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Market Overview Report

April 2017

This publication was produced for review by the United States Agency for International Development. It was prepared by Ms. Allison Bickel, Market Research Manager for Building Markets.

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PREFACE & ACKNOWLEDGEMENTS

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ABOUT BUILDING MARKETS

Founded in 2004, Building Markets is an award-winning nonprofit that creates jobs and encourages economic growth in developing countries by finding, building, and connecting competitive local micro, small, and medium-sized enterprises (MSMEs), to supply chains and investment. Through this approach, the organization has built a network of more than 23,000 verified MSMEs, assisted them in winning over \$1.3 billion in contracts, and helped create over 69,000 jobs in some of the world's poorest economies. Building Markets is headquartered in New York City and currently operates programs in Liberia, Myanmar, and Turkey.

With support from the United States Agency for International Development (USAID) and Humanity United, Building Markets operates the Sustainable Marketplace Initiative Liberia (SMI-L). The program, which was launched in 2011, brings visibility to local SMEs through verification and market research, builds business capacity through training and technical assistance, and connects businesses to new opportunities through matchmaking and events.

- **Bringing Visibility to Local Firms and Markets**

We have built the largest and most comprehensive database of Liberian SMEs, including detailed profiles of over 4,600 firms. This information is used to identify trends, challenges, and opportunities in the marketplace and to connect local firms to new business opportunities.

- **Building Capacity**

We provide beginner and advanced training at our training facility across a range of topics that improve MSME competitiveness and success. 1,300 businesses have accessed our training, including 924 female-owned firms.

- **Connecting SMEs to Supply Chains and Investment**

We integrate local MSMEs into supply chains and connect them to growth opportunities by making valuable information available to suppliers, buyers, and investors.

Through its services, Building Markets has supported Liberian businesses in winning over USD 79 million in contracts and creating 4,500 full-time equivalent (FTE) jobs.

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ACRONYMS

AfDB	African Development Bank
AfT	Agenda for Transformation
AGOA	African Growth and Opportunity Act
ECOWAS	Economic Community of West African States
ESRP	Economic Stabilization and Recovery Plan
EVD	Ebola Virus Disease
FDA	Liberia Forestry Development Authority
FDI	Foreign direct investment
FTE	Full time equivalent
GDP	Gross domestic product
GOL	Government of Liberia
ICT	Information and Communications Technology
IMF	International Monetary Fund
LATA	Liberia Agricultural Transformation Agenda
LCC	Liberian Chamber of Commerce
LD	Liberian Dollar
LISGIS	Liberia Institute of Statistics and Geo-Information Services
LRA	Liberian Revenue Authority
M&E	Monitoring and Evaluation
MOCI	Ministry of Commerce & Industry
MSME	Micro, Small and Medium Enterprises
NIC	National Investment Commission
NPL	Non-performing loan
PEST	Political-legal, economic, socio-cultural, and technological
PEST + I	Political-legal, economic, socio-cultural, and technological + International
PPCC	Public Procurement and Concessions Commission
SPS	Sanitary and Phytosanitary Standards
SMI-L	Sustainable Marketplace Initiative-Liberia
TDS	Tender Directory Service
USAID	United States Agency for International Development
USD	United States dollar
WB	World Bank
WTO	World Trade Organization

EXECUTIVE SUMMARY

Over the last five years Liberia has evolved from being a net earner of foreign currency to being a net spender of its foreign currency reserves. This is because Liberia’s economy has been impacted by structural and exogenous factors, plus multiple macro-environment shocks between 2012 and 2016, which have resulted in a presently contracting economy. We observe and summarize three phases of the Liberian economy during this timeframe:

Year(s)	Global Commodity Prices	Foreign Assistance Inflows	Foreign Currency Reserves	GDP Growth
2012-2013	Increase	Decline	Strong	Positive
2014	Decline	Increase	Precarious	Stagnant
2015-2016	Decline	Decline	Weak	Negative

Success of Liberian MSMEs is largely affected by the macro-environment. Between 2012 and 2016, local businesses’ client base, number and value of contracts won, number of employees, desire for loans, and future profit expectations have steadily decreased in congruence with the contracting economy.

In this report, we look at the period from 2012 through 2016 to understand and contextualize the current situation of local MSMEs in the Liberian economy. First, we review economic trends, strategies & policies, business environment factors, and MSME evolution during that timeframe; then we have a detailed look at the local business landscape and economic impact of MSMEs in 2016. Finally, we address 3 increasingly relevant issues that affect Liberian businesses and economic growth: the informal sector, cross border trade, and environmental sustainability.

Key Findings and Trends

1. Substantial declines in global commodity prices, along with significant fluctuations in the spending from international development assistance activities and humanitarian assistance, have caused severe negative impacts on Liberia’s economy.
2. The Government of Liberia (GOL) focused its tax policy and collection efforts on large corporations, including mining companies as well as rubber and palm oil producers—so when global commodity prices dropped, so too did tax revenues.
3. In 2012 through 2014, Liberia strengthened its foreign exchange reserves.¹ However, by 2015, foreign exchange reserves declined and the Liberian dollar began to depreciate as a result of internal and external factors.² Key sources of foreign exchange earnings, mainly the export of raw materials and the inflow of foreign assistance, continued to decline through 2016.
4. MSMEs have not (yet) diversified their offerings of goods and services in response to market trends.
5. Twenty-six percent of surveyed firms directly import goods in 2016, while just 0.4% exported products. MSMEs report that the greatest proportion of imports is sourced from neighboring West African nations, followed closely by imports from China.

¹ US Department of State, Liberia Investment Climate Statement, 2013 and 2014. <https://www.state.gov/e/eb/rls/othr/ics/2013/204678.htm>

² US Department of State, Liberia Investment Climate Statement, 2016. http://photos.state.gov/libraries/liberia/328671/pdfs/investment_climate_2016.pdf

6. Eighteen percent of surveyed businesses reported that they had won a contract during 2016. Twenty-two percent of businesses, which did not win a contract, believe that corruption or collusion in the procurement process caused them to be unsuccessful with their bids.
7. The average length of working days per contract facilitated in Liberia is 114 days, or 5 months (std. dev. 144 days).³ The median number of working days is 69.⁴

Analysis

1. Liberia's economy and growth prospects are not resilient to the external macro-environment. The Ebola Virus Disease (EVD) crisis during 2014—2015 plus the drop in global commodity prices resulted in 0% GDP growth, declines in agricultural production, and the disruption of the mining sector activity. Liberia's resilience to recover from external shocks is limited, as demonstrated by negative economic growth in 2016.
2. The amount of foreign assistance that Liberia receives is nearly twice as much as domestic tax revenue. A narrow tax base, which is largely dependent on foreign companies extracting natural resources, leads to inconsistent and unstable government revenues.
3. The decrease in foreign exchange earnings was a factor that led to the fall in the value of the Liberian Dollar (LD) from 83.5 LD to \$1 USD at the beginning of 2015 to a range between 105 and 120 LD to \$1 USD at the beginning of 2017.⁵
4. MSMEs may not evolve their offerings of goods and services because they prefer to hone their specialization in the delivery of specific goods and services. On the other hand, it could also demonstrate that businesses are unable to diversify to optimize profits or respond to external shocks. This is common in Low-Income Countries (LICs), where horizontal diversification in a small market can imply excessively high costs in the absence of economies of scale.⁶
5. MSME import trends indicate a preference for regional trade, followed by a preference for Chinese imports over American or European imports. The discrepancy between the number of surveyed MSMEs importing goods and the number of MSMEs exporting goods is indicative of Liberia's import dependency.
6. More businesses participate in bidding processes, but fewer win contracts due to decreased spending in the economy. MSMEs perceive that corruption is prevalent in procurement processes, and that it prevents them from winning contracts.
7. Liberia has a gig economy, where temporary positions are common and MSMEs employ workers for short-term engagements. This follows a global trend that is not unique to West Africa.

Recommendations

1. Diversify economic output and exports. Output and export diversification can occur horizontally and/or vertically, and are critical for increasing resiliency to external shocks and expanding market opportunities beyond the export of raw materials. While Liberia's agriculture sector currently accounts for a large share of economic output and employment, productivity is low, and has scope for product diversification, higher value addition, and export.

³ Average across all contracts facilitated by SMI-L, 2012-2016.

⁴ When we talk about the typical "length" of a job, it is best to use the median (the middle number in the distribution), rather than the average. The average tends to be skewed towards the high end by a few contracts that last a long time.

⁵ Published rates are not observed beyond government entities and commercial banks. In Montserrado, the exchange rate in January 2017 ranged between 106 LD (Johnsonville) and 120 (Caldwell).

⁶ Papageorgiou and Spatafora, "Economic Diversification in LICs: Stylized Facts and Macroeconomic Implications," 2012. IMF Staff Discussion Note 12/13.

2. Become “export ready” in order to exploit trade advantages. Liberia may benefit from multiple trade agreements and associations, including the African Growth and Opportunity Act (AGOA) and the Economic Community of West African States (ECOWAS). But in 2015, Liberia exported just \$17,000 USD of goods under AGOA and maintains a trade deficit in regional trade with West African nations
3. Liberia needs to improve its business and investment climate to foster a conducive trade environment. Specific measures to take are as follows:
 - a. The Liberia Chamber of Commerce should reanimate the AGOA Trade Resource Center. The center has not been operational since 2005, and requires investment in equipment, staffing, and training.
 - b. The GOL needs to formulate and publish its National AGOA Strategy.
 - c. The GOL should solicit a firm to establish and operate an Accredited (ISO) Standards Laboratory.
 - d. Stakeholders should collaborate to pursue the implementation of a National Certification (ISO, AGOA, ECOWAS, GLOBAL GAP, etc.) system of processes.
4. Refine and scale up anti-corruption interventions. Government information should be transparent, with space for the population to hold bureaucrats and officials accountable.
5. Pick winners to invest in and develop to become “export ready” businesses. Broad-based interventions are not sufficient to achieve structural transformation. The GOL, in coordination with stakeholders, needs to target strategically selected agribusiness enterprises with investment of capital, technical assistance, and buyer identification/matching to develop sectorial winners.
6. Include the informal economy and informal cross-border trade in efforts to diversify economic output and expand the tax base. Informal workers produce the majority of agricultural output. The prevalence of informal cross border trade indicates a higher degree of regional trade integration that official statistics portray (See Chapter 9 for more information).⁷ If the informal sector is recognized through (1) inclusion in economic strategies and policies; (2) clear channels for advocacy and participation in decision-making; and (3) the extension of public services, tax authorities could collect revenue from informal workers in a transparent and fair manner. This would not only broaden the tax base and increase revenues, but it could alleviate the need to impose sudden tax hikes in an ad hoc function to meet revenue quotas.
7. Levels of foreign assistance to Liberia should be sustained. Levels of US-sourced funding and technical assistance should be increased to maintain its footprint in Liberia. Foreign assistance that supports the GOL budget, as well as projects implemented by INGOs and IOs that are in line with GOL development goals, generate spending, business opportunities, and job creation.
8. The United States should increase its foreign assistance and private sector investment to Liberia if it is to maintain its influence compared with the growing influence of China. China’s footprint in Liberia continues to grow, as evidenced by its reconstruction of government buildings, renovation of RIA airport and runway, road construction, role in UNMIL and support to the Armed Forces of Liberia. Moreover, China exports the greatest value of goods from Liberia, which primarily consist of iron ore and timber.
9. Refine, expand, and promote the adaptation of mobile money. In Liberia, an estimated 55% of individuals have no access or very limited access to a physical financial institution.⁸ This inevitably impedes trade in a cash based economy. Mobile banking could benefit Liberia’s informal and cross border trade sectors, and informal trade partners in neighboring countries, in two key ways. First, mobile money may facilitate faster and more efficient financial transfers, thus increasing the volume of trade and enabling payments to informal traders. This is critical for low-income, unbanked firms and individuals engaged in cross border trade. Second, mobile

⁷ International Growth Centre, *Pilot Survey on Cross Border Trade from Sierra Leone to other Mano River Union Countries*, December 2015. Working Paper, F-39303-SLE-1.

⁸ Financial Inclusion Baseline Survey in Liberia, 2015.

money could increase access to finance for a large segment of Liberia's unbanked population. Developing mobile banking capacity in Liberia will promote trade and inclusive financial services.

10. Promote widespread use and inclusive growth of ICT. Incentivizing new private sector entrants to the ICT sector can increase supplier competition, and ultimately reduce prices of mobile phones and Internet. This will increase access to basic ICT infrastructure for MSMEs and the Liberian population.

I. ECONOMIC REVIEW: 2012 – 2016

This chapter provides an economic overview of Liberia from 2012 to 2016. Table I presents Key Economic Indicators, disaggregated by year, to show the past and projected trends of the Liberian economy.

Table I - Key Economic Indicators⁹

	2012	2013	2014	2015	2016 (proj.)
Population (millions)	4.19	4.29	4.4	4.5	4.615
GDP (current USD, billions)	1.73	1.95	2.01	0.05	TBD
GDP growth (annual %) ¹⁰	8.0%	8.7%	0.7%	0.3%	-0.5% ¹¹
Foreign direct investment, net inflows (% of GDP)	37.3% ¹²	36%	35.8%	35.1%	TBD
Price of Iron Ore (USD/ton) ¹³	128.53	135.38	96.83	55.21	57.68
Net official development assistance and official aid received (current US\$, millions)	565.87	535.08	744.33	704.39 ¹⁴	848.69 ¹⁵
Tax revenue (current USD, millions) ¹⁶	N/A	\$369	\$386	\$369	\$399
Tax revenue per capita (current USD) ¹⁷	N/A	\$86	\$87.7	\$82	\$86.5

I.1 Key Findings and Trends

I.1.1. GDP growth rates dropped sharply in 2014 due to the Ebola Virus Disease (EVD) crisis and the drop in global commodity prices. After the civil war, GDP growth steadily increased at an annual average rate of 7%. The dual

⁹ Data is pulled from UN Statistics, World Bank Data Bank, IMF estimates, and Ministry of Finance Annual Reports, unless otherwise noted.

¹⁰ GDP and GDP growth rate do not always correlate. Numbers are based on official statistics.

¹¹ IMF Estimate, December 2016. <http://www.imf.org/external/pubs/ft/scr/2016/cr16392.pdf>

¹² FDI net inflows as % of GDP decreased from 84.95% in 2011 to 37.3% in 2012.

¹³ Index Mundi, Average Monthly Iron Ore Prices, 2012-2016. <http://www.indexmundi.com/commodities/?commodity=iron-ore&months=60>

¹⁴ Actual disbursements of foreign assistance are often much lower than the projected disbursement of foreign assistance. Actual figure is against \$899,290,051 USD in projected assistance.

¹⁵ Assuming the same disbursement rate from FY 2015/16 (78.3%), actual disbursement would equal \$670,465,100 USD.

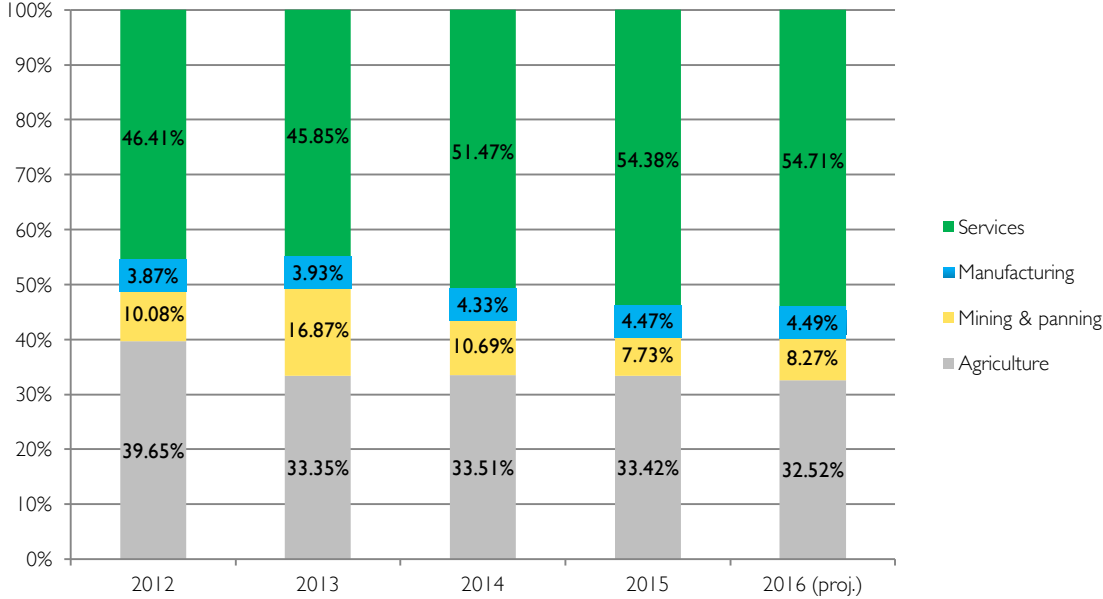
¹⁶ Figures exclude non-tax revenue

¹⁷ Author's calculation.

external shocks of the EVD outbreak and the contraction of the mining sector resulted in 0.7% growth in 2014 and 0% growth in 2015. The IMF revised initial 2016 GDP projections of 2.5% growth to a 0.5% contraction.

