Industry for Liberia's Future

MINISTRY OF COMMERCE AND INDUSTRY

GOVERNMENT OF THE REPUBLIC OF LIBERIA

February 2011

MESSAGE FROM THE PRESIDENT

"*Industry for Liberia's Future*" is part of the Government's programme to strengthen the private sector; a programme which I initiated and pursued when I came into office in 2006 as a strong private sector is essential to economic growth and job creation.

The preparation of this policy document commenced in earnest in May 2010 through the Ministry of Commerce and Industry, who was charged with the responsibility for putting into action the Government's undertaking to develop a national policy blueprint for industrial development in Liberia.

"*Industry for Liberia's future*" is the Government's framework for accelerating the development of a thriving and competitive industrial sector in Liberia. Growth of Liberia's economy has historically been driven by extractive industries with minimal linkage to the wider economy, resulting in "growth without development". For Liberia's future, and its goal of becoming a middle-income country by 2030, the Government recognizes that Liberia needs to diversify the economy and improve the industrial sector so as to maximize utilization of the country's productive capacities and her comparative advantages. The aim of this policy is to provide a focused, clear set of priority action for Government in relation to this goal. The discussions which this policy has already generated in the public and within the Government about the importance of industry to Liberia, are proof of the valuable contribution this work has and will make to the needs of the country.

As the country develops, and businesses expand and become more complex, there will be a need to continually adjust the policy to serve the rapidly changing needs of society and to bring industries in the country in conformity with modern practice. Government and businesses will need to be partners in this on-going effort.

The task of preparing the policy was handed to the National Industrial Policy Committee, whose hard work and commitment resulted in a policy document which has been validated and approved by stakeholders. The Government and the people of Liberia will always be grateful to the policy committee who has made an outstanding contribution to our people's welfare and advancement.

MADAM ELLEN JOHNSON-SIRLEAF
PRESIDENT OF THE REPUBLIC OF LIBERIA
February 2011

ACKNOWLEDGMENTS

The development of this document "*Industry for Liberia's future - a policy roadmap to stimulate industrial growth for employment and sustainable development*" has been a very long and tasking process. Despite several obstacles, the Ministry of Commerce and Industry is indeed pleased that the process remained as scheduled; culminating in a strategic policy document that will guide the industrial development of Liberia in years to come.

The Ministry of Commerce and Industry wishes to acknowledge the contribution and support of various members and institutions in the preparation of this document. First, I would like to thank the members of the National Industrial Policy Committee who were given the responsibility of driving forward the task of developing this national industrial policy framework. Secondly, I would like to thank the UNDP for providing financial and material support for the industrial policy drafting process and IFNIU for providing the funds to allow us to carry out stakeholder consultations.

I would also like to thank the following Ministries that cooperated with us and participated in the stakeholder consultation process. They are: the Ministry of Transport, Ministry of Information, Culture and Tourism, Ministry of Labor, Ministry of Education, Ministry of Agriculture, Ministry of Lands, Mines and Energy, Ministry of Planning and Economic Affairs, Ministry of Gender and Development, Ministry of Public Works and Ministry of Finance. In addition, I am grateful for the assistance of agencies and stakeholders such as the National Investment Commission, the Environmental Protection Agency, the Liberia Manufacturers Association, Liberia Chamber of Commerce, Liberia Foam Mattress Manufacturing Company, UNOPS and UNIDO.

Finally, I would like to thank Mr Samuel R Monger, Chairman of the National Industrial Policy Committee and Senior Industrial Policy Advisor to the Ministry of Commerce and Industry, for his dedication in leading the drafting committee, and for the energy shown by the drafting committee members in ensuring that the document was completed and validated. A list of specific acknowledgments is set out in an annex to this document.

MADAM MIATA BEYSOLOW
MINISTER OF COMMERCE AND INDUSTRY
February 2011

ACRONYMS AND ABBREVIATIONS

APCI	African Productivity Capacity Initiative
AU Action Plan	African Union Action Plan for Accelerated Industrial Development
ECOWAS	Economic Community of West African States
ECOWAS Policy	ECOWAS West African Common Industrial Policy
FDI	Foreign Direct Investment
GMP	Good Manufacturing Practices
IPRS	Interim Poverty Reduction Strategy of 2006 – 2008
KW	Kilowatt
ILO	International Labor Organization
MDG	Millennium Development Goals
MoCI	Ministry of Commerce & Industry
MoE	Ministry of Education
MoL	Ministry of Labor
MoPEA	Ministry of Planning and Economic Affairs
MoPW	Ministry of Public Works
MSME	Micro, small and medium enterprises
MW	Megawatts
NEP	National Energy Policy

