work quite well, though with the pace at which crude oil prices have been rising on the world market, even this delay may cause problems.

Policy Options

There are a number of policy options that might be considered to reduce the impact of international price increases on poverty in Liberia.

Price Controls

The option of price controls has the advantage that it can be put in place relatively quickly, but offsetting this are a number of important disadvantages. First, these are difficult to administer and enforce. Just because the Government announces a set of controlled prices does not mean that these will be applied. Enforcement requires monitoring wholesale and retail markets and applying sanctions in the event that the controlled prices are not being applied. This is extremely disruptive and often causes the market to go underground. It also gives rise to corruption. In addition, if the controlled prices are enforced and they result in trading losses, the traders will simply cease to carry the goods whose prices are controlled. This would be a disaster of major proportions since it would lead to widespread shortages of critical commodities. This has already been occurring to some extent in the cement industry.

Competition Policy

A potentially much more effective approach would be to formulate and implement an aggressive policy to encourage competition. This would involve facilitating the acquisition of Import Permit Declarations (IPD) and possibly even encouraging importers to expand their product lines. It also would involve identifying areas where competition does not work very well and taking steps to ensure that it works better. One might be by encouraging importers to import cement in competition with CEMENCO, the sole cement producer in Liberia. The same would apply to wheat flour, where the Premier Milling Company has just started to mill imported wheat into flour. While the Government would like to encourage investment in industry, it is important that this not be done by restricting competition from imports. The cost of such restrictions is higher prices for consumers and lower revenues for Government.

One of the ways in which the Government can help to encourage competition is by ensuring that any price controls or other regulations necessitated by the presence of monopoly elements be applied in as simple, expeditious, and transparent a way as possible. A good example is the difference between how the ceiling prices of cement and petroleum products are established. For cement, the process is often long and uncertain. This has discouraged competitors from entering the market. On the other hand, the mechanism for determining petroleum prices is relatively automatic and swift, although it has not made the industry so lucrative as to encourage much investment in distribution.

Trade Tax Reduction

Tax reductions on trade have the immediate effect of decreasing the cost of the goods traded to importers. To the extent that competition prevails, these cost savings are passed on to buyers, whether consumers or producers using the imported goods as inputs. The Government of Liberia has already taken several steps in this direction by suspending the import duty on rice and cement. In addition, to encourage production of rice and other domestic foods, import duties on agricultural equipment and other inputs have also been suspended. This is about all that can be expected in this area because of the fiscal losses that are incurred -- which is the ultimate limitation on the trade tax reduction option. Only taxes that are assessed can be suspended -- an even this may be seriously constrained by the need to maintain budgetary integrity and macroeconomic balance.

Import Subsidization

Import subsidization acts in a way similar to trade tax reductions in that both interventions reduce the cost of goods to the importer, and, under competition, these cost reductions are passed on to the buyer and ultimately the consumer. However, import subsidization is very costly to governments with limited budgetary resources, such as Liberia. In addition, import subsidization could substantially lower the prices of similar domestically-produced goods, and thereby act as a disincentive to domestic producers. This is clearly a risk in the case of the domestic production of rice.

Another problem is that it is difficult to target the subsidy very well so that it is effective in reaching those most in need at the same time that it is efficient in not providing too many benefits to those who are not so much in need. One possibility is to subsidize imports of inferior products such as broken rice, which are more likely to be consumed by the poor. In Liberia, however, this would result in re-exports of this product to neighboring countries, such as Senegal, where broken rice is widely consumed.

Another problem is that of implementation. Even if the Government does not have to pay for the subsidy, because of donor funding, a mechanism has to be found for applying the subsidy, such as direct payments to the importer at the time of importation in lieu of the collection of taxes. This requires that adequate procedures and controls be put in place. At a time when the Government is trying to undertake major customs reform, this would impose an additional administrative burden. Furthermore, a system would have to be established and monitored to assure that the subsidy is passed on to the ultimate beneficiaries.