1.1.2. Sectoral GDP composition shifted, with a steady decline in agriculture’s contribution. Liberia’s agriculture sector is focused on export commodities. Therefore, the impact of the drop in global commodity prices was not isolated to mining: palm oil prices hit a high of \$1,157 USD in April 2012 and a low of \$483.49 USD in September 2015.¹⁸ The Services sector has increased its contribution to GDP.

Figure I - Sectoral Composition of GDP, 2012-2016¹⁹



1.1.3. A substantial decline in global commodity prices had severe impacts on Liberia’s economy. Iron ore reached an all-time high of \$191.9 USD per ton in February 2011 and a record low of \$37 USD in December 2015.²⁰ The effects were not confined to GDP impact: mining companies laid off employees, halted operations, and put expansion plans on hold.

1.1.4. Foreign assistance flows fluctuate, increasing in response to the Ebola Virus Disease (EVD) crisis, and decreasing thereafter. Foreign assistance inflows peaked in 2014 in response to the EVD outbreak. While projected assistance for FY 2016/17 is high (\$848.69 million USD), the actual disbursement is estimated to be \$670,465,100 USD.²¹

1.1.5. The fall in natural resource exports and decline in economic output result in lower tax revenue. The Government of Liberia (GOL) has focused taxation efforts on large corporations, including mining companies, and the commodity price drop decreased tax revenue. However, the creation of the Liberian Revenue Authority (LRA) in 2013 and its efforts to collect taxes partially offset the negative impact on tax revenue through stronger tax collection.

¹⁸ Index Mundi, Average Monthly Palm Oil Prices, 2012-2016. <http://www.indexmundi.com/commodities/?commodity=palm-oil&months=60>
¹⁹ Ministry of Finance, Annual Economic Review, 2015. Accessible for download at: <https://www.mfdp.gov.lr/index.php/documents/reports/special-report>
²⁰ Index Mundi, Average Monthly Iron Ore Prices, 2012-2016.
²¹ Assuming the same disbursement rate from FY 2015/16 (78.3%).

1.2 Analysis

1.2.1. Liberia's economy and growth prospects are not resilient to the external macro-environment. The EVD crisis and the drop in global commodity prices resulted in 0% GDP growth, declines in agricultural production, and the disruption of mining sector activity. The resilience to recover from external shocks is limited, as demonstrated by negative economic growth in 2016.

1.2.2 The amount of foreign assistance that Liberia receives is nearly twice as much as domestic tax revenue. The discrepancy between projected (\$899.3 million) and actual (\$704.39 million) foreign assistance disbursements in FY 2015/16 likely contributed to the predicted contraction of the economy in 2016 because it resulted in less government spending. Reliance on foreign assistance also increases vulnerability to external shocks, and results in an accountability issue: the government is oriented to international community and private sector demands rather than its citizens' voices.

1.2.3 Liberia is experiencing internal stagnation. A narrow tax base that is largely dependent on foreign companies operating in natural resources leads to inconsistent and unstable government revenues. A decline in foreign assistance has compounded the decrease in domestic revenues.

1.3 Conclusions and Recommendations

1.3.1 Economic activity has reduced. The EVD crisis, drop in global commodity prices, and decreases in foreign assistance have led to a steady contraction of economic growth. This has negative ramifications for government spending, local business opportunities, and Liberian communities and livelihoods at large.

1.3.2 Diversify economic output and exports. In countries with small domestic markets, such as Liberia, economic output and export diversification are closely related.²² Output and export diversification can occur horizontally and/or vertically, and are critical for increasing resiliency to external shocks and expanding market opportunities beyond the export of raw materials.²³ While Liberia's agriculture sector currently accounts for a large share of economic output and employment, productivity is low, and has scope for product diversification, higher value addition, and export.²⁴

The Liberia Agricultural Transformation Agenda specifically targets the development of high-impact agricultural value chains, including: cassava, cocoa, palm oil, rice, rubber, horticulture, fisheries, livestock, and poultry (see Table 2).

1.3.3 Become "export ready" in order to exploit trade advantages. Liberia may benefit from multiple trade agreements and associations, including the African Growth and Opportunity Act (AGOA) and the Economic Community of West African States (ECOWAS).²⁵ But in 2015, Liberia exported just \$17,000 USD of goods under AGOA and maintains a trade deficit in regional trade with West African nations.²⁶

²² IMF, 2016.

²³ Horizontal diversification is defined as adding new products to existing output baskets to mitigate economic or political risks. Vertical diversification is defined as increasing value added activities such as processing, manufacturing, and marketing to expand market opportunities for raw materials.

²⁴ ILO Labour Survey, 2010. Over 70% of the rural working population is engaged in agriculture production. In urban areas, 15% of the working population is involved in agriculture.

²⁵ AGOA provides duty-free market access to the United States for Liberia.

²⁶ AGOA Trade Conference, Liberia Chamber of Commerce, January 2017.

Current challenges to becoming “export ready” include: non-existent quality control, lack of product standardization, no laboratory testing, limited access to rural areas, lack of adherence to ECOWAS and international standards, and low coherence and cooperation between ministries.

In general, Liberia needs to improve its business and investment climate to foster a conducive trade environment. Specific measures to take are as follows:²⁷

1. The Liberia Chamber of Commerce should reanimate the AGOA Trade Resource Center. The center has not been operational since 2005, and requires investment in equipment, staffing, and training.
2. The GOL needs to formulate and publish its National AGOA Strategy.
3. The GOL should solicit a firm to establish and operate an Accredited (ISO) Standards Laboratory. (See Chapter 2 for additional background and recommendations).
4. Stakeholders should collaborate to pursue the implementation of a National Certification (ISO, AGOA, ECOWAS, GLOBAL GAP, etc.) system of processes.

I.3.4 Pick winners to invest in and develop to become “export ready” businesses. Broad-based interventions are not sufficient to achieve structural transformation. The GOL, in coordination with stakeholders, needs to target strategically selected agribusiness enterprises with investment of capital, technical assistance, and buyer identification/matching to develop sectoral winners.

I.3.5 Include the informal economy and informal cross-border trade in efforts to diversify economic output and expand the tax base. Informal workers produce the majority of agricultural output. The prevalence of informal cross border trade indicates a higher degree of regional trade integration than official statistics portray (See Chapter 9 for more information).²⁸ If the informal sector is recognized through (1) inclusion in economic strategies and policies; (2) clear channels for advocacy and participation in decision-making; and (3) the extension of public services, tax authorities could collect revenue from informal workers in a transparent and fair manner. This would not only broaden the tax base and increase revenues, but it could alleviate the need to impose sudden tax hikes in an ad hoc function to meet revenue quotas.

I.4 Rationale

I.5.1. Economic diversification will reduce dependency on natural resources and foreign assistance, and strengthen resilience to external shocks and negative impacts of the macro-environment. In the macro-environment, new risk factors impact the Liberian economy and MSMSEs, and are difficult or impossible to predict; over the past 5 years, these macro-environment risks have included drops in commodity prices, fluctuations in foreign assistance, and the EVD outbreak.

I.5.2. Taking advantage of free trade will allow Liberia to exploit its comparative advantages. Trade revenue will drive economic growth, increase opportunities for local businesses, and generate job and livelihood creation.

I.5.3. Investing in targeted businesses, regardless of success or failure, will provide information externalities to other firms. Because the risk of failure is significant, particularly in an unstable environment like Liberia, individual firms will not be incentivized to be a “first mover” in diversifying the agriculture sector because they would not be willing to

²⁷ Ibid.

²⁸ International Growth Centre, *Pilot Survey on Cross Border Trade from Sierra Leone to other Mano River Union Countries*, December 2015. Working Paper, F-39303-SLE-I.

bear the full cost of failure. Therefore, stakeholders need to provide incentives to enable identified winners to be “first movers.” If targeted winners are successful, other firms will enter the market.

1.5.4. Increases in the tax base are more socially acceptable than increases in tax rates. Ensuring that taxation, informal sector participation in decision-making, and inclusion in economic policies and strategies is transparent and inclusive will mitigate the potential for civil strife and contribute to more inclusive economic growth.

2. GOVERNMENT STRATEGY, POLICY, AND REGULATIONS

A range of ministries and bodies, including government departments, public authorities, and local authorities, have the authority to implement and administer various laws and regulations (Table 2).

Table 2 - Strategies, Policies, and Laws and Regulations

Strategies, Policies, Laws & Regulations	Year	Description	Ministry ²⁹
Strategies			
Liberia Agricultural Transformation Agenda	2015-17	Creates conditions for Liberia to achieve higher levels of economic resilience & inclusive growth. Focuses on long-term economic development of high-impact agricultural value chains through private-sector investments and an enabling business environment.	Ministry of Agriculture
Agenda for Transformation	2012-17	National development plan to generate high economic growth and reduce social inequality in the process of wealth creation.	Ministry of Finance & Development Planning
National Export Strategy	2014	Focuses on the diversification of exports away from natural resources, and targets cocoa, fish & crustaceans, palm oil, rubber, and cassava. ³⁰	Ministry of Commerce & Industry
Economic Stabilization and Recovery Plan	2015	Defines strategic interventions to stabilize and spur rapid social & economic recovery, while helping the economy become more resilient to any future shocks. ³¹	Ministry of Finance & Development Planning
Policies			
MSME Policy	2011-16	Aims to reduce poverty through economic growth and income equality. It focuses on the investment climate through: (i) legal & regulatory reforms; (ii) access to markets; (iii) access to finance; and (iv) building skills and knowledge. ³²	Ministry of Commerce & Industry
Trade Policy	2014-19	Promotes international trade & competitive domestic private sector by supporting agricultural, industrial, and services sectors. Introduces infrastructure improvements, export incentives & strengthen domestic productive capacity. ³³	Ministry of Commerce & Industry
Local Content Policy	2017?	Still in draft, the Local Content Policy intends to create market pull for Liberian goods and services in the Extractive Industries. The National Investment Commission (NIC) leads the Local Content Policy Technical Working Group, and produced a draft policy in 2016.	National Investment Commission
Laws and Regulations			
Revenue Code	2000	Governs matters of taxation. ³⁴ The LRA collects taxes owed to the GOL. Amendments to the Revenue Code were made in 2013.	Ministry of Finance & Liberia Revenue Authority
Commercial Code	2010	Backs the Commercial Court, and sets provisions for sales, leases, mortgages, financial transactions, and commercial arbitration. ³⁵	Ministry of Commerce & Industry
Investment Act	2010	To empower Liberian entrepreneurs and businesses by prohibiting, limiting, or conditioning foreign investment in certain sectors, goods, and services. ³⁶	Ministry of Commerce & Industry
Public	2010	Regulates public procurement and concessions. Established the Public Procurement	Public Procurement &

²⁹ The primary ministry for each strategy, policy, and law/regulation is listed.

³⁰ International Trade Center, *Liberia's National Export Strategy*, 2014. <http://www.intracen.org/uploadedFiles/Liberia-Export-National-Strategy.pdf>

³¹ Republic of Liberia, *Economic Stabilization and Recovery Plan*, 2015.

³² MOCI, *Final MSME Policy*, 2011. <http://www.moci.gov.lr/doc/Final%20MSME%20Policy%20Liberia%202011-2016.pdf>

³³ MOCI, *Liberia National Trade Policy 2014-2019*. [http://www.moci.gov.lr/doc/Liberia%20National%20Trade%20Policy-I1.compressed\(2\).pdf](http://www.moci.gov.lr/doc/Liberia%20National%20Trade%20Policy-I1.compressed(2).pdf)

³⁴ Ministry of Foreign Affairs, *Revenue Code of Liberia*, 2011.

<https://www.liscr.com/liscr/portals/0/revenue%20code%20of%20liberia%20with%202011%20amendments%20included%20-%202011212.pdf>

³⁵ MOCI, *The Liberian Commercial Code*, 2010. <http://moci.gov.lr/doc/Commercial%20Code%20-%20Title%207%20-%20Liberian%20Code%20of%20Laws%20Revised.pdf>

³⁶ MOCI, *Investment Act*, 2010. [http://www.moci.gov.lr/doc/TheInvestmentActof2010\(1\).pdf](http://www.moci.gov.lr/doc/TheInvestmentActof2010(1).pdf)

Procurement and Concessions Act	and Concessions Commission to regulate & enforce law. Includes National Competitive Bidding Regulations.	Concessions Commission
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2.1 Findings

2.1.1. External shocks disrupted the implementation of the Agenda for Transformation (AfT). The four main pillars of the AfT are peace, security, and rule of law; infrastructure and economic transformation; human development; and governance and public institutions. Table 3 shows the successes, challenges, and funds spent on each pillar as of July 2016.

Table 3 - Agenda for Transformation Progress³⁷

	Funds Spent	Successes	Challenges
Peace, Security, and Rule of Law	\$344 million	<ul style="list-style-type: none"> • 73.6% satisfied with protection against crime • 78% satisfied with quality of justice system 	<ul style="list-style-type: none"> • UNMIL drawdown and inability to execute security deployment plans in time
Infrastructure and Economic Transformation	\$2.4 billion	<ul style="list-style-type: none"> • Electrification increased from 0% (2006) to 14.4% (2015) • 1000 km of roads paved 2006-2016 	<ul style="list-style-type: none"> • Slow progress in agriculture investment
Human Development	\$1 billion	<ul style="list-style-type: none"> • Primary school enrollment rate increased from 30% (2012) to 55% (2015) • Access to safe drinking water increased from 700k gallons per day (2006) to 4 million gallons (2016) 	<ul style="list-style-type: none"> • Poor implementation of free primary education • Shortage of health care workers • Weak health care standards and infrastructure
Governance and Public Institutions	N/A	<ul style="list-style-type: none"> • Development of Liberia Rising 2030, National Code of Conduct, Civil Society Organizations-GOL partnership policy 	<ul style="list-style-type: none"> • Slow progress in combating corruption and improving public financial management.

2.1.2. Key sources of foreign exchange earnings, including the export of raw materials and the inflow of foreign assistance, declined through 2016. This was one factor that led to the depreciation of the Liberian Dollar in 2015 and 2016. In 2012 through 2014, Liberia strengthened its foreign exchange reserves.³⁸ However, by 2015, foreign exchange reserves declined and the Liberian dollar began to depreciate as a result of internal and external factors.³⁹

2.1.3. There is low accountability, and therefore few incentives, to implement and enforce strategies, policies, and laws and regulations. One example of this is the National Standards Lab, which was set up in 2005 as a fully equipped and accredited lab facility to help Liberia meet Sanitary and Phytosanitary Standards (SPS). Since then, the custodianship of equipment and accountability for the lab has been rotated between 3 ministries: the Ministry of Health, Ministry of Agriculture, and Ministry of Commerce and Industry (MOCI). The length of each period of responsibility is indeterminate- sometimes it is 3 months and sometimes it is one year or more.

³⁷ Information in table summarized from IMF, 2016. Full report available at <https://www.imf.org/external/pubs/ft/scr/2016/cr16238.pdf>

³⁸ US Department of State, Liberia Investment Climate Statement, 2013 and 2014. <https://www.state.gov/e/eb/rls/othr/ics/2013/204678.htm>

³⁹ US Department of State, Liberia Investment Climate Statement, 2016. http://photos.state.gov/libraries/liberia/328671/pdfs/investment_climate_2016.pdf

2.1.4. The feasibility to implement and enforce strategies, policies, and laws and regulations depends not only on financial resources, but also on the political-legal, economic, socio-cultural, and technological (PEST) environment of Liberia. Politically viable interventions to implement the AfT, and ultimately bolster private sector growth and foster an improved business environment, should consider the following elements (Table 4).