NEPAD	New Partnership for Africa's Development Program
NGO	Non-Governmental Organizations
NIC	National Investment Commission
NIDFO	National Industrial Development and Financing Organization
PPP	Public-private partnerships
PRS	Poverty Reduction Strategy of 2008 - 2011
SEZs	Special Economic Zones
SOEs	State Owned Enterprises
UNIDO	United Nations Industrial Development Organization
UNMIL	United Nations Mission in Liberia
UNOPS	United Nations Office for Project Services

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EXECUTIVE SUMMARY

"*Industry for Liberia's future*" is the Government's policy framework for accelerating the development of a thriving and competitive industrial sector in Liberia to generate employment and sustainable development for the country.

Growth of Liberia's economy has historically been driven by extractive industries with no or little linkage to the wider economy, which had in the past resulted in "growth without development".

For Liberia's future, and so that it can achieve its goal of becoming a middle-income country by 2030, the Government recognizes that it needs to create the conditions for economic growth in Liberia. The Government needs to promote diversification of Liberia's economy, and create opportunities that maximize utilization of the country's productive capacities and her comparative advantages to generate sustained growth in productivity, skill levels, and income.

This policy paper:

- provides a focused and clear set of actions for Government and MoCI to take in relation to the industrial sector; and
- sets out Government's approach to Liberia's industrialization trajectory, and helps to align both private and public sector efforts.

The Government recognizes that the private sector faces many challenges in Liberia. Therefore, it sees its primary role as creating a strong enabling environment for investment and private sector growth, while focusing on services and issues that the private sector or individuals cannot provide or overcome themselves, and are barriers to industrial growth.

Efforts are being focused on 3 priority areas which are the biggest challenges to the development of an industrial sector in Liberia.

- **Legal and regulatory reforms.** The Government will continue its legal and regulatory reform agenda; implement programs and strengthen institutions to promote better manufacturing practices and standards, and reform and restructure state owned enterprises (SOEs).
- **Infrastructure development.** The Government will study industry need for infrastructure, integrate that understanding into infrastructure development planning, and encourage private sector investment in infrastructure.
- **Investment in human capital.** The Government will invest in the building of capacity of Liberians for employment in the industrial sector by working with the private sector on skills training and development, including engaging in consultative processes and providing incentives to businesses to provide employment and training to Liberian staff in specialized

technical areas. The Government will also encourage investment in technology and research to improve productivity and competitiveness.

Action will also be taken in 4 specific areas to jump-start industrial development:

- The Government in priority sectors will analyze what specific support is needed and facilitate the provision of that support.
- The Government will track and measure the impact fiscal incentives have on industries, and adapt them accordingly.
- The Government will establish and expand areas for industrial production and processing such as export processing zones, industrial estates and special economic zones.
- The Government will support services that nurture and promote domestic industries, including capacity building and training programs, the identification of linkages between local industries and priority sectors, as well as matching services.

The Government also recognizes that private sector and Government are partners in Liberia's development. Therefore, the policy framework proposes a system for on-going engagement and dialogue between Government and the private sector, as well as other relevant non-government organizations, where information will be shared, policies debated and formulated, and measures monitored and evaluated.

1 INTRODUCTION

1.1 Background & context

1.1.1 Recent history of Liberia

Liberia experienced 14-years of civil war which emanated from the unequal distribution of the nation's wealth among all its people and resulted in shattered social and economic institutions of the country, including the industrial sector.

Since the end of the crisis in August 2003, when a transitional Government was formed to begin Liberia's process of stabilization, a general election was held in 2005 and a new democratically elected Government headed by Her Excellency Madam Ellen Johnson-Sirleaf, Africa's first elected female leader, was inaugurated.

Upon assuming office, the new Government set out to stabilize the security and political situation but also to lay the foundations for rapid, inclusive and sustainable growth and development for the country. Its blueprint was first outlined in the interim development strategy: the *First 150-day Action Plan.* That was succeeded by the *Interim Poverty Reduction Strategy* (IPRS) which covered the period 2006 to mid-2008. The IPRS was later transformed into the *Poverty Reduction Strategy* (PRS) which laid out the Government's blueprint for the development and growth of the country for the period 2008-2011.