One proposal of the rice importers is that they be allowed to convert the Liberian dollars they earn on the sale of "butter rice" (Japonica round rice from China for the most part) into US dollars at a preferential exchange rate, with the difference between the commercial exchange rate and the preferential rate being financed out of a donor line of credit in US dollars established at the commercial banks where they convert their Liberian dollars. The major problem with this approach is that it is not clear how many Liberian dollars they accumulate, since in most cases they are paid

in US dollars by the dealers to whom they sell (these dealers exchanging the Liberian dollars they receive for US dollars before making payment to the importers). The second problem is that the Central Bank of Liberia has been working hard for several years to unify the exchange rate, and this would undermine that effort.

Income Transfer

Another option that has been suggested is to provide direct cash transfers to those most in need. This has the advantage that it would in principle be well targeted towards the poor, and thus would be relatively efficient in terms of fiscal resources. The problems lie in implementation. Even if the poor could be identified, using perhaps the national demographic census that has just been completed but has not yet been analyzed, the problems associated with using the raw data to identify the targeted households, moving cash about the country, finding the families who are to receive the income transfers, avoiding raising expectations among others, and maintaining accountability are formidable indeed.

An alternative might be public works programs that are self-targeting in that the recipients are paid either in wages, or in food at an implicit wage rate, that is below the market wage. The problem here is these programs take time and resources to organize, and are unlikely to reach a large share of the targeted population. Also, in Africa, it has been found that many non-poor tend to enroll in such programs, especially if payment is in cash, due to the limited wage-earning opportunities. Nonetheless, given the urgent need for employment generation in Liberia, this option is probably worth pursuing with or without rising food prices.⁷⁴

Long-Term Supply Agreements

One option might be for the Government of Liberia to enter into long-term agreements with the governments of major supplier countries to assure that a given quantity of food continues to be made available at a price that is reasonable. The most obvious candidate is an agreement with the Government of China to supply at least a minimum quantity of butter rice to Liberia, possibly at a price not to exceed a maximum price to be established in the agreement. China has a strong interest in the natural resources of Liberia and might be willing to sign such an agreement.

Although rice exports are handled in China primarily by public trading companies at the provincial level, the Government in Beijing intervenes frequently in the rice market and could provide a subsidy if needed. Actual transactions and shipments would be handled by the importers of Liberia and the usual dealers in Geneva, so there would be no need for any special shipping arrangements. Furthermore, Liberia's need for butter rice imports is only a very small part of China's total production. Most other African countries do not consume butter rice. This would help to stabilize the rice market in Liberia and would give importers confidence in their sources of supply, which would enable them to decrease the stocks that they are currently trying to hold as a reserve.

Increasing Domestic Production

In the long run, the solution lies in increasing local food production providing it can be done efficiently compared to the expected long-term cost of imported food. Given the neglect of agriculture in Liberia, there is plenty of potential for efficient expansion. The Ministry of Agriculture is already embarked on such a program, focused principally on developing rice production in the bottomlands, but including also other food crops such as cassava. This program will involve seed multiplication, distribution of fertilizer and other inputs, improvements in processing through the introduction of small-scale rice hullers and other processing equip, and greatly improved access

⁷⁴ See World Bank, "Liberia: Labor-Intensive Employment: A Strategy for Building Assets and Reducing Poverty", draft report, April 15, 2008.

via road construction and rehabilitation. Increasing local food production will lead to lower food prices in the hinterland where much of the population currently consumes imported, and eventually have a similar impact in Monrovia as transport costs to the capital are reduced.

What Role for the Ministry of Commerce and Industry?

The Diagnostic Trade Integration Study has defined an important role for the Ministry of Commerce and Industry in helping Liberia to realize its export potential and to participate more actively in both regional and global trade. Yet most of the ongoing work of the Ministry is related to the import side of trade, and this work is currently seen by the Government as essential to reducing poverty and to enhancing economic growth and employment. With the recent rise in international prices of rice, wheat, cement, petroleum, and other products, the Ministry is under considerable pressure to act in ways that will lessen the impact of these price increases on the economy and especially on the poor.