Table 4 - PEST Factors

PEST Factors	Factor
Political-Legal Elements	
Democratic Elections	Free and fair presidential elections have been held in 2005 and 2011. This year, over 22 parties have put forth presidential candidates, and rhetoric has been harsh. ⁴⁰ Domestic institutions, including the electoral commission, police, and political leaders, are critical to prevent election-related violence, and ensure that the country's first peaceful democratic transition of power occurs. ⁴¹
Security Sector Reform	As of June 2016, UNMIL's authorized military personnel fell from 3,590 to 1,240 and police strength decreased from 1,515 to 606 advisors. On December 23, 2016, the SC voted to maintain a UN presence in Liberia until March 2018, but gradually reduce military and police personnel to 434 and 310 respectively. ⁴² The drawdown could have multiple economic and security impacts: less money spent by the UN presence will likely reduce demand for locally supplied services, and the GOL will be tasked to provide & fund adequate security services.
Conflicting Legal Systems	Statutory and customary legal systems and laws co-exist in Liberia. They are oftentimes contradictory, and varying interpretations are a source of conflict. This is particularly evident around land rights in concessionaire agreements.
Economic Elements	
Resource Dependence	Liberia depends on natural resources as a significant revenue source. Because resource prices and demand fluctuate sharply, as demonstrated by the drop in iron ore prices in 2015/16, this revenue source is volatile.
Foreign Assistance Dependence	There is a dual dependency on natural resources and foreign assistance. In 2011, OECD data showed that Liberia received \$765 million in foreign assistance, accounting for 73% of gross national income. This increases vulnerability to external shocks and results in an accountability issue: the government is oriented to international community demands rather than its citizens' voices.
Small Tax Base	Because of the dual dependence on natural resources and foreign assistance, the GOL has not concentrated efforts in recent years in developing, implementing, & enforcing other forms of taxation to fund public expenditure. When natural resource and foreign assistance revenue streams decline simultaneously, as they did in 2016, Liberia does not have a sufficient tax revenue stream to sustain expenditures.
Resource Rents	Historically, concessionaires have functioned as enclaves with minimal impact on job creation and limited linkages with the rest of the economy. Natural resources have led to rent-seeking that fuels patronage and corruption. Greater transparency and revision of laws/policies around mining need to incorporate domestic value chains and capture resource rent, ensuring efficient, equitable use of profits in achieving Liberia's development objectives.
Import dependency	With a growing population and weak agriculture production, Liberia continues to rely on Cereal import requirements for 2016 are estimated at about 402 000 tons, about 14 percent above the previous year's level. Food import dependency threatens food security and increases vulnerability, as demonstrated by high levels of household-level food insecurity during the EVD crisis.
Socio-Cultural Elements	
Patronage, Corruption and Nepotism	Decentralization, oversight mechanisms and systems of checks and balances have sought to address endemic corruption and patronage, but these factors continue to undermine human rights and development. Police misconduct and corruption compromise justice and establishment of the law. Accountability remains low.
Unemployed Youth	A third of the population is between 15-35 years old. Unemployment and vulnerable employment are widespread across this age group, and there is a dearth of skilled workers. Large numbers of young adults without schooling or proper training are a potentially destabilizing force and a serious concern for Liberia.
Technological Elements	
Poor Infrastructure	The lack of affordable and efficient infrastructure perpetuates horizontal inequity within the private sector. Foreign and domestic elites are able to access power and transportation at high costs, making their business operations efficient and of high quality. This marginalizes many local businesses by rendering their goods and services less cost-competitive.

⁴⁰ United States Institute of Peace, 2016. <http://www.usip.org/olivebranch/2016/09/19/tension-rising-ahead-of-kenya-liberia-2017-elections>.

⁴¹ Ibid.

⁴² UN Security Council, 7851st Meeting Coverage, December 2016. <https://www.un.org/press/en/2016/sc12654.doc.htm>

However, new road construction, the Mt. Coffee Hydropower Rehabilitation Project, and other investments indicate coordinated efforts to improve Liberia's infrastructure.

2.2 Analysis

2.2.1. Implementation of the AfT is delayed and disjointed. The diversion of funds to eradicate and recover from the EVD crisis, as well as lower than expected government revenues and decreased levels of foreign assistance, resulted in the delayed and disjointed implementation of the AfT. Moreover, the AfT is being implemented under challenging security and governance conditions. There is low political will and little capacity to mobilize financial resources and effectively prioritize spending.

2.2.2. Three primary factors drove the decline in foreign exchange reserves and the depreciation of the Liberian dollar in 2015 and 2016: (1) deterioration in terms of trade and significantly fewer exports; (2) high domestic demand for foreign exchange to service import bills; and (3) increased Liberian Dollar expenditure by the GOL.⁴³

Protests led by business owners, including market women, petty traders, and small businesses, shut down commerce in cities throughout the country at the end of January 2017 in response to escalating exchange rates.

2.2.2. The National Standards Lab is not an accredited facility. This prevents Liberia from developing export markets, as the certifications, which the lab might be able to provide on behalf of any business seeking to export goods, are not valid or accepted on the global market.

2.2.3. In addition to PEST elements, international actions and interventions shape the macro-environment and also have local impacts (PEST + I)⁴⁴. Shifts in foreign assistance disbursements, fluctuations of global commodity prices, and evolving donor priorities are international elements that also have implications for the feasibility of implementing the AfT, and other government strategies, policies, and laws and regulations.

Figure 2 - PEST + I Chart



The Central Bank distributed and issued new Liberian Dollar banknotes in October, 2016 to take old and tattered currency out of circulation.

The old 10 LD note (above) and the new 10 LD note are pictured. (Photo from Liberian Daily Observer).

⁴³ US Department of State, 2016.

⁴⁴ Political-legal, Economic, Socio-cultural, Technological + International influences

2.3 Conclusion

2.3.1. Limited GOL institutional and human resource capacity, as well as a challenging macro-environment, has hindered AfT implementation.

2.3.2. Liberia has transitioned from a net foreign exchange earner in 2012-2014 to a net foreign exchange spender in 2015-2016. Weak foreign currency reserves and high foreign currency spending threaten the stability of the Liberian Dollar, which has serious consequences for entities that buy and sell goods and services using Liberian Dollars, including local MSMEs, informal businesses and entrepreneurs, and the Liberian population at large.

2.3.3. Liberia cannot exploit advantages of trade agreements because it cannot export certificated goods that would be accepted on the global market. Liberia is not trade ready.

2.4 Recommendations

2.4.1. Stakeholders should mobilize resources and assist the GOL to mobilize domestic resources, prioritize spending and meet priority benchmarks.

2.4.2. Delegate authority of the National Standards Lab to an autonomous governing body and establish a national strategy for AGOA. The duties of the governing body in charge of the lab should be made public, and an oversight committee should be set up, which could consist of representatives from the Ministry of Health, Ministry of Agriculture, and MOCI. However, responsibility for the management and maintenance of the lab needs to be retained by the autonomous governing body to ensure that a single entity is held accountable for the management and maintenance of the lab.

2.5 Rationale

2.5.1. The AfT is the agenda for domestic reform, but it also provides the foundation for economic diversification, international trade, and private sector investments beyond the natural resource sector. It is therefore critical to mobilize support and align donor interventions with prioritized items of the AfT.

2.5.2. A transparent and autonomous National Standards lab will increase accountability, and once accredited, will facilitate exports.

3. FINANCIAL SERVICES FOR MSMES: 2012 – 2017

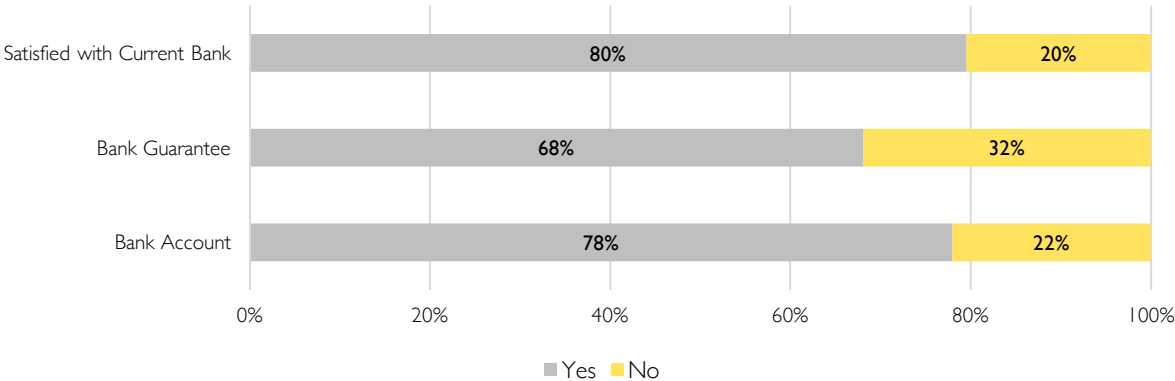
3.1 Findings

3.1.1. There are nine commercial banks in Liberia, and the number of branches increased from 78 in 2012 to 87 at the beginning of 2017.⁴⁵ Seventy-eight percent of surveyed MSMEs have a bank account. Of those with a bank account, 80% are satisfied with their current bank. Reasons for satisfaction include (1) the security of keeping money in a safe place and (2) good customer service. Twenty percent of businesses are not satisfied with their current bank. The most frequent complaint is that holding a bank account does not guarantee access to loans. Others complained that the banking system is frequently “out of service” or “experiencing difficulties”. This can result in extended wait times or the need to make multiple trips to the bank in order to withdraw cash, make a transfer, or deposit money.

Twenty percent of businesses exclusively accept cash in exchange for goods and services, indicating that they are not part of the banking system.

The same number of businesses that were able to provide a bank guarantee in 2012 is able to provide a bank guarantee today.⁴⁶ Our data indicates that access to banking hasn’t evolved significantly for MSMEs since 2012.

Figure 3 - MSME Banking Experience Assessment



Basic banking services are often delayed or out of order. While businesses generally choose to have a bank account to keep money in a safe place, they note that banks are frequently “out of service” or “experiencing difficulties.” This can result in extended wait times or the need to make multiple trips to the bank in order to withdraw cash, make a transfer, or deposit money. All methods of payment beyond cash, which include checks, wire transfers, and bank transfers, necessitate access to a physical bank. Zero MSMEs reported accepting or making payments with mobile money.

Liquidity issues and threats to credibility hinder Liberia’s banking system. The Central Bank of Liberia (CBL) noted that Liberia’s banking system does experience frequent frauds and burglaries, which can be attributed to the internal controls and security environment of some banks, as well as collusion among internal staff and external collaborators.⁴⁷

⁴⁵ Central Bank of Liberia, Annual Reports, 2012 and 2015.

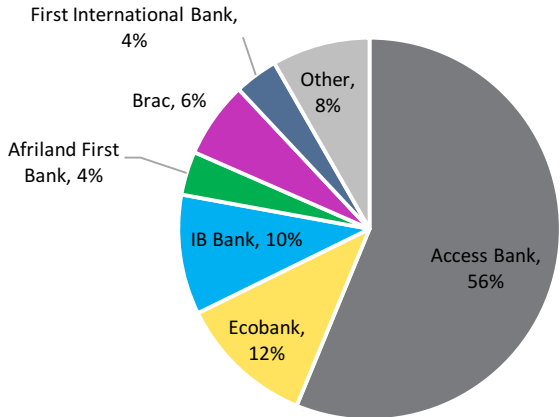
⁴⁶ Based on a survey of 97 MSMEs that were initially interviewed by Building Markets in 2012. Please see Chapter 5 for Methodology.

⁴⁷ Central Bank of Liberia, 2016.

In 2016, the CBL extended financial support to the First International Bank Liberia Limited; large amounts of the bailout funds were subsequently robbed, which weakened the reserves and credibility of both the CBL and commercial banks.

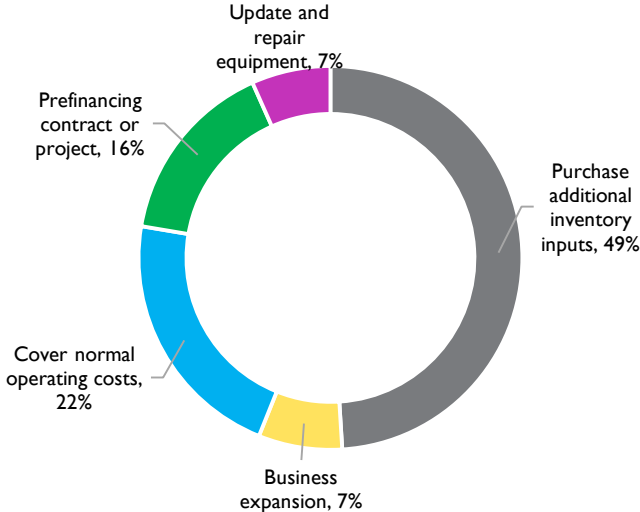
3.1.2. Nearly one-fifth of surveyed businesses (18%) have received a loan from a formal lending institution. Over half of these loans are from Access Bank, which specifically targets lending to MSMEs (Figure 4). The size of loans to MSMEs varies greatly. Of firms reporting a past loan, the average value is \$30,992 USD (average standard deviation of \$96,660 USD). Sixty-two percent of businesses have not paid off the loan that they have received.

Figure 4 - Breakdown of Loans by Formal Lending Institutions (% of businesses receiving loan)



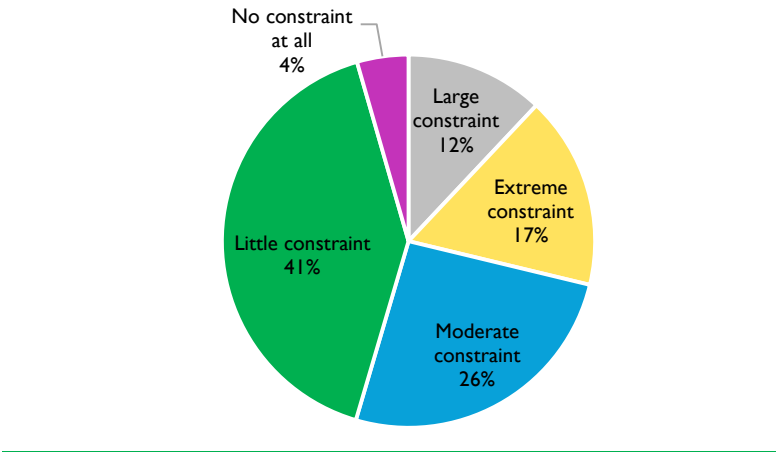
Half of MSMEs use loans to purchase additional goods, equipment, and inventory for their business (Figure 5). One quarter take loans in order to cover normal operating costs. Thirty-eight percent of businesses have paid back their loan in full.

Figure 5 - Loan Purpose



Not all MSMEs are able to access loans. Ninety-six percent of all surveyed firms view access to finance as a constraint to the operation and/or growth of their business (Figure 6). Thirty-five percent of businesses are interested in a loan, but 38% are not confident or uncertain that they would succeed in obtaining a formal loan.

Figure 6 - Access to Finance as a Constraint



Historical data shows a decrease in MSMEs’ interest in formal loans. Our survey of 100 businesses initially registered in 2012 and re-surveyed in January 2017 shows that the number of businesses seeking a formal loan decreased by 50%, from 69 businesses seeking a loan in 2012 to 34 businesses wanting to access a loan in 2017.

3.2 Analysis

3.2.1. Banking services are constrained by a small number of physical locations, liquidity issues, and decreasing credibility. While over three-quarters of surveyed MSMEs have a bank account and are satisfied with their current bank, there has not been significant evolution in terms of banking services available to MSMEs since 2012. Commercial bank services remain basic, not modernized, and concentrated to serving a small client base.