The objective of the PRS is to improve the social and economic conditions of the population of Liberia. The strategies within the PRS are built around four complementary pillars, one of which is economic revitalization which focuses on the establishment of a strong economy, with robust employment growth, widespread economic opportunities and a vibrant private sector as a partner to the Government's development efforts.

1.1.2 The mandate to develop an industrial policy

In response to the PRS, the Ministry of Commerce & Industry through this industrial policy seeks to contribute to the Government wider development efforts by articulating a strategy for the development of the industrial sector in Liberia that will generate inclusive and equitable growth over the long term.

The role of industrialization in development cannot be overemphasized, and the emergence of a dynamic manufacturing sector has typically marked a country's transition from low to intermediate income levels. A strong industrial sector also generates employment and enhances the development of backward and forward linkages in the wider economy. Therefore, it is crucial to mainstream industrialization into national development efforts.

The purpose of this policy paper is to be a practical document which is useful for policy implementation. It will also serve as a guide to our donor partners' efforts and inform the public and the international community about the direction of Government policy on industry. This document has been drafted to take into account the time, place and resources and opportunities available in Liberia.

We acknowledge that neither Government, nor any one single stakeholder, has all the necessary information about the economy or of the opportunities for, and the barriers to, growth. We therefore believe that it is important:

- to establish a framework of reviewing existing policies and on-going policy making which actively engages and collaborates with stakeholders, and in which Government plays a role as facilitator, convener and information sharer; and
- for Government to focus on the creation of strong enabling environment for investment and to lay the foundation for industrialization by focusing on services and issues that the private sector or individuals cannot provide or overcome.

One key issue which must be highlighted at the outset is the implementation of this policy. The Government is affected by institutional weaknesses and this paper in section 7 draws attention to some of the challenges we face in implementation at an institutional level. Critically, experience also shows that regardless of whether policies are accepted by key stakeholders, they will fail to be implemented if they are not budgeted for through the national budgeting process and money made available to implement them. Therefore, it will be crucial that the process of public expenditure management is aligned to and takes into account this document.

This policy paper is structured as follows:

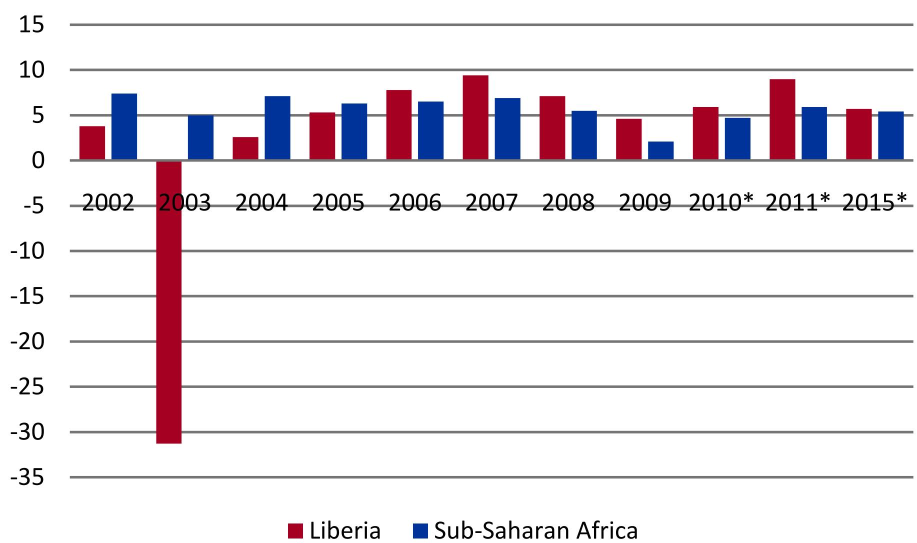
- ***an overview of the domestic economy and the state of industry in Liberia;***
- ***the role of Government in developing industry;***
- ***the Government's objectives for the industrial sector;***
- ***the areas of policy action for the Government; and***
- ***the framework for policy implementation and review, and on-going monitoring & evaluation.***

2 THE DOMESTIC ECONOMY

The Liberian economy was severely affected by 14 years of civil war. Astonishingly, between 1979 and 1996, the country's GDP fell by 91%, the most rapid decline in sub-Saharan Africa in the last several decades. Between 1987 and 1995 alone, GDP declined by 90%.[1] In 2009, the country's GDP per capita was approximately US$223.