At present the MIC is operationally concerned chiefly with issuing IPDs and monitoring and controlling the prices of rice and a few essential imported goods, such as some building materials, cement, petroleum products, and pharmaceuticals. The Ministry has very little capacity to undertake this work, much of the data that it has is seriously outdated, and often its attempts to control prices go unheeded. Furthermore, there are serious questions as to how relevant these tasks are to achieving the primary goals of the Government. There is a need, therefore, to define more carefully the legitimate responsibilities of the MCI in pursuit of these goals and to build its capacity to fulfill these responsibilities.

Some of the areas in which the MCI could usefully fulfill these responsibilities might include:

Communicate with the public via the press, radio, and television regarding the causes of crisis in international trade and what is being done to deal with the crisis (suspension of import duties on rice and cement, assuring greater import competition through the issuance of IPDs, efforts to support food production, etc). It is critically important that the MCI be responsible for tracking the evolution of international prices and the supply and demand trends underlying these movements. The MCI should also make recommendations to Government regarding the actions that might be taken to deal with these crises as well as monitor the decisions taken and their implementation. Finally, the MCI should either communicate this information directly to the public or prepare the background material that will be used by the President to brief the public. There is a need for much capacity building in this area.

Monitor prices and marketing costs of essential products. At present the MCI is overwhelmed because there are too many products considered as essential. There are two instances in which monitoring might be important:

1. Highly sensitive products such as rice, the prices of which can have a significant impact on poverty reduction or other important national objectives.
2. Products for which the potential for monopoly pricing exists (cement, flour, petroleum products).

In each case, it is important to understand what is happening across the import marketing chain as this impacts Liberian consumers and producers. It may also be important for the MCI to play a role in regulating prices, but the best way to do this needs to be carefully considered. In any event, the entire framework for monitoring price and marketing costs need to be evaluated.

Investigate and present to the Government options for dealing with excessive price fluctuations. These options should cover the range of alternatives described above, including price controls,

competition policy, trade tax reduction, import subsidization, income transfer, long-term supply agreements, and increasing domestic production. They should not be limited to price controls, which are likely to be the least attractive option in most cases. A decision needs to be made as to where the analysis of these options should be made, e.g., the MCI, a special Presidential commission, and the capacity to undertake this analysis needs to be created.

Negotiate for the Government trade agreements such as that proposed above with China regarding rice. Negotiation of government to government trade agreements should involve both the Ministry of Foreign Affairs and the Ministry of Commerce and Industry. These should not be considered as contracts between state trading companies but rather as framework agreements within which private contracts will be signed. This will require considerable capacity building within the MCI to increase knowledge and understanding of the trading partners with which agreements will be signed and the conditions that should be attached to such agreement.

Work with the private sector in forming public-private partnerships related to trade. It is critically important that importers and the MCI not consider each other as adversaries but rather as partners to further the expansion of trade. They need to sit down together to hammer out protocols and agreements that respond to the needs of each other and that can be implemented in a transparent, efficient, and expeditious manner. One area in which joint action would be highly desirable is implementation of a trade agreement with China regarding rice trade. Another is a transparent and automatic mechanism for adjusting the local price ceiling for cement. It is recommended that a Working Group be established for this purpose within the Liberia Public-private Partnership.⁷⁵

Establish and oversee the implementation of the Government's competition policy. This is a role assumed by the trade ministries in many countries. It involves a change in perspective away from control to encouraging competition as the path to more efficient and equitable market prices. Elements of competition policy involve the import trade regime, price surveillance and control, anti-trust regulation, and a host of other areas in which it will be necessary to build capacity at the MCI.

⁷⁵ Government of Liberia, "Public-Private Partnership in Liberia: Issues and Mechanisms", Liberia Partners' Forum, February 13-14, 2007.

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