Our survey finds that formal MSMEs do not use mobile money. However, it is still relevant to discuss the potential role that mobile money could play in expanding financial inclusion. Mobile money was launched in Liberia in 2011 to encourage and facilitate financial inclusion.⁴⁸ The CBL passed the Mobile Money Regulations in 2014 to allow non-bank institutions, such as GSM subsidiaries, to provide mobile money services.⁴⁹ Shortly thereafter in July 2014, Liberia declared a state of emergency in response to the escalating EVD crisis. The need to pay emergency response workers in remote areas of the country temporarily spurred efforts by the government and development partners to develop a robust digital financial services ecosystem.⁵⁰

There are two mobile operators in Liberia: Lonestar (owned by South Africa’s MTN) and Cellcom (owned by Orange). Lonestar and Cellcom offer mobile money wallets, allowing users to make transfers, payments, and receive cash without having to personally access a bank. Mobile money transfers are affordable relative to wire transfers and alternative means of transferring money. Moreover, mobile money reduces the inherent risks in physically transporting

⁴⁸ IGC, Presentation on mobile money in Liberia, 2016. <http://www.theigc.org/wp-content/uploads/2016/03/Liberia.pdf>

⁴⁹ Central Bank of Liberia, Policy Statement 2014. <https://cbl.org.lr/doc/policystatement2014.pdf>

⁵⁰ UNCDF, *Mobile Money during Times of Crisis*, 2014. http://www.uncdf.org/sites/default/files/Documents/bn_liberia_final.pdf

large amounts of cash. Mobile money can link underserved and marginalized populations, particularly those engaged in cross border trade and/or operating in the informal sector, to markets and financial inclusion, ultimately playing a critical role in mitigating the urban-rural divide, facilitating trade, and reducing poverty.

3.2.2. The lower proclivity of businesses to take a loan to expand or sustain their operations underlines the uncertain business environment and smaller amount of opportunities for MSMEs in 2017 as compared to 2012. In fact, when asked to predict profit and staff hiring trends over the next 6 months, businesses provided markedly different responses today as compared to their predictions in 2012 (Figure 7).

Figure 7 - Profit and Staff Expectations in the Next 6 Months (2012 vs 2017)



There is a discrepancy between the lower numbers of businesses interested in a loan (35%) and the higher numbers of businesses that view access to finance as a constraint (96%).

It is also important to state that the incidence of non-performing loans (NPLs) increased in response to subdued economic activity. By the end of 2015, NPLs as a percent of total loans rose to above 20%, weakening bank profits and threatening credit growth recovery.⁵¹

3.3 Conclusions

3.3.1. Banking remains basic, not modernized, and limited in terms of physical access to bank branches. The number of MSMEs with access to banking has remained stagnant since 2012.

3.3.2. There is less MSME demand for access to loans today as compared to 2012. MSMEs have a low rate of loan repayment and interest in loans because the economy has continued to contract. This indicates that MSME demand for access to finance has decreased.

3.4 Recommendations

3.4.1. Refine, scale-up, and promote the adaptation of mobile money. In Liberia, an estimated 55% of individuals have no access or very limited access to a physical financial institution.⁵² This inevitably impedes trade in a cash based

⁵¹ IMF, 2016.
⁵² Financial Inclusion Baseline Survey in Liberia, 2015.

economy. Mobile banking could benefit Liberia's informal and cross border trade sectors, and informal trade partners in neighboring countries, in two key ways. First, mobile money may facilitate faster and more efficient financial transfers, thus increasing the volume of trade and enabling payments to informal traders. This is critical for low-income, unbanked firms and individuals engaged in cross border trade. Second, mobile money could increase access to finance for a large segment of Liberia's unbanked population. Developing mobile banking capacity in Liberia will promote trade and inclusive financial services.

3.4.2. Prioritize targeted, large-scale investments to achieve economic growth through diversification of economic output and investment in sectoral “winners”. See Chapter 1 for details.

3.5 Rationale

3.5.1. The increased use of mobile money will extend financial inclusion to currently unbanked or underbanked populations, and facilitate informal and cross-border trade.

3.5.2. Achieving economic growth needs to be prioritized before access to finance. Today, demand for loans continues to decrease because businesses do not have high expectations for business growth, and are thus generally unable to repay loans.

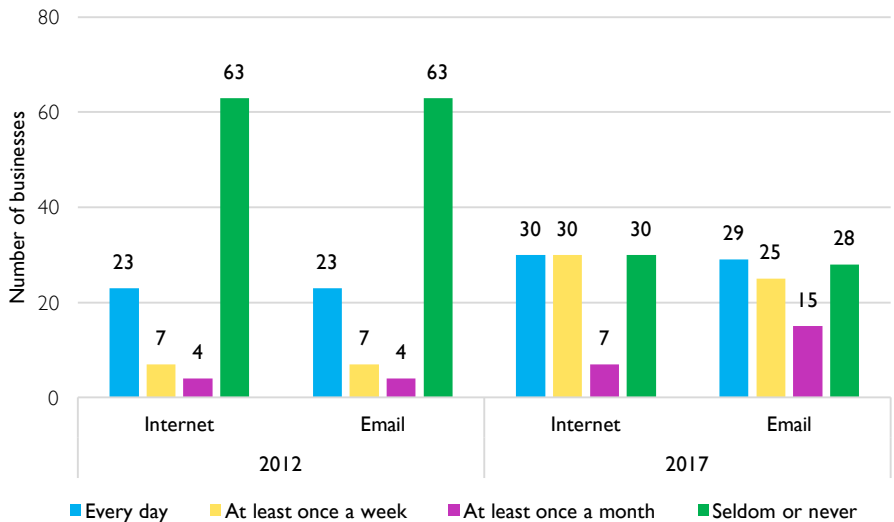
4. ICT LANDSCAPE

4.1 Findings

4.1.1. Every MSME registered with SMI-L has access to at least one mobile phone, and one SIM card. The mobile phone numbers for all MSMEs registered with SMI-L can be found on the online Supplier Directory.

4.1.2. Since 2012, businesses have significantly better access to Internet and email (Figure 8).

Figure 8 - Access to Internet and Email (2012 vs 2017)



4.2 Analysis

4.2.1. Official statistics reflect that an increasing proportion of the population has access to the Internet (Table 5). Local businesses have a much higher rate of Internet access than the general population; however, nearly half of the 1,724 MSMEs surveyed between September 2016 and December 2016 indicate that they seldom or never use the Internet or email.

Table 5 - Internet Users in Liberia (2012 vs 2015)

	2012 ⁵³	2015 ⁵⁴
Number of internet users in Liberia	147,510	248,000
% of total population	3.8%	5.9%
Rank in world	193	158

Just 46 out of 1,724 surveyed businesses (2.7%) reported that they have a website. Not having a website may hinder a local firm’s ability to connect with large national and international Buyers, and local suppliers are aware of this; in fact, over two-thirds of businesses stated that they are interested in having a business website.

⁵³ International Telecommunications Union, Percentage of Individuals Using the Internet 2000-2012.
⁵⁴ CIA, The World Factbook, 2017. <https://www.cia.gov/library/publications/the-world-factbook/geos/li.html>

4.3 Conclusions

4.3.1. Increasingly widespread use of mobile phones and the Internet is diffusing the former concentration of information among the elite. Building Markets' data shows a growing use of mobile phones by local businesses and a preference to receive information via SMS. This trend is not only observed among MSMEs. During the EVD outbreak, a Liberian non-profit organization, iLab, demonstrated the importance of technology in bolstering the health sector response through electronic mapping of the disease.⁵⁵ The Red Cross sent two million text messages about EVD each month, and phone records facilitated the tracking of individuals who had contact with EVD patients.

4.4 Recommendations

4.4.1. Promote widespread use and inclusive growth of ICT. Incentivizing new private sector entrants to the ICT sector can increase supplier competition, and ultimately reduce prices of mobile phones and Internet. This will increase access to basic ICT infrastructure for MSMEs and the Liberian population.

4.5 Rationale

4.5.1. Access to phones, Internet, and technology provides more equal access to information, and contributes to inclusive economic growth.

⁵⁵ Al Jazeera, Fighting Ebola in Liberia with Technology, 16 November 2014.

5. EVOLUTION OF MSME RESPONSES: 2012 – 2017

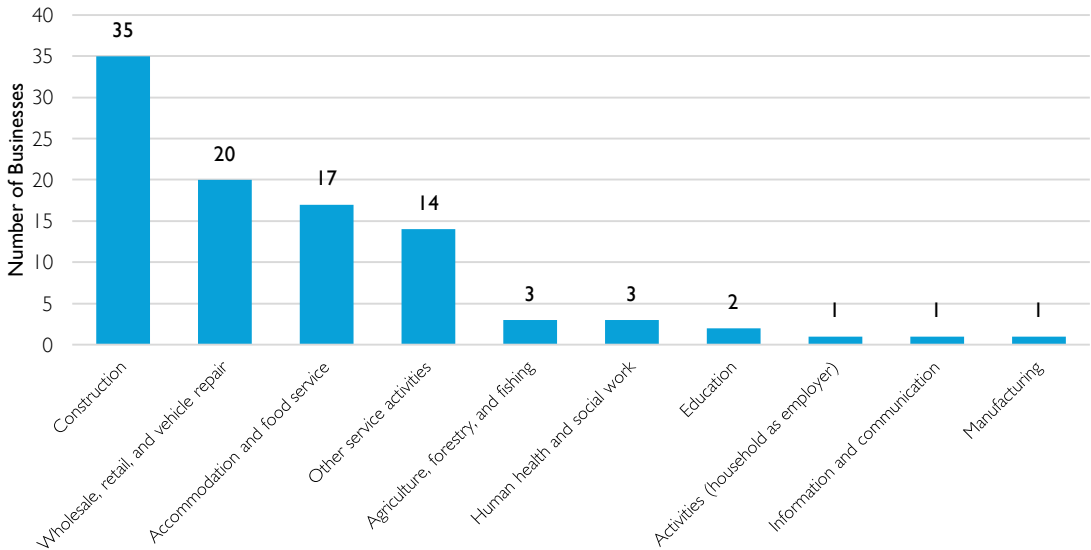
In this chapter, we look at the dynamics and trends of a sample of 97 randomly selected businesses that met the pre-condition of initial verification by SMI-L in 2012. Each of the businesses was re-verified with a truncated version of the SMI-L re-verification survey in January, 2017. This allows us to observe the changes and developments of Liberian businesses as a result of the business environment, external shocks, and access to SMI-L services.

Figures will be presented as whole numbers rather than percentages because of the smaller sample size.

5.1 Findings

5.1.1 In general, businesses did not change sectors, or goods and services offered, between 2012 and 2017 (Figure 9). In 2017, the 97 surveyed businesses primarily work in *Construction* (35), *Wholesale, retail, and/or vehicle repair* (20), *Accommodation and food service* (17), and *Other service activities* (14). The one exception to this trend is a business that switched from the wholesale of rice, flour, and sugar, to the wholesale of cement.

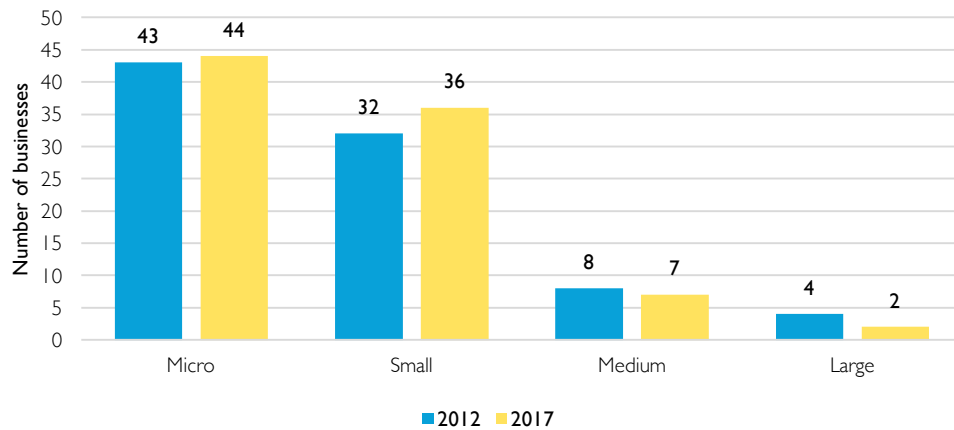
Figure 9 - Sectoral Distribution of Surveyed MSMEs (2012 and 2017)



5.1.2. There was a significant trend in business expansion through the creation of one or more additional branch in a different location. Nine businesses expanded the number of branches in Liberia between 2012 and 2017. These businesses are all in the *Construction* sector. Four businesses expanded within Montserrado, while the remainder added branch locations in Margibi, Bong, and Nimba. One business, a travel agency, established offices in Accra, Freetown, and Abidjan.

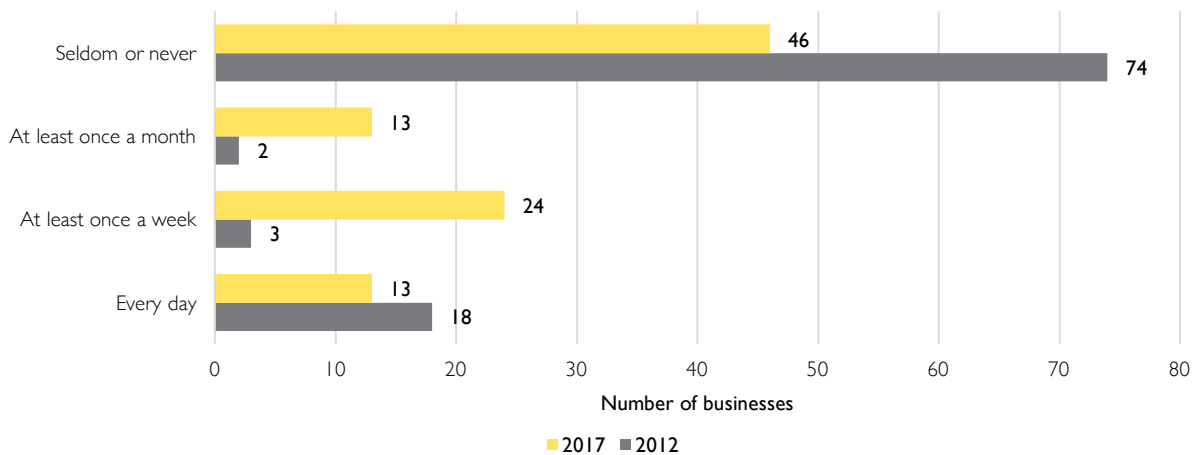
5.1.3. Businesses hire fewer employees today as compared to 2012. The size of business in terms of the number of employees shows a slight trend towards a decrease in operations. This is primarily due to *Construction* companies in the sample reporting larger numbers of temporary workers in 2012 than in 2017.

Figure 10 - Size of Business by Number of Employees



5.1.4. Businesses’ access to tenders increased between 2012 and 2017. In 2012, over three-quarters of responding businesses seldom or never checked for tenders (Figure 11). Today, half of the same businesses check for tenders at least once per month. Twenty-one businesses reported having responded to a tender in 2012; twenty-nine businesses have submitted a bid as of 2017.

Figure 11 - Frequency of Checking for Tenders



5.1.5. Significantly fewer businesses reported winning a contract in the final 6 months of 2016 versus 2012. Sixteen businesses reported winning a bid in the past 6 months in 2012. Just 4 businesses reported obtaining a contract within the past 6 months, as of January 2017.

5.2 Analysis

5.2.1. MSMEs do not diversify goods and services in response to market trends. This could indicate that businesses prefer to specialize in the delivery of specific goods and services. On the other hand, it could also demonstrate that businesses are unable to diversify to maximize profits or respond to external shocks. This is common in Low-Income

Countries (LICs), where horizontal diversification in a small market can imply excessively high costs in the absence of economies of scale.⁵⁶

5.2.2. MSME business expansion is concentrated in the Construction sector. Growth in the services sector has been driven by post-war reconstruction.

5.2.3. MSMEs have less job creation impact today as compared to 2012. This is due to the macro environment. When there is less investment in Liberia, local firms win fewer contracts. They subsequently have smaller hiring needs.

5.2.4. While businesses have greater access to tenders, they do not check for them every day. The decrease from 18 businesses that check tenders every day to 13 businesses could be a result of SMI-L Tender Distribution of tenders relevant to each business's sector and location, which could mitigate the need for businesses to actively seek out tenders on a daily basis. Greater access to tenders could be a contributing factor to the increased number of businesses participating in formal bidding processes between 2012 and 2017.

5.2.5. More businesses participate in bidding processes, but fewer win contracts. This does not necessarily imply that the capacity of businesses to win contracts has decreased. Rather, falls in foreign assistance, lower government spending, and less private sector investment result in a smaller number of contract opportunities for MSMEs to win.

5.3 Conclusions

5.3.1. MSMEs do not have horizontal mobility within or across sectors. Horizontal mobility of MSMEs will be critical to build the diversification and productivity of the agriculture sector (Section 1.4.1), and ultimately develop economies of scale.

5.3.2. SMI-L Tender Distribution Services have increased businesses' access to tenders. Prior to 2012, businesses were only able to learn about relevant tenders through newspapers and word of mouth, resulting in fewer businesses competing in formal bidding.