The political situation resulted in the destruction of the social and economic institutions of the country and stagnation (and at times decline) of the economy. However, it has since made steps towards recovery and has achieved steady rates of growth since 2004 (see figure 1) which, more recently, has exceeded the average Sub-Saharan Africa's rate of growth.

Figure 1: Real GDP (annual % change) Liberia and Sub-Saharan Africa (* projections)



Source : IMF World Economic Outlook 2010

Agriculture (including forestry and fisheries) which provides the livelihoods for the majority of Liberians is currently the largest contributor to GDP (see figures 2 and 3) and has been the largest contributor to GDP growth in the last 3 years. This is followed by the services industries (construction, hotels, restaurants, trade, and financial and government services), which expanded in 2009 by 10-15%, making the next most significant contribution to overall output in

[1] *Reviving Economic Growth in Liberia*, Steve Radelet, Working Paper Number 133, November 2007, Center for Global Development

the last several years.[2] The manufacturing sector as a percentage of overall GDP has remained relatively stable through the same period. While mining contributed a very small proportion to GDP in recent years it is expected to increase as mining activities re-start.

Figure 2: GDP by sector (2006)

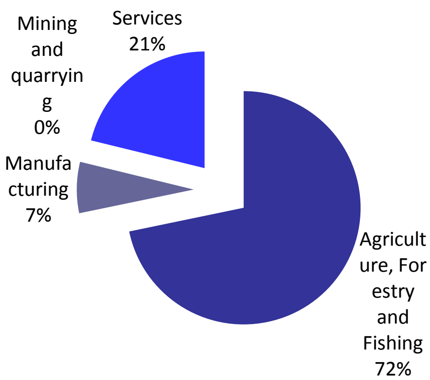
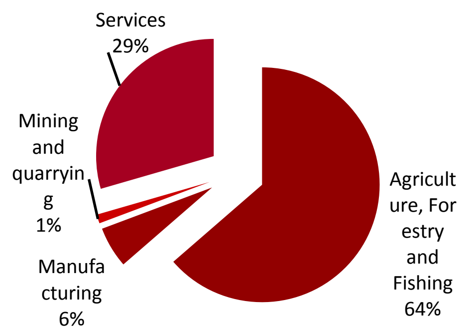


Figure 3: GDP by sector (2009)



Source : African Economic Outlook Liberia (AfDB/OECD) 2008 and 2009

The amount of foreign direct investment (FDI) in Liberia has also been increasing with FDI almost doubling between 2005 and 2008 according to the World Bank Development Indicators.

There have been tremendous efforts exerted by the Government to attract investment into the country, particularly large scale foreign capital investments in the mining and agro-sector (including forestry).

Figure 4: Private sector concessions (from 2006-2010, as at August 2010)

Type of commodity	Investment (US$)
Palm oil	1,030,000,000
Rubber	1,025,000,000
Forestry	12,500,000

[2] Liberia: Poverty Reduction Strategy – Annual Progress Report, July 2010 (IMF Country Report No. 10/194)

Mining	6,250,000,000
Industries (wood chip, flour mill)	360,000,000
TOTAL	**8,677,500,000**

Source: NIC

While most foreign investments are concerned with extraction of natural resources, this Government has recognized that they offer an opportunity to spur development of domestic industries and has therefore made concerted efforts to build in requirements that those investments are linked to local / domestic companies and goods and services (eg. local procurement requirements).

2.1 Industry in Liberia

2.1.1 The potential for industrial development in Liberia

Liberia is blessed with abundant resources: fertile land for agriculture and tree crops, extensive forestry resources, minerals like iron ore, gold, diamonds, and extensive ocean and coastal areas. However, for many decades these resources were extracted and exported without local processing or value-addition. In addition to loss of revenue (particularly important in countries dependent on revenue collected from non-renewable extractive industries), this scenario leaves very little room for job creation and worst of all, communities in which these concessions operate are often time made vulnerable since their land is usually subject to concessions. Furthermore, Liberia also has exceptional capacity for growth (particularly in the agro-based industries) as current production levels are far below Liberia's proven capacity in the past – for example, before the war mining contributed to 62% of export revenue in the 1970s and 1980s, while in 2008 it contributed 1% to GDP.