5.3.3. Fewer contract opportunities exist in 2017 than in 2012. The contraction in economic growth means that spending in Liberia has decreased, which results in fewer contract opportunities for MSMEs. This ultimately leads to reduced job creation, and negative impacts on local communities and livelihoods.

⁵⁶ Papageorgiou and Spatafora, "Economic Diversification in LICs: Stylized Facts and Macroeconomic Implications," 2012. IMF Staff Discussion Note 12/13.

6. CURRENT RESPONSES OF MSMES FOUND BY BUILDING MARKETS TODAY

The basic characteristics of local suppliers provide the foundation in understanding the local market for both buyers and suppliers. Buyers can identify opportunities for local procurement, and suppliers can understand how they compare to competitors and take advantage of areas of unmet demand.

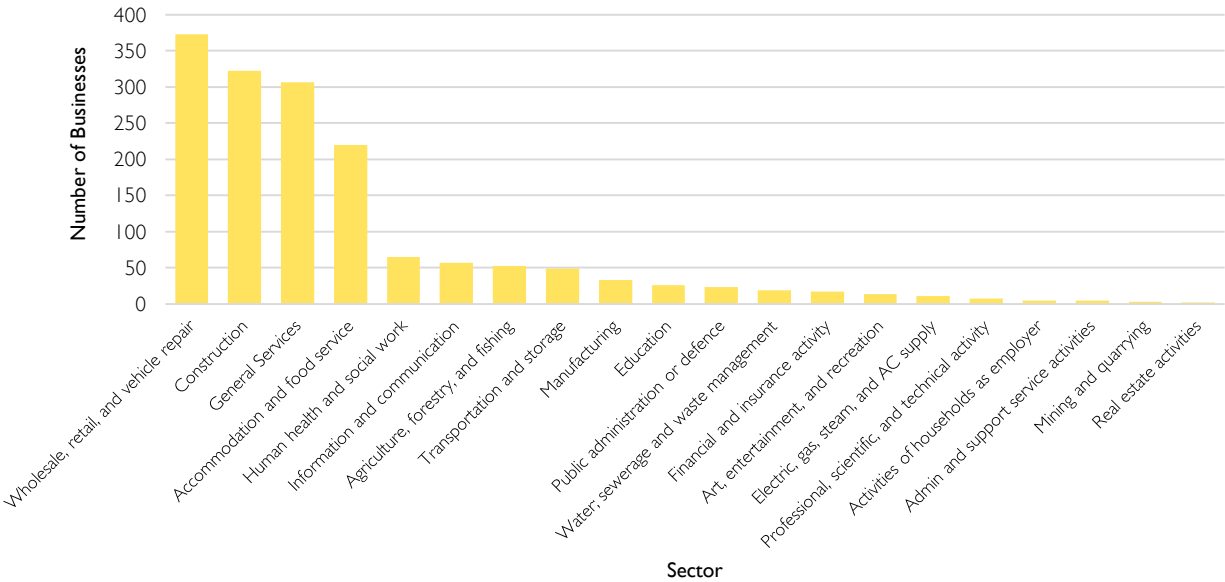
This section presents key statistics on the local businesses in the survey sample: their sectors of operation, size, ownership composition, levels of female participation and experience with international buyers.

SMI-L has verified over 4,600 businesses in Liberia. Statistics in this section are calculated based on a sample of 1,724 businesses drawn from 12 counties, and surveyed between September 2016 and December 2016. 70.7% were drawn from Montserrado County and 29.3% are distributed across the 11 other counties. The Liberia Business Registry estimates that 70% of all businesses are headquartered in Monrovia, making the sample geographically representative. The counties represented in the sample include: Bomi (10), Bong (74), Grand Bassa (87), Grand Cape Mount (28), Grand Gedeh (41), Lofa (33), Margibi (55), Maryland (36), Montserrado (1,219), Nimba (121), River Gee (11), and Sinoe (9).

6.1 Findings

6.1.1. MSMEs operate across a range of sectors. Wholesale, retail, and vehicle repair accounts for 23% of all surveyed suppliers, and 20% of firms are in the Construction sector. Figure 12 shows the breakdown of firms in the sample by sector of operation.⁵⁷

Figure 12 - Number of Businesses Across Sectors



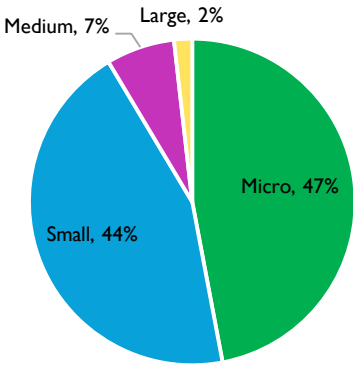
⁵⁷ Sectors are classified by the International Standard Industrial Classification of All Economic Activities.

6.1.2 Locals hold majority ownership of 96% of firms in the sample. A business is defined as locally owned when a citizen of Liberia owns over 50% of the business.

6.1.3 Ninety-one percent of surveyed firms are “Micro” or “Small.” In Liberia, the number of employees determines the categorization of a business as micro, small, medium, or large.⁵⁸ Forty-seven percent of firms in the sample have between 0 and 3 employees, and 91% have less than 20 employees (Figure 13).

Seventy-four percent of employees in *Water; Sewerage and Waste Management* are employed on a temporary basis. On the other hand, all employees are hired full-time in *Human Health and Social Work* and *Real Estate Activities*. In the *Construction* sector, 63% of employees are permanent.

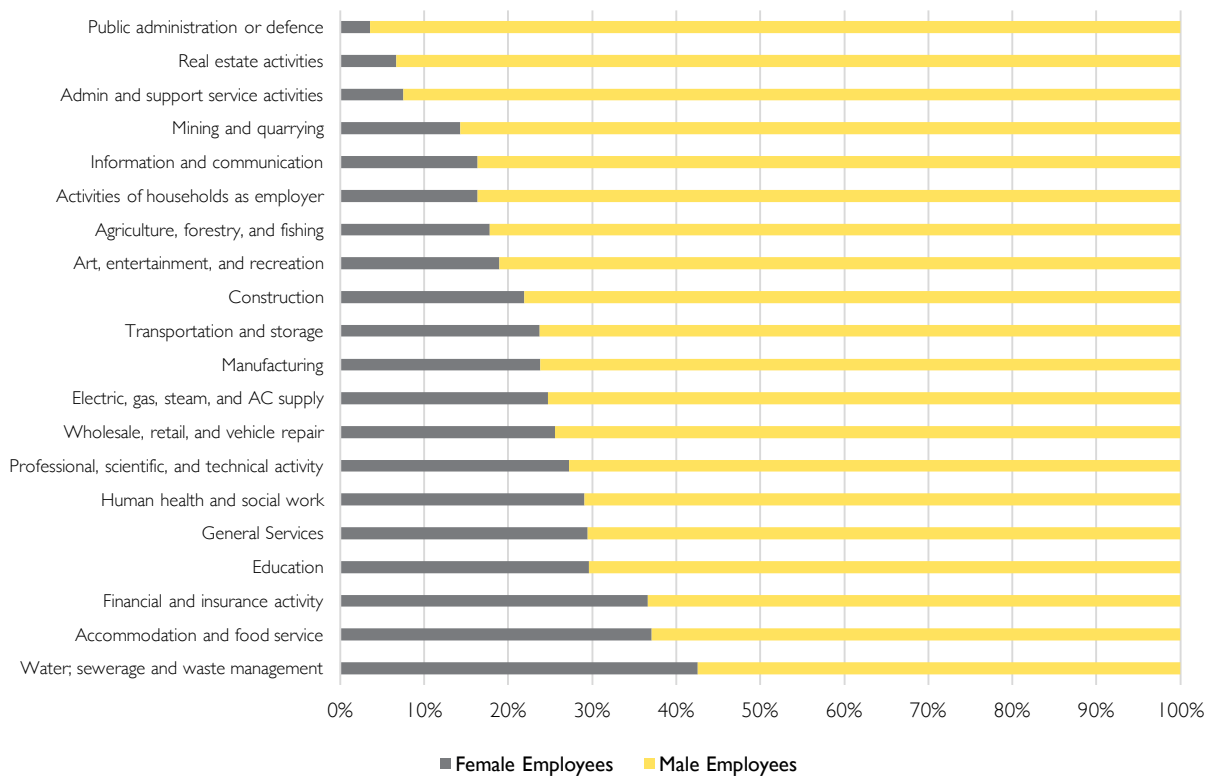
Figure 13 - Size of Local Businesses



6.1.4 Female participation in formal businesses is relatively low. Twenty-six percent of all owners are female, but only 18% of MSMEs are entirely female-owned. One-quarter of firms have female managers. The majority of employees, regardless of sector, are male (Figure 14).

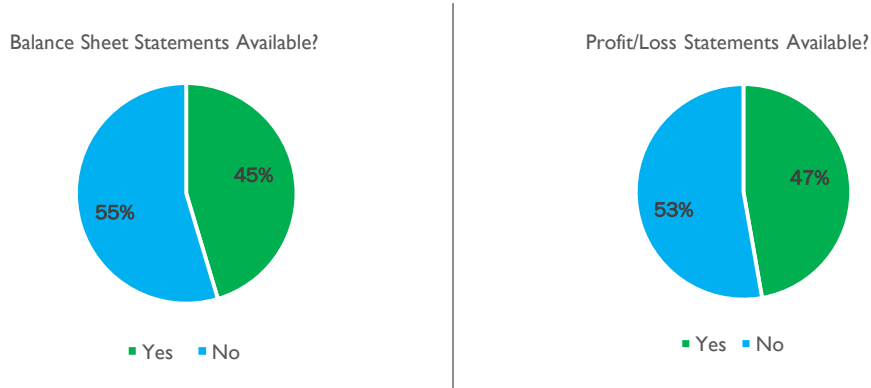
Figure 14 - Male vs Female Employees by Sector

⁵⁸ According to the Liberia MSME policy, a micro business has 0 to 3 employees; a small business has 4 to 20 employees; a medium business has 21 to 50 employees and a large business has 51 employees or more.



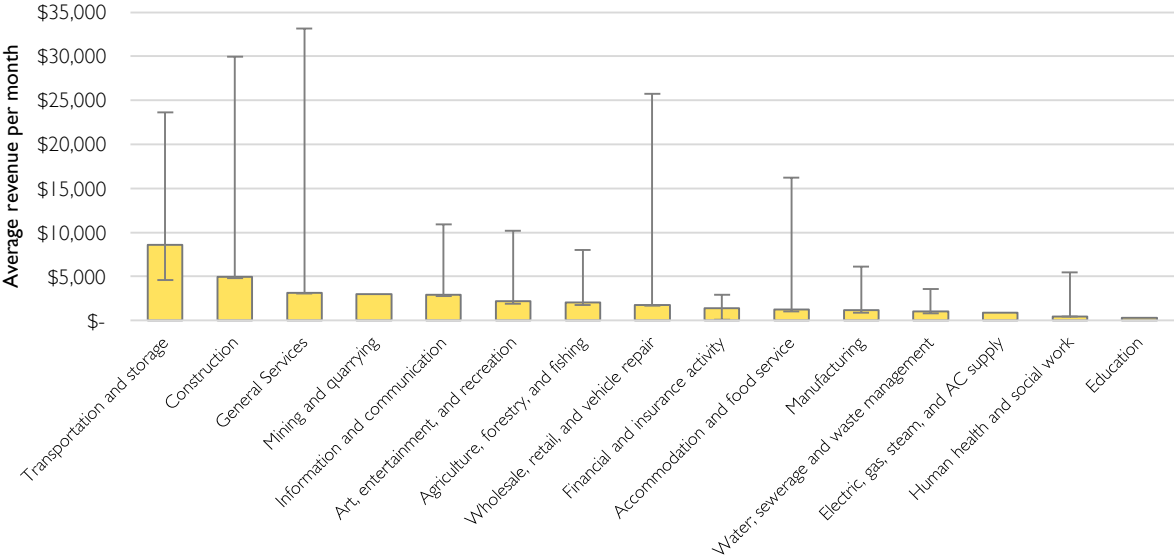
6.1.5 Twenty-two percent of businesses have full-time finance staff that handle finances. The owner of the businesses is in charge of managing finances for 76% of firms. More than half of the surveyed businesses are unable to produce basic financial documents (Figure 15). A balance sheet statement is a financial document that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. A profit & loss statement is a financial document that summarizes the revenues, costs and expenses incurred during a specific period of time, usually a fiscal quarter or year.

Figure 15 - Financial Document Availability



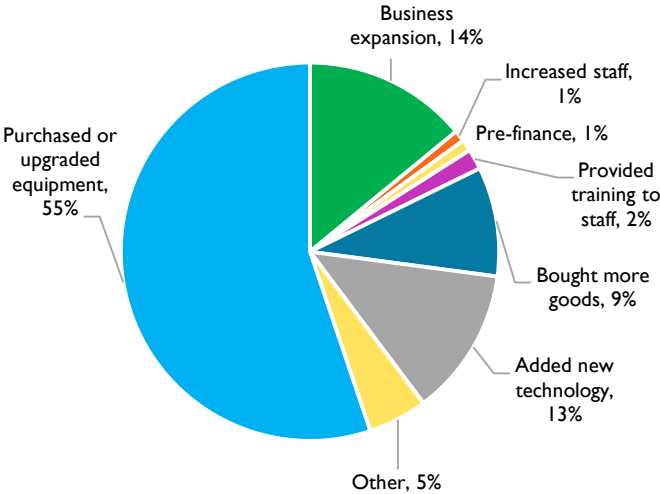
6.1.6 The average monthly revenue across all sectors of reporting businesses is \$2,505 USD. Within sectors, the deviation between the least and highest reported monthly revenue is as great as \$29,930 USD (Figure 16). It is important to note that the greatest monthly revenues are reported by businesses with foreign management and/or ownership. Two hundred ninety-five businesses (17% of the sample) reported their previous month's revenue. Businesses that did not respond either refused to respond (28%) or did not know the previous month's revenue (72%).

Figure 16 - Average Revenue per Month



6.1.7. Thirty-one percent of respondents reported that they had invested in their business within the past 6 months. Of those investing in their business, 55% purchased or upgraded equipment, and 14% expanded their business through renovations, the opening of a new branch, or the provision of new goods and/or services (Figure 17).

Figure 17 - MSME Investment



6.1.8. Twenty-six percent of surveyed firms directly import goods. Twenty-three percent of importing businesses purchase goods from other West African countries (Figure 18). MSMEs import goods for a variety of reasons (Figure 19). Over one-third of respondents list their primary motivation to import as lower prices.

It is worth noting that China falls closely behind West African nations in terms of reported import origins. Liberia participates in China’s Preferential Trade Agreement with Least Developed Countries, and exports iron ore, scrap metal, wood, logs, and rubber wood to China. The MOCI’s website specifically states:

“Liberia signed a 95% duty free quota free agreement for exports to China, a market that is actively trading with many African countries. Liberia intends to model its nascent industries on the concept of active partnership and participation in the value chains of concessionaires and transnational corporations. In Liberia’s strive to achieve middle income status, trade with China could help boost local job creation and develop local business capacity in standards, etc. Liberia provides cheap labor and a young and dynamic workforce for SME growth and development. China is increasingly become Liberia’s prime trading partner.”⁵⁹

Figure 18 - Breakdown of Imports by Primary and Secondary Region of Origin

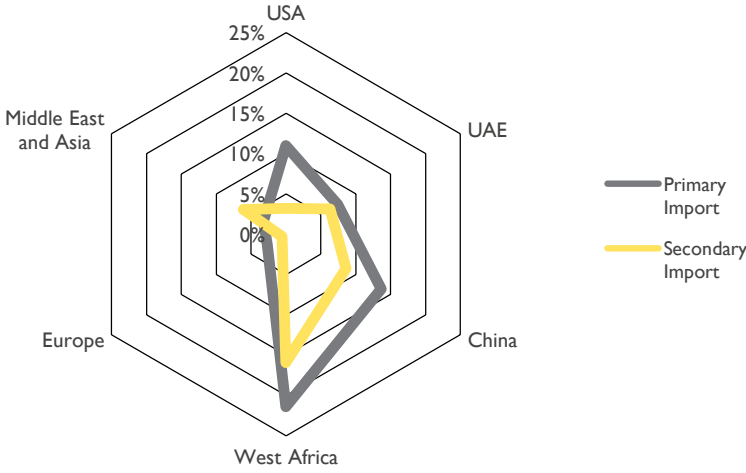
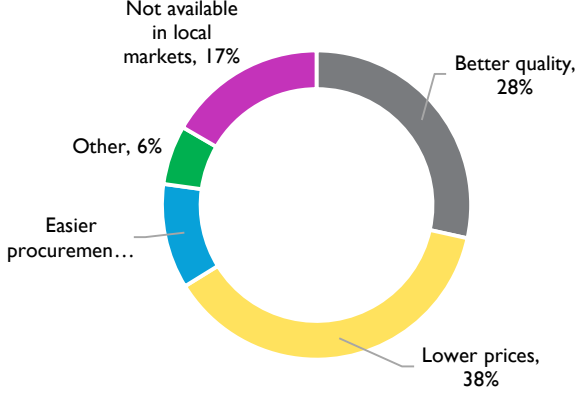


Figure 19 - MSMEs' Reasons for Importing Goods

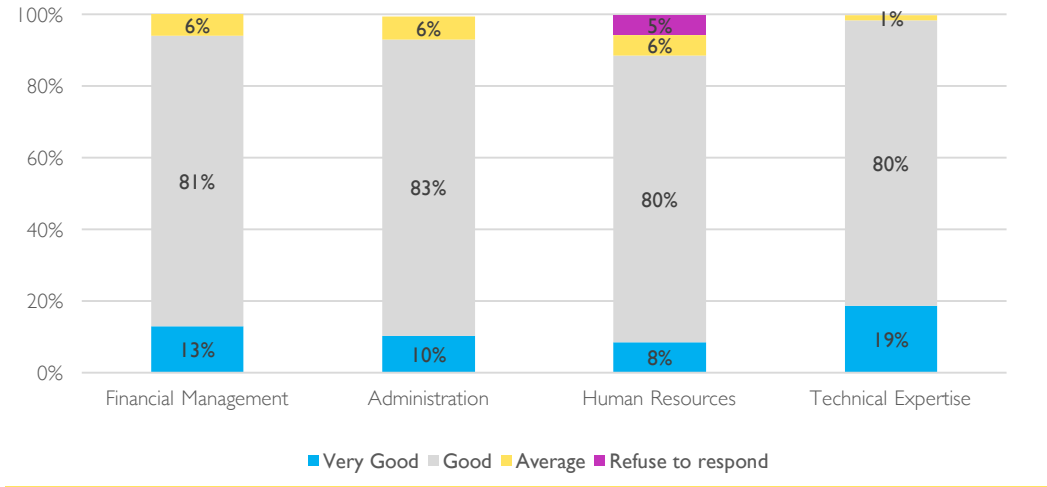


⁵⁹ MOCI, Major Export Trading Partners. <http://www.moci.gov.lr/2content.php?sub=74&related=18&third=74&pg=sp>

6.1.9. Just 0.4% of businesses in the sample (7 businesses) reported exporting goods.

6.1.10. The majority of businesses assess their financial management, administrative processes, Human Resources, and technical expertise as “good” or “very good” (Figure 20). Businesses are most confident in their technical expertise.

Figure 20 - Self-Assessment



6.2 Analysis

6.2.1. Liberian MSMEs are clustered in the Services sector. Just 50 MSMEs in the sample work in Agriculture, forestry, and fishing. This underlines the predominantly informal composition of the agriculture sector.

6.2.2. The high rate of local ownership does not necessarily mean that Liberians have autonomous control of business operations and profits. President Ellen Johnson Sirleaf and others have alleged that some businesses classified as locally owned may in fact be controlled by foreigners.⁶⁰

6.2.3. Firms in Liberia are typically small in size. It is important to note that firms are unlikely to report informal temporary workers. This is particularly relevant to the Construction sector, where it is common practice to hire informal workers on an as-needed basis, even by formal firms.

6.2.4. Women have relatively low rates of participation in the formal workforce. Less than a quarter of owners, managers, and employees are female across all sectors. Women make up the majority of smallholder producers in the agricultural sector in Liberia. They produce an estimated 60% of agricultural products and carry out over 80% of cross border trade in rural areas.⁶¹ Furthermore, they bear the burden of unpaid household work. All of these factors contribute to the low participation of women in the formal workforce.

⁶⁰ “From Vision to Implementation”: Buying Liberian, Building Liberia, MSME Conference, Monrovia, 2015. <http://www.sbaliberia.org/GoL.MoCI.MSMEConferenceReport.031516.pdf>

⁶¹ United Nations and Government of Liberia, Fact sheet on Joint Program on Gender Equality and Empowering Women.

6.2.5. The majority of MSMEs have low or no financial management capacity. The inability of businesses to provide basic financial documents indicates a high degree of financial illiteracy. If the owner is unable to properly track and manage finances, this not only limits day-to-day operations but is also a serious constraint to business growth and entrepreneurial empowerment.

6.2.6. Foreign management and/or ownership is correlated to higher reported monthly turnover. There was a high level of non-response in revenue reporting. This could indicate two things: (1) the majority of firms lack proper financial management and record keeping capacity and (2) there is a lack of trust and potential unwillingness to report earnings in order to avoid taxes.

6.2.7. There is relatively low re-investment in businesses. This is indicative of the macro business and investment environment, which impacts the decision-making of MSMEs.

6.2.8. MSME import trends indicate a preference for regional trade. The other notable trend is a preference for Chinese imports over American imports. The discrepancy between the number of surveyed MSMEs importing goods and the number of MSMEs exporting goods is indicative of Liberia's import dependency.

6.2.9. MSMEs' self-assessments are not necessarily reflective of actual operations and management. While 94% claim that their financial management is "good" or "very good," 55% do not maintain balance sheets and 53% do not have profit & loss statements.

6.3 Conclusions

6.3.1. While MSMEs report that they are locally owned and professionally competent, the reality of MSME ownership and capacity may be different. Allegations of foreign ownership of MSMEs persist despite reporting that indicates local ownership. The inconsistency between self-assessed competence and fundamental management operations demonstrates that MSMEs tend to over-state their firms' capacity.

6.3.2. Because economic growth strategies and policies target the formal sector, women are not typically prioritized. This is due to their low rates of participation in the formal economy. In order to develop socially inclusive economic growth strategies, it is imperative to consider the informal economy, where the majority of women make their livelihood.

6.3.3. MSMEs are involved in trade. Their trading partners indicate a degree of regional trade integration, and a growing preference to trade with China

6.4 Recommendations

This section was a presentation of findings of fact. However, we offer one recommendation that we would like to highlight and emphasize. **The United States should scale up its foreign assistance and private sector investment to Liberia if it is to maintain its influence compared with the growing influence of China.** China's footprint in Liberia continues to grow, as evidenced by its reconstruction of government buildings, renovation of RIA airport and runway, road construction, role in UNMIL and support to the Armed Forces of Liberia. Moreover, China exports the greatest value of goods from Liberia, which primarily consist of iron ore and timber.



Pictured above and below are signs with China Aid's renovation plans for government buildings on Capitol Hill in Monrovia.

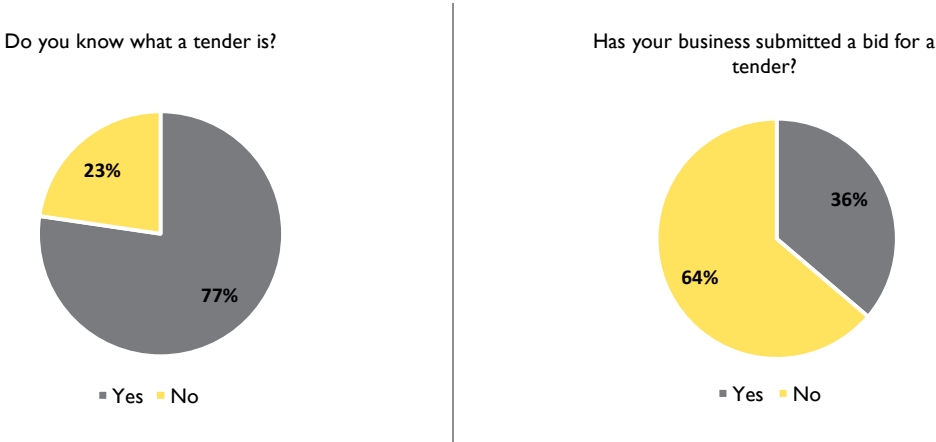


7. DOING BUSINESS IN LIBERIA

7.1 Findings

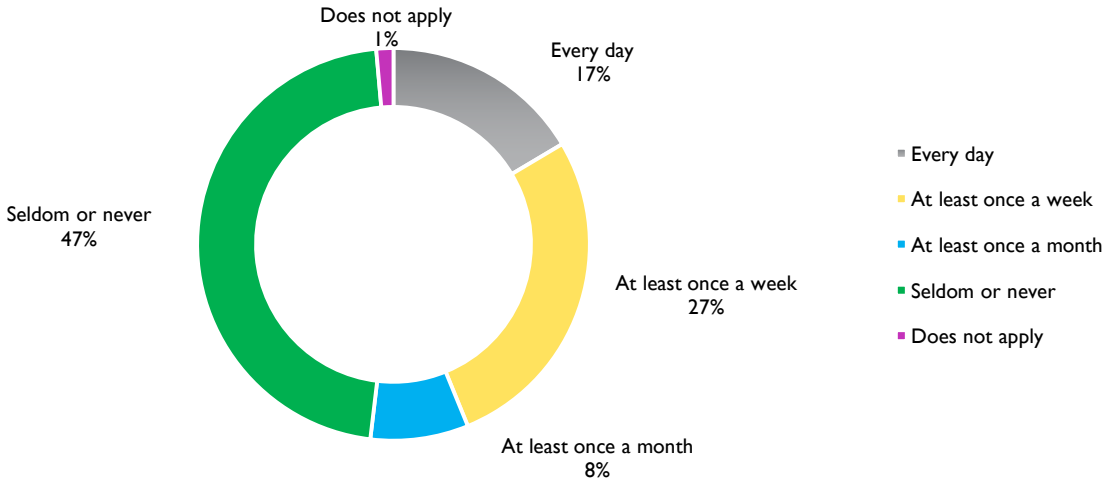
7.1.1. While over three quarters of businesses state that they know what a tender is, just 36% of sampled businesses confirmed that they had submitted a bid for a tender (Figure 21).

Figure 21 - MSMEs' Tender Knowledge and Submissions



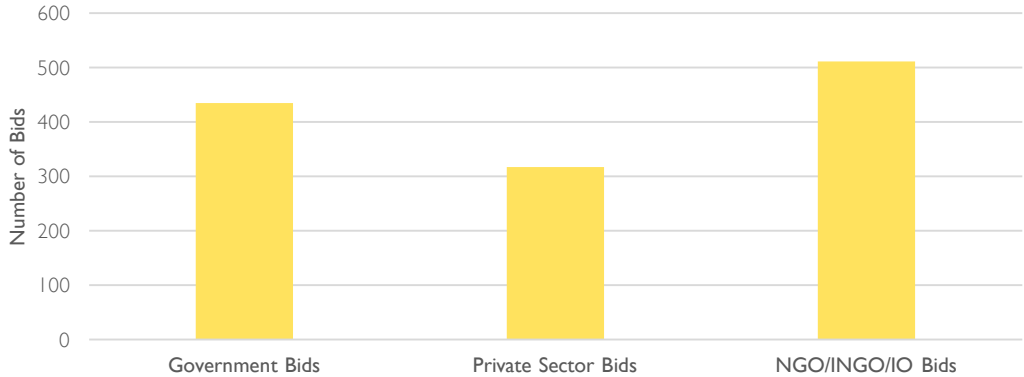
Seventy-four percent of surveyed MSMEs regularly receive tender notifications from Building Markets, which are specific to their sector of business and are distributed via SMS and email, as well as hard copy tenders at the Building Markets office in Sinkor. Nearly one quarter (22%) of businesses stated that they would not otherwise find the tenders on their own.

Figure 22 Frequency of Checking for Tenders



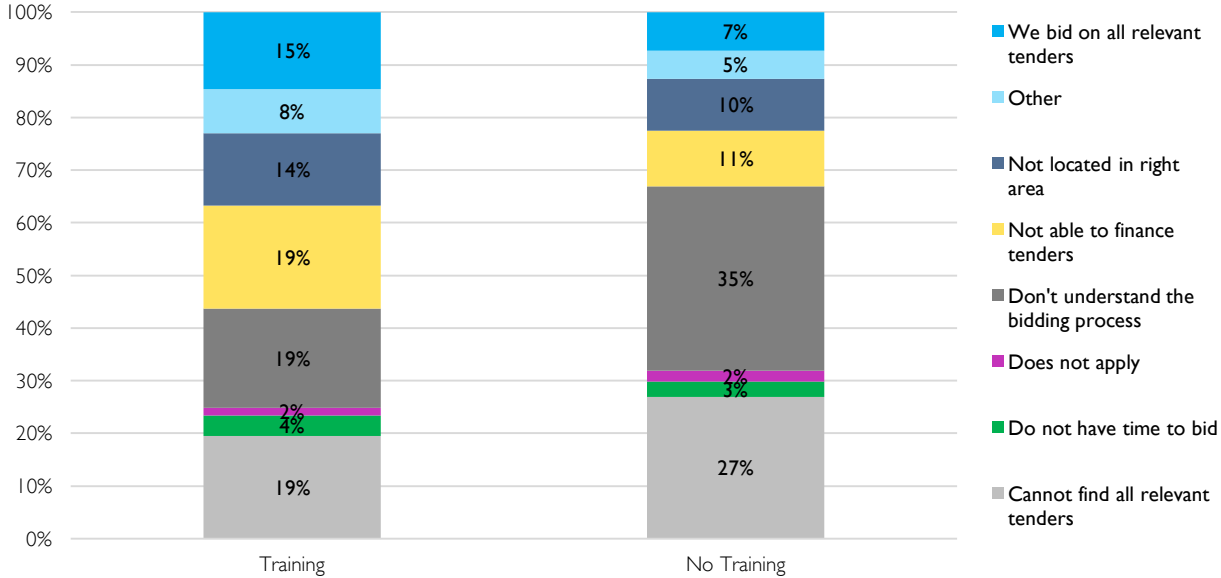
7.1.2. Surveyed businesses submitted a total of 1,263 bids over the past 6 months. Figure 23 shows the breakdown of submitted bids by Buyer type. The majority of surveyed businesses (82%) have not participated in the bidding process within the past 6 months.

Figure 23 - Number of Submitted Bids by Buyer Type



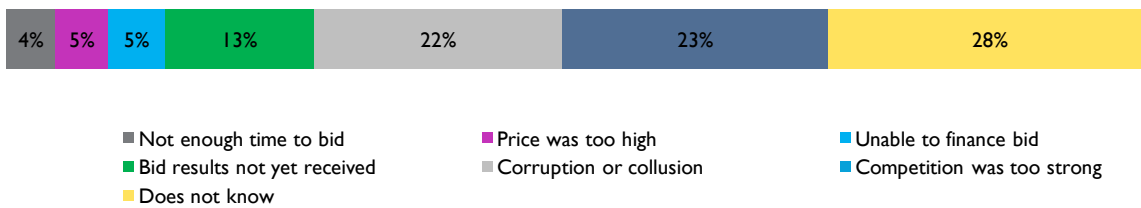
Businesses that attended SMI-L trainings are more likely to participate in competitive bidding processes than businesses that have not received training (Figure 24).