2.1.2 Why is industrial development important to Liberia

The Government recognizes the important part industrial development can play in achieving its PRS goals:

- Sustained industrial growth can benefit Liberians through greater opportunities for formal employment and rising wages.
- Diversification of the economy to include more industrial activities can reduce Liberia's dependence on natural resources, which can in turn insulate the Liberian economy from fluctuating commodity prices, as well as provide the foundation for more sustainable development not dependent on extraction of finite resources.

- Employment opportunities in industries offer greater opportunities for skills development compared with self-employment or work in the informal sector. This can also positively impact gender issues as both men and women are able to access these employment opportunities. Furthermore, jobs are also more likely to produce a middle class than by direct redistribution of resource rents, and by distributing income more widely it insulates vulnerable populations from the typical side-effects of resource-driven growth spurts.

2.1.3 Current levels of industrialization

The industrial landscape in Liberia is characterized by a few large manufacturing firms, producing a limited type of goods (cement and beverages) for domestic consumption. Other manufacturing firms in Liberia are in the sectors of household products, paints, varnishes, mattresses, industrial oxygen, bakeries, woodworking, metal working, plastic, rubber products and clothing, again for the purpose of supplying the domestic market.

Liberia's available labor force is estimated to be about 1.1 million,[3] of which 2,785 (or around 0.25%) are reportedly employed in the manufacturing sector. The majority of manufacturing companies in Liberia tend to be small sized, employing very few people. Reported employment in the manufacturing sector in 2008 more than doubled from 2006's reported figure of 1,045. These employment figures do not include those employed in the informal sector.[4] The growth in employment in the manufacturing sector is against the background of manufacturing's contribution to Liberia's GDP remaining relatively stable (increasing by 1% between 2006 and 2009).

Figure 5: Employment by sector

Category	2006	2007	2008*
Agriculture and Forestry	12,200	33,672	176,326
General merchandise/wholesale/retail trade	43,500	36,633	18,928
Business services	2,475	9,872	10,115
Social community services	12,470	15,575	13,327
Manufacturing	1,045	5,813	2,785
Construction	535	987	4,300
Transportation and communication	1,540	2,194	1,1178
Mining	1,009	3,290	2,508
Banking and insurance		1,645	8,206
GOL	58,500	31,900	47,681
TOTAL (Formal sector)	**133,274**	**141,581**	**295,354**

[3] ILO Core Welfare Indicators Questionnaire (CWIQ), 2007

[4] Ministry of Labor. ILO estimates that the Vulnerable Employment Rate (defined as the proportion of self-employed without employees and unpaid family workers in total employment) is close to 85%: ILO Employment Sector Employment Report No. 7 'Promoting Job Creation for Young People in Multinational Enterprises and their Supply Chains: Liberia', 2010

TOTAL (Informal sector)	470,000	480,000	487,000

Source: Ministry of Labor (* estimates)

2.2 Problems and constraints with industrial sector

The development of Liberia's industrial sector is inhibited by many constraints. The Government has identified the key and most pressing constraints being:

- **Poor Infrastructure** – due to the civil conflict, Liberia's infrastructure (most importantly roads, electricity, water and telecommunications) was severely degraded and extensive rehabilitation is required. The lack of infrastructure increases the cost of production for businesses, affects their ability to sell competitively to outside markets, and also increases the difficulty for industry in Liberia to insert itself into global production chains.

- **Information and co-ordination challenges –** there is very little data and statistics on industry. Forums for the state and the business sector to exchange information are infrequent and ad-hoc. The Government has also not effectively communicated its policies and reforms. The poor information flow and lack of transparency discourages entrepreneurship and investment, and reduces reciprocity and trust between the private sector and Government. It also has a negative impact upon the Government's and private sector's ability to successfully coordinate and plan, to identify the economic activities that will benefit, and be profitable for, Liberia, and to realize economic gains that would otherwise be available if investments/plans were not made in isolation.

- **Weak linkages between industry and other economic activities** – the connections between industry and other economic activities in Liberia (for example, agriculture, the largest contributor to GDP by sector, and extractive industries which have and will receive billions of dollars of investment) are for a number of reasons including lack of information weak. Identification and development of those linkages to identify the products and services that can be the basis for a promising industry is needed so that appropriate policies to be devised to respond and support its development.