Figure 24 - Reasons for not Participating in Bidding Processes



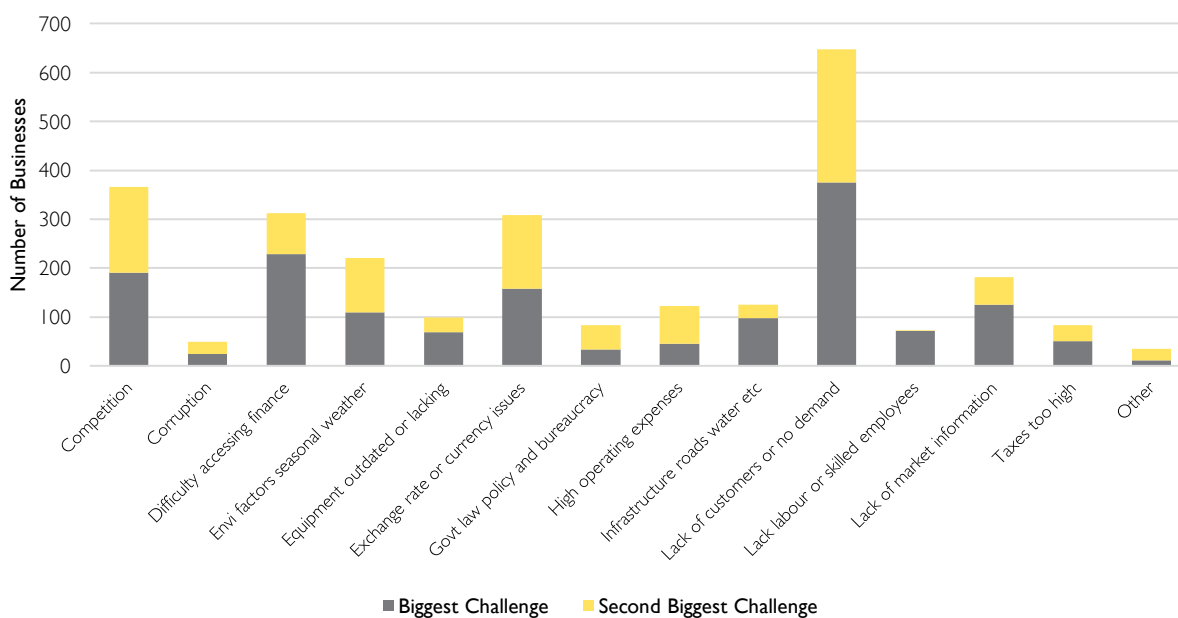
7.1.3. Businesses that bid on tenders do not always win contracts. Eighteen percent of surveyed businesses reported winning a contract within the past 6 months. While 28% of businesses state that they do not know why the lost bids, 23% believe that competition from other bidders was too strong and 22% think that corruption or collusion caused them to lose bids (Figure 25).

Figure 25 - Reasons for Losing Bids



7.1.4. Challenges to doing business in Liberia extend beyond the formal bidding process. Surveyed businesses shared the two foremost challenges that they perceive in the next six months. Forty-one percent of respondents (648 MSMEs) said that the lack of customers was either the greatest or second greatest challenge that they will face in the near future.

Figure 26 - Greatest and Second Greatest Challenge in Next 6 Months

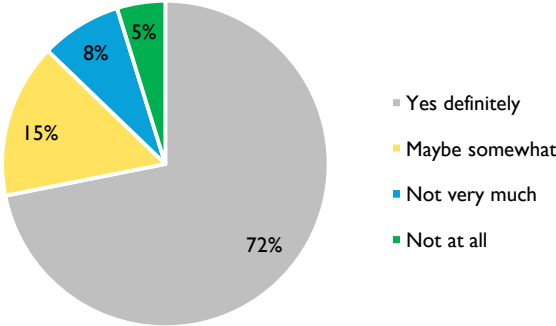


7.1.5. Ninety-four percent of MSMEs believe that training helps them operate their business more efficiently.

7.1.6. Twenty percent of responding firms had an international client within the past 6 months. Some MSMEs are able to identify a principal client who does the most business, by volume and/or value, with their firm. Five hundred and four MSMEs reported that they have a principal client; 298 MSMEs (59%) have a foreign principal client.⁶²

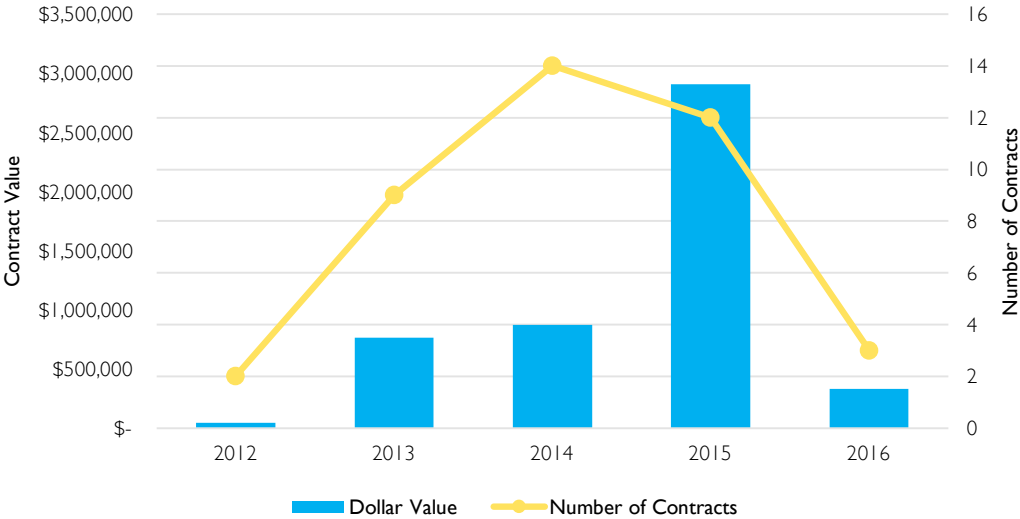
⁶² If the client holds citizenship in the country in question, they are considered 'domestic'. If they do NOT hold such citizenship, they are considered 'foreign'. This is a matter of citizenship (rather than ethnicity). If the client is a company, it is considered domestic if its first registration was completely in-country. If the company was first registered outside of the country, it is considered foreign.

Figure 27 – Do International Entities Operating in Liberia Represent a Good Opportunity for your Business?



7.1.7. The number and value of contracts with Extractive Industry Buyers dropped in 2016 (Figure 28). These contracts are only representative of businesses reporting contracts facilitated through SMI-L services, and not necessarily indicative of the economy at large. However, the low number and value of contracts in 2016 is likely correlated to the sharp reduction in mining activity.

Figure 28 - Value and Number of Contracts Facilitated with Extractive Industry Buyers

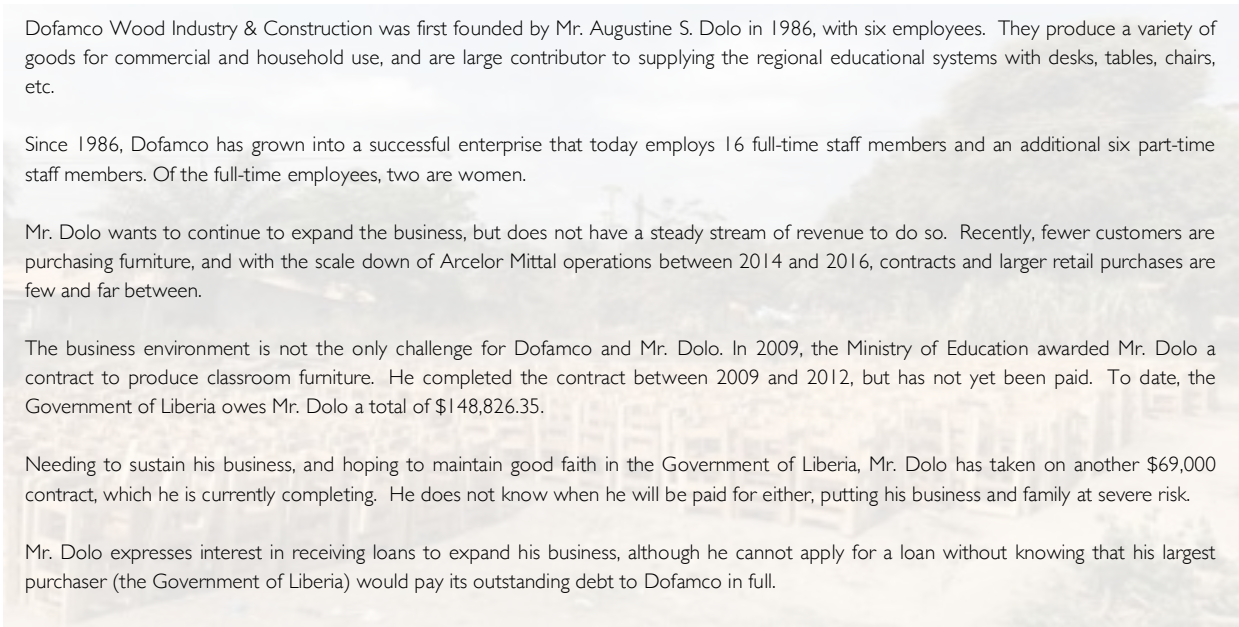


7.2 Analysis

7.2.1. Access to tenders does not guarantee participation in the bidding process. While regular distribution of relevant tenders is likely correlated to higher degrees of bidding participation, it does not directly cause participation in bidding processes. The International Growth Centre (IGC), in coordination with Building Markets SMI-L, is implementing a randomized control trial (RCT) to quantify the degree to which information frictions prevent Liberian MSMEs from participating in formal bid processes, and the effect of specific policy measures to reduce those information frictions.

7.2.2. Training increases capacity to identify and bid on tenders. Businesses provided justification for not participating in the bid process, and firms that attended SMI-L trainings had much lower incidences of “not able to find tenders” and “do not understand the bidding process”. Their responses do indicate that barriers beyond procurement capacity, such as a lack of available finance or time, also hinder their participation in the formal bid process.

7.2.3. MSMEs perceive that corruption is prevalent in procurement processes, and that it prevents them from winning contracts. The government has implemented measures to mitigate corruption and collusion in public procurement processes: the Public Procurement and Concessions Act was passed in 2005, renewed in 2010, and reinforced by the creation of the Public Procurement and Concessions Commission in 2006. However, regulations and institutions to enforce transparency neither eliminate corruption from the procurement process nor reduce MSMEs’ perceptions of corruption.



Dofamco Wood Industry & Construction was first founded by Mr. Augustine S. Dolo in 1986, with six employees. They produce a variety of goods for commercial and household use, and are large contributor to supplying the regional educational systems with desks, tables, chairs, etc.

Since 1986, Dofamco has grown into a successful enterprise that today employs 16 full-time staff members and an additional six part-time staff members. Of the full-time employees, two are women.

Mr. Dolo wants to continue to expand the business, but does not have a steady stream of revenue to do so. Recently, fewer customers are purchasing furniture, and with the scale down of Arcelor Mittal operations between 2014 and 2016, contracts and larger retail purchases are few and far between.

The business environment is not the only challenge for Dofamco and Mr. Dolo. In 2009, the Ministry of Education awarded Mr. Dolo a contract to produce classroom furniture. He completed the contract between 2009 and 2012, but has not yet been paid. To date, the Government of Liberia owes Mr. Dolo a total of \$148,826.35.

Needing to sustain his business, and hoping to maintain good faith in the Government of Liberia, Mr. Dolo has taken on another \$69,000 contract, which he is currently completing. He does not know when he will be paid for either, putting his business and family at severe risk.

Mr. Dolo expresses interest in receiving loans to expand his business, although he cannot apply for a loan without knowing that his largest purchaser (the Government of Liberia) would pay its outstanding debt to Dofamco in full.

7.2.4. Local MSMEs are unable to influence demand for their goods and services or external business environment at large. However, training can improve a business’s efficiency, management, and technical capacity. Although businesses almost unanimously believe that training would be beneficial, the link between increased efficiency and increased revenue is weak when macro environment factors create low demand.

7.2.5. Despite the decline in FDI and the drawdown of Extractive Industry operations, MSMEs still favorably view opportunities with International and Extractive Industry Buyers.

7.3 Conclusions

7.3.1. **The correlation between access to tenders, participation in bidding, and winning contracts is unclear.** Training has a clear impact on reducing capacity barriers to participating in the bid process, but the link between SME behavioral characteristics and business outcomes is weak.

7.3.2. **Corruption and collusion in the bidding process persist despite government interventions.** This is corroborated by the IMF assessment that progress in combating corruption at all levels, as part of the AfT, has been slow (See Chapter 2).

7.3.3. **MSMEs want training to improve efficiency, but capacity building will not result in business opportunities if there is no market demand.**

7.4 Recommendations

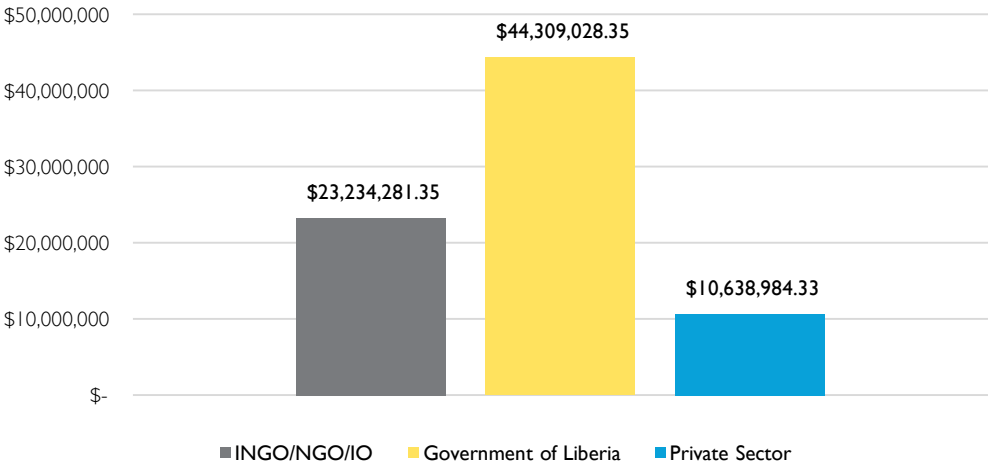
7.4.1. **Refine and scale up anti-corruption interventions.** Government information should be transparent, with space for the population to hold bureaucrats and officials accountable.

8. ECONOMIC IMPACT OF MSMES

8.1 Findings

8.1.1. **Between 2012 and 2016, over \$78 million USD in contracts has been facilitated by Building Markets' services.**⁶³ In terms of aggregate contract value, the primary Buyer is the GOL (Figure 29).

Figure 29 - Breakdown of Contracts Facilitated by Buyer

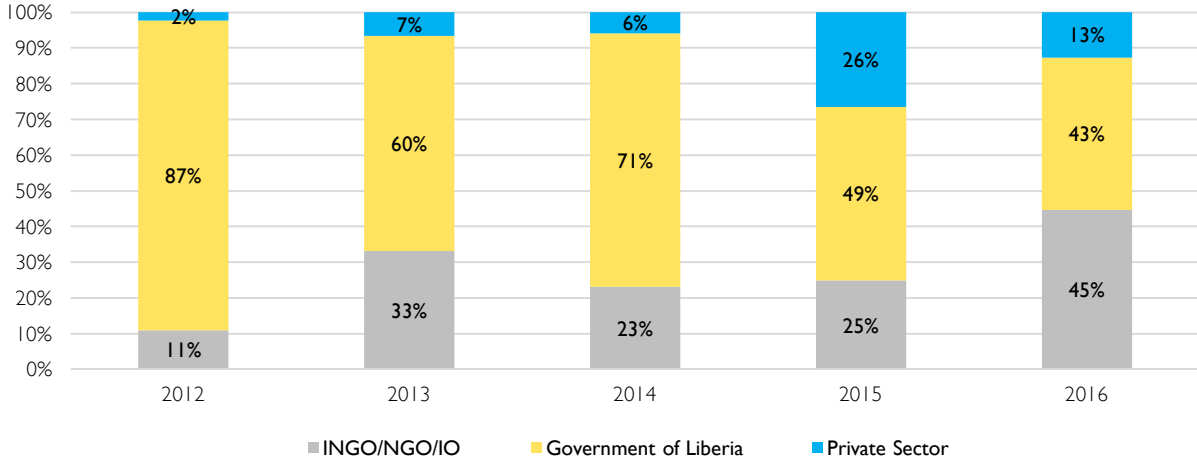


Over time, the composition of contracts facilitated has shifted (Figure 30). In 2016, the share of GOL contract value represented only 43% of total contract value facilitated, as the program put the emphasis on identifying and sharing

⁶³ SMI-L tracks data on contracts between local Suppliers and national or international Buyers that are facilitated by Tender Distribution Services, the Supplier Directory, Training, and/or Business Linkages.

opportunities from other types of buyers, the private sector and the aid industry. However, the value of GOL contracts was at a similar level in 2013 and 2016 (approx. US\$7.5m).

Figure 30 - Breakdown of Contracts Facilitated by Buyer and Year



Over the course of the program, the number of contracts facilitated has been growing steadily year on year, both in numbers and in value. However, in 2016, with the contraction of the Liberian economy post EVD, there was a significant drop in the value of contracts, decreasing by USD\$5m.

8.1.2. The average length of working days per contract facilitated in Liberia is 114 days, or 5 months (std. dev. 144 days).⁶⁴ The median number of working days is 69.⁶⁵ A job is defined as full-time equivalent (FTE) when it lasts for 264 working days. One working day is 8 hours long. A job is created when a new hire is employed to do work on a contract facilitated by SMI-L. A job is sustained when an employee of the company is used to do work on the contract.

We find that the number of days worked per contract varies greatly, thus posing a risk of conflating a new hire, regardless of days worked, with the creation of a FTE job. Therefore, by using the above standard definition of a FTE job, we can talk about jobs created and sustained across contracts without stating the specifications of each individual contract (Table 6).

Table 6 - Key Job Terms

Key Terms	
Job Created	An employee who worked the lifetime of a contract and includes employees who were newly hired and those previously employed, but only include employees identified as working on that specific contract.
Full-time Equivalent	The equivalent number of jobs for one year (264 working days).
Permanent	An employee who works full-time for the duration of a contract.
Temporary	An employee who does not work full-time for the life of a contract.

⁶⁴ Average across all contracts facilitated by SMI-L, 2012-2016.

⁶⁵ When we talk about the typical "length" of a job, it is best to use the median (the middle number in the distribution), rather than the average. The average tends to be skewed towards the high end by a few contracts that last a long time.

Skilled	An employee who holds a position requiring specific education or training.
Unskilled	An employee who holds a position requiring no specific education or training.

Building Markets’ services have facilitated the creation of 4,445 jobs between 2012 and 2016. Contracts vary greatly in terms of FTE job generation. For example, a one million USD contract for procurement of goods may have very little impact on a business’s employment. On the other hand, a one million USD contract for construction would likely generate a significant number of new hires. While our Job Creation survey, which is administered to businesses at the end of reported contracts, produces valid data, it does not give us reliable data.

One way to correct for this is to take a representative sample of FTE jobs created and associated contract values to calculate an average \$ value per FTE job created. As an example, Building Markets used a sample of 65 contracts facilitated to find that one FTE job created is equivalent to \$12,500 in contracts facilitated. This alternative method of calculating FTE job creation based on contract value can increase the reliability of data.

8.1.3. Taking expenditure on salaries and local goods and services together, we find that every \$1 USD spent on local procurement results in additional spending in the local economy of 75 cents (Figure 31).⁶⁶

Figure 31 - Disaggregated Spending by Local Suppliers



8.2 Analysis

8.2.1. Liberia has a gig economy, where temporary positions are common and MSMEs employ workers for short-term engagements. This follows a global trend that is not unique to West Africa.

8.2.2. The fall in the total value of contracts awarded by the GOL is likely correlated to the under-execution of the FY 2016 budget. Based on lower than predicted government revenue, a budget austerity draft was implemented and spending fell by 10% compared to FY 2015.⁶⁷

8.2.3. MSMEs create jobs for Liberians. Overall, 10% of expenditure goes to salaries, meaning that for every \$1 USD of local procurement, approximately 10 cents goes to supporting a job in Liberia.

8.2.4. The more a business spends in purchases from other local businesses or on salaries, the higher the multiplier effect of spending by that business.⁶⁸ MSMEs are local businesses: they hire their workforce from the community, they source goods from domestic suppliers, and they rely on the Liberian economy to do business.

⁶⁶ This figure does not capture the multiplier effect.

⁶⁷ IMF, 2016.

⁶⁸ Also known as the Keynesian multiplier, this refers to the number of times each dollar is re-spent within the local economy.

8.3 Conclusions

8.3.1. Decreased GOL, INGO/IO, and private sector spending directly impacts local MSMEs. The reduction of foreign assistance and fall in private sector activity led to reduced government spending. The consequence of this is that the number of MSME contracts facilitated by SMI-L went down. The decrease in MSME contracts is one indicator of the far-reaching and detrimental impact of the macro-environment on Liberian businesses and the Liberian population. This was most recently and visibly manifested in protests against economic and monetary policy at the end of January 2017, which shut down all business activity in Monrovia for days on end.

8.3.2. MSMEs drive job creation.

8.3.3. Beyond direct job creation, local firms have ripple effects on the economy. They keep people employed in gainful employment and contribute to civil stability.

8.4 Recommendations

8.4.1. Levels of foreign assistance to Liberia should be sustained. Levels of US-sourced funding and technical assistance should be increased to maintain its footprint in Liberia. Foreign assistance that supports the GOL budget, as well as projects implemented by INGOs and IOs that are in line with GOL development goals, generate spending, business opportunities, and job creation.

8.4.2. The tracking and measurement of job creation should occur on a larger scale. One of the intended outputs from sustained levels of foreign assistance is job creation, which influences the outcomes of economic growth and peace & stability. The tools and trackers developed by Building Markets to measure job creation impact from SMI-L could be adapted to be applicable to broader scopes of job creation impact measurement.

8.4.3. The GOL should work to develop and expand strategies, policies, and laws & regulations that target and/or impact MSMEs.

8.5 Rationale

8.5.1. Sustaining foreign assistance will avoid instability associated with the degradation of government mechanisms and institutions. The GOL needs to maintain spending to foster economic growth. If spending is cut and the economy continues to contract, civilians will increasingly protest. This could result in the loss of institutional legitimacy and civil strife.

8.5.2. Quantitative evidence is critical for effective and efficient policies. Measuring job creation impact will generate quantitative evidence to inform and adjust strategies, policies, and stakeholder spending.

8.5.3. Liberia needs a business and investment environment that enables Liberian MSMEs to efficiently do business. If MSMEs are unable to do business due to a lack of opportunities and/or a hostile business environment, the ramifications will be far-reaching and intense due to the reliance of communities and Liberian livelihoods on the economic impact of MSMEs. Ensuring that Liberian businesses are able to operate and ultimately thrive is imperative to maintain stability and peace.

9. INFORMAL ECONOMY AND CROSS BORDER TRADE

9.1 Findings

9.1.1. An estimated 68% of all employment in the country is in the loosely defined informal sector; its economic contribution to GDP has thus far not been determined.⁶⁹ The Liberian informal sector is heterogeneous and does not conform to a single profile: businesses and entrepreneurs could be efficient or inefficient, well-educated or illiterate, focused on long-term growth or functioning in a survivalist mode. Moreover, a dichotomy between the formal and informal sectors does not necessarily exist; rather, a continuum in which firms comply with varying degrees of formality is more likely prevalent in Liberia.

9.1.2. Despite efforts to promote formal trade among the Mano River countries (Liberia, Sierra Leone, Guinea, and Côte d'Ivoire), significant barriers persist. This drives cross border trade into the informal sector. As a result, official statistics fail to capture the magnitude of volumes, revenues, and actors involved in cross border trade.

9.2 Analysis

9.2.1. It is neither efficient nor effective to assume that informal firms and entrepreneurs must formalize their operations. The links between formalization and economic growth are unclear. However, it is important to state that there are multiple benefits to the formalization of business. Formalization is viewed as a means to build business capacity, provide more stable employment opportunities, strengthen the social contract between the government and citizens, broaden the tax base and reduce information asymmetries informing investment, policy and the business environment. Formalization also means that businesses can participate in competitive bidding processes.

9.2.2. The lack of information around the informal sector and cross border trade marginalizes informal firms and traders. In the short term, the lack of information makes it challenging to deliver key services to increase the efficiency of informal entrepreneurs and cross border traders, and improve their access to finance. In the long run, undefined informal and cross border trade sectors make it difficult to bring firms and individuals into the formal financial sector, contributing to lower levels of tax revenue and the persistent inability to enforce regulations.

9.3 Conclusions

9.3.1. While the causal relationship between formalization and overall economic growth is unclear, robust data on the informal sector and paths to formalization are unequivocally beneficial to long-term development goals. In the immediate, metric-based decisions in government policy, development initiatives, and private sector activities that consider the Liberian informal economy and cross border trade sector will mitigate information asymmetries, encourage targeted interventions, and facilitate investment and trade.

9.4 Recommendations

9.4.1. Understanding, defining, and mapping the informal and cross border trade sectors through research is the critical first step in developing appropriate policies and projects to target informal firms. This will facilitate the categorization of informal sector businesses into tiers based on the GOL's, and SMI-L's, existing data on formal MSMEs: top-performing businesses; firms that share similar characteristics with the top-performers but face structural or

⁶⁹ Liberia Institute of Statistics and Geo-Information Services (LISGIS), "Report on the Liberia Labour Force Survey 2010," February 2011. More recent statistics do not exist.

behavioral constraints that hinder success; and survivalist entrepreneurs. This will allow interventions, such as formalization and inclusive finance, to target the appropriate firms with effective strategies.

9.4.2. We re-state our recommendation to refine, scale-up, and promote the adaptation of mobile money. In Liberia, an estimated 55% of individuals have no access or very limited access to a physical financial institution.⁷⁰ This inevitably impedes trade in a cash based economy. Mobile banking could benefit Liberia’s informal cross border trade sector, and informal trade partners in neighboring countries, in two key ways. First, mobile banking may facilitate faster and more efficient financial transfers, thus increasing the volume of trade and enabling payments to informal traders. This is critical for low-income, unbanked firms and individuals engaged in cross border trade. Second, mobile banking could increase access to finance for a large segment of Liberia’s unbanked population. Developing mobile banking capacity in Liberia promote trade and inclusive financial services.

9.5 Rationale

9.5.1. The goals of broad research and targeted interventions for the informal and cross border trade sectors are multi-fold. The proposed intervention would be critical in reducing barriers to formalization, increasing information flows, building business capacity, supporting sustainable job creation and, ultimately, encouraging inclusive, private sector-led development.

9.5.2. Delivering strategic and effective financial services to an economically integral, yet currently unbanked, population will increase financial inclusion and facilitate trade within and outside of Liberia. This will drive the GOL’s and Central Bank’s National Financial Inclusion Strategy reforms to reach development targets, and ultimately provide a greater number of Liberians with access to banking and finance.



Photo I - Waterside Market, Monrovia

⁷⁰ Financial Inclusion Baseline Survey in Liberia, 2015.

10. ENVIRONMENT AND SUSTAINABILITY

10.1 Findings

10.1.1. According to our survey administered in Monrovia’s timber markets, annual production of sawn wood from informal chainsaw milling operations ranges between 691,944 m³ and 922,591 m³ (in Roundwood Equivalents). By comparison, the projected annual volume of exported timber from formal logging operations in 2016 is 200,263 m³ (in Roundwood Equivalents). Adding the small-scale production of timber sold on the domestic market to estimated exports results in a total national production between 892,207 m³ and 1,122,854 m³ (in Roundwood Equivalents). This is between 4 to 5 times greater than the official figure of Liberian timber production.

Informal chainsaw milling is a source of employment for a large number of Liberians. Chainsaw milling provides employment, often in more or less permanent jobs, to between 19,000 and 24,000 urban and rural individuals. Informal chainsaw milling is therefore a well-developed economic sector, as demonstrated by a total estimated annual revenue between \$31 million USD and \$41 million USD.

Benefits from the domestic timber sector’s annual revenue are distributed along a value chain that spans rural and urban areas. Nearly half of this revenue (approximately \$76 USD per m³) is income for rural populations. Beyond those directly employed in chainsaw milling operations, local people who sell their trees according to customary law and communities with forest lands make a good living. This activity generates flows of cash and may contribute to poverty reduction in rural areas, at least in the short term.

Four population groups along the value chain share the profits from informal chainsaw milling, as shown in the diagram below. The public authorities are the main losers in this sector, as very little of the revenue generated by chainsaw milling reaches the federal government.

Table 7 - Breakdown of Beneficiaries in Timber Value Chain

Sources of Revenue		Estimated Amount (Low)	Estimated Amount (High)	%
Rural Populations	Wages	\$15,776,308	\$21,035,052	51%
	Tree sales			
	Profit from sale of sawn wood to urban traders			
Transporters	Transportation	\$2,906,162	\$3,874,878	9%
Urban populations	Wages	\$10,794,316	\$14,392,404	35%
	Rent for outlets			
	Profit from sale of wood to final consumer			
Government	Formal taxes in rural areas	\$1,453,081	\$1,937,439	5%
	Formal taxes in urban areas			

Beyond the production and sale of domestic timber, Liberian Micro, Small, and Medium Enterprises (MSMEs) purchase sawn wood from urban markets for construction, carpentry, and furniture making. Our survey found that furniture making MSMEs add an additional value of \$44 USD per m³ of sawn wood through the production of household and office furniture. While this amount is significant, it is severely limited by the total absence of large-scale processing equipment to improve the quality of sawn wood; moreover, over 80% of surveyed businesses do not have access to power tools and produce furniture with just hand tools.

Liberia has an estimated 4.5 million hectares of forest, and informal chainsaw milling affects approximately 99,000 to 132,000 forest hectares per year (3% of total forest area). On the one hand, chainsaw millers operate in forest

areas with roads located nearby; as a result, they do not typically harvest trees in dense primary forests. However, the Forestry Development Authority (FDA) estimates that annual sustainable forest production is between 800,000 and 1.3 million m³, and current formal and informal production estimates fall in that range. Moreover, chainsaw millers target the same commercial species as formal logging operations and do not adhere to cutting or replanting regulations. While informal chainsaw milling does not solely or immediately threaten Liberia's forest sustainability, it does have a significant environmental impact and demands more environmental research at large.

10.1.2. Impacts of climate change are increasingly visible in Liberia. Coastal erosion has severe impacts on West Point, which covers 4 km² and is home to 90,000 people. In April 2016, 4,000 West Point residents were made homeless when the ocean destroyed their homes.⁷¹ Households and businesses in coastal areas are increasingly experiencing the consequences of climate change.

10.2 Analysis

10.2.1. The domestic timber industry involves all counties in Liberia, and encompasses production and chainsaw milling, transportation, urban market purchases and sales, and woodworking and construction businesses. It links the informal and formal sectors through a network of personal and business relationships. While the export of raw timber has valuable economic impact for the central government, value addition is non-existent and the export sector does not go beyond harvesting raw logs and paying taxes.⁷² On the other hand, domestic timber has an extensive and complex value chain that generates direct and indirect employment throughout the country and downstream value addition opportunities.⁷³

10.2.2. Climate change poses a threat to stability. Residents and businesses in coastal areas such as West Point generally live and work in temporary and/or poorly constructed housing. They are not prepared to adapt to the consequences of climate change. This poses the potential for conflict and tension, and threatens an increase in resource scarcity, exacerbated socio-economic activities, and migration.

10.3 Conclusions

10.3.1. Without targeted and long-term interventions to foster higher-quality and more efficient primary, secondary and tertiary production of finished wood products by Liberian MSMEs, the domestic timber sector will likely continue to be confined to informal and inefficient markets and value chains. Current value addition activities are limited to chainsaw milling, limited processing in plank fields and depots, and construction and rudimentary furniture production. No sawmills or large-scale processing exist in Liberia. Therefore, the country is in the very early stages of industrialization, and is hindered by low labor productivity and obsolete technology. Investments should be made in equipment for primary processing, such as sawmilling or plywood. Ultimately, efficiency improvements along the value chain can lead to additional value added activities.

10.3.2. Liberia has low resilience and few resources to cope with the consequences of climate change. While it is increasingly evident that the effects of coastal erosion and rising sea levels have serious socio-economic impacts for the country, sufficient resources have not been mobilized to pre-emptively manage threats through resettlement and resilience-building efforts.

⁷¹ Zoom Dosso, "Tide turns against Liberia's biggest Slum," July 25, 2016. <https://phys.org/news/2016-07-tide-liberia-biggest-slum.html>

⁷² Estimated value of \$.5 billion USD per year. Projections done by author from SGS data, 2016.

⁷³ Value added is the additional value created at each stage of production and/or through marketing of a product. It increases the product's final price or value. This is measured as the value of the output produced minus the costs of inputs. The result is equal to wages and profits.

10.4 Recommendations

10.4.1. Develop strategic domestic value-added activities for the timber industry. Efforts should target primary and secondary processing, and provide tax incentives for formal logging companies that are “first movers” to develop value-added activities in Liberia.

10.4.2. Mobilize technical and financial assistance to increase resilience against coastal erosion and flooding. This includes finding funding to compensate affected civilians for relocations.

10.5 Rationales

10.5.1. Shifting towards higher value added wood processing and production could support the preservation of Liberia’s forest cover and its productive capacity to meet present needs and those of future generations.⁷⁴

10.5.2. Pre-empt conflict as a result of significant climate change damage and disruptive migration movements through resilience building and resettlement.

⁷⁴ World Bank, Diagnostic Trade Integration Study: Wood Industry Component, 2008.

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