- **Human capital** – the labor force in Liberia is largely unskilled or may need training or re-training due to introduction of new technology.[5] Furthermore, when the older generation of workers retire from the workforce, a supply shortage is expected to emerge in the labor market due to the interruptions to many Liberians' education and professional development. Recruitment and training cost to business, particularly where semi-skilled or skilled labor is required, are high. In the longer term, this inhibits local innovation, and

[5] 15% of the labor force (approx. 160,000 adults) estimated have completed secondary school. Fewer than 1/3 of this group pursued post-secondary education including higher education, vocational or technical training: ILO Core Welfare Indicators Questionnaire, 2007.

slows the process of labor force upgrade. Furthermore, the labor regulations in Liberia is seen as placing the burden overwhelmingly on the employer, therefore discouraging taking-on of local staff, and is seen as creating inflexibility in the labor market.

- **High cost for industry affecting competitiveness** – having emerged from a 14 year civil war, Liberian industry suffers from serious structural issues (in addition to infrastructure, ineffective institutions such as lack of enforcement mechanisms, duplication of monitoring and inspection functions of multiple Government Ministries and agencies, inefficient and overly bureaucratic processes) and has to play catch-up to industries of other countries (such as in technology, and investments in R&D, training/education and innovation, and in market access). In addition, though banking reforms are underway, the cost of financing still remains prohibitively high in Liberia, with the financing products available in the market not well suited to industrial development. All of these contribute to high costs of entry, production and doing business for Liberian industries, thereby discouraging establishment of new businesses or reducing their competitiveness. This lack of competitiveness will become exacerbated when Liberian industries become exposed to international competition as Liberia begins the process of trade liberalization.

Looking ahead, the small size of domestic market, weak buying powers of domestic buyers (64% is believed to live below the poverty line) and the domestic orientation of industry will eventually limit the growth of industry. It will therefore be important for Liberia to gradually orientate away from import-substitution, and position itself so as to increase Liberian industries' access to regional and international markets to source new demands for their products. Steps have been made through accession to regional and international trade blocs and bodies such as ECOWAS and WTO. Increasing access will also provide a source of new investment capital and facilitate the spread of technology and know-how.

2.3 Potentials/opportunities in sector

Despite the challenges, there are significant potentials and opportunities in Liberia:

- Liberia belongs to ECOWAS and the Mano River Union, giving access to over 280 million people. It is also actively seeking membership to the WTO.

- Liberia is strategically located on the west coast of Africa which allows it to insert itself into the regional and international market. Prior to the war, it was the port of entry for goods to, and the port of exit for products made in, West African countries. Its strategic location, coupled with the reforms being made to the ports in the country and to customs and trade procedures, means that freight costs to/from the U.S. and European market will become competitive vis-à-vis neighboring countries.

- Liberia’s has both traditional and new thrust sectors of immense potential which can be the basis for industrial growth, including:
    - Tree crops (rubber, cocoa, coffee, oil palm and bamboo are examples).
    - Food crops for both domestic and export markets.
    - Wood products
    - Mining (iron ore, diamond and gold are examples)
    - Fisheries
    - Cassava
    - Services

- Opportunity to ‘crowd in’ investments. Liberia has over US$5 billion of investments by large multinational companies which will create jobs and demand for goods and services. As part of those agreements, these companies have agreed to rehabilitate key infrastructure including roads, ports and rail tracks, provide training, use local labor, and procure local goods and services. This is a unique opportunity for Government to play a role to co-ordinate larger economic planning and to harness infrastructure benefits and economic opportunities which these large investments are generating. A clear policy and regulatory framework, and strong horizontal and vertical coordination among economic actors to co-ordinate action, are needed.

3 THE ROLE OF GOVERNMENT IN INDUSTRIAL DEVELOPMENT

3.1.1 Rationale for Government intervention

While there remains substantial debate about the precise role of government in the development of industry, state-led intervention, whether in the form of policies, subsidies, research & development, infrastructure, education or other kinds of support, has been shown to be important to the long term development of industry, particularly in developing countries. Brazil, India, China, Uganda, Botswana and East Asian countries are just a few of the examples of states whose industrial policies have influenced the development of successful industrial economies. Indeed, there are few examples of successful industrialization where government did not actively promote industry. Therefore, while the Government is strongly committed to, and respects, the free market functioning, there is a strong case for Government intervention to overcome the externalities that businesses alone cannot overcome, and also the serious market failures existing in Liberia that distort allocation of resources and limit and restrict activities which otherwise might be productive and profitable.

3.1.2 Challenges in forming industrial policy

The process of government creating and implementing policy and strategies to promote the industrial sector produces some challenges, including:

- **Identification of barriers to growth** - the effective identification of the most pressing barriers to Liberia's development;
- **Choosing strategies** - the choice of strategies to address the identified barrier;
- **Tracking progress** - the monitoring and evaluation of the strategies employed;
- **Distinguishing between successful and unsuccessful strategies** - the identification of strategies which are successful, and thus continuing them or increasing their scope, and the identification of strategies that are unsuccessful in achieving objectives, and discontinuing them.

These policy challenges are exacerbated by the acute lack of data and statistics in Liberia, and poor and out-dated data collection practices and tools. Section 7 highlights some of the challenges that MoCI as lead ministry on trade and commerce faces.

3.1.3 Approach to developing industrial policy

In light of the challenges, this industrial policy revolves around these central tenets:

- Policy making will be a process to ensure appropriate flexibility for growth and development in Liberia, in particular, the process:

- would identify barriers to economic and industrial development on an on-going basis and develop policies and strategies in response to the identified barriers.
- will utilize the valuable information and contribution of Government, the private sector and non-governmental partners, and invite ongoing engagement of stakeholders

Section 8 outlines the specific mechanisms that will be used to draw the private sector and other non-Government stakeholders into the policy development process.

- Government will encourage the private sector to take the lead to ensure that growth is competitive, sustainable and efficient, while Government will focus on horizontal activities that create a stable and transparent environment for private investment.

Where appropriate (eg. where there are market inefficiencies in sectors of comparative advantage for Liberia, or if support is needed for essential inputs), the Government will make strategic interventions in vertical or sectoral areas.

3.1.4 General development directions

The industrial policy has been developed to take into account and be harmonized with the Government's overall development objectives and strategies and the direction of regional and international development.

3.1.4.1 Poverty Reduction Strategy (PRS)

The industrial policy aims to build upon the objectives and strategies articulated in the national PRS. The PRS sees the private sector as the engine driving forward broad-based economic growth and development in Liberia by generating income and stimulating the creation of a significant numbers of job opportunities throughout the country for low-skilled and semi-skilled workers. It emphasizes the following:

- The Government should act to **reduce production costs to encourage diversification of the economy** over the medium-to-long term into competitive production of labor-intensive downstream products, manufactured goods, and services.
- Liberia's **comparative advantage lies in agro-based industries**, in particular agro-processing, horticulture, furniture and other down-stream wood products, and downstream rubber products.
- **Sustained growth should be built upon producing goods for export**. The resulting competition with other countries' manufacturers will ensure efficiency and provide access to new technologies that will result in productivity growth.
- The **potential of exporting to the West African region, Europe, the United States and other large markets** in a range of products should be better utilized.

The PRS highlights that the Government should lay the foundation for industrialization by:

- **Rebuilding infrastructure** - especially roads, the ports and power supplies.
- **Creating a competitive environment** – especially through reducing unnecessary regulations, eliminating red-tape, shortening the time and costs for port and customs clearance, reform of tax systems, and exploring other incentives such as creation of special economic zones (SEZs).
- **Building human capacity** – in particular healthcare delivery and education systems, and public and private sector professional capacity.
- **Managing macroeconomic conditions and strengthening financial sectors** – to ensure natural resource exports and aid flows do not lead to an appreciation of the real exchange rate that can undermine export competitiveness, as well as ensure adequate access to financing.

3.1.4.2 Coherence with the Government's development strategy post-2011

The Government is currently working towards setting a vision for the country for the year 2030, and developing a successor to the PRS which will be a 5 year medium term economic growth plan. While the industrial policy is expected to be finalized prior to the completion of the new strategy and the Vision 2030 exercise, the aim has been to draft the document in such a way that it can be easily retrofitted within broader GoL plans.

3.1.4.3 Regional context

The regional context to Liberia's industrialization policy and efforts is found in the African Productive Capacity Initiative (APCI) of the African Union's New Partnership for Africa's Development program (NEPAD), the African Union Action Plan for Accelerated Industrial Development (AU Action Plan) and the ECOWAS West African Common Industrial Policy (adopted by Council of Ministers) (ECOWAS Policy).

The APCI emphasizes that efforts should be made in 2 areas: improvement of industrial performance at the sub-regional level and on the diversification of productive capacities using Africa's own natural resource base as an input for industrial transformation and up-grading; and the expansion of integration efforts, taking advantage of existing support measures to access regional and global markets.

The AU Action Plan provides further details and a framework for activities at a national, regional, continent and international level in 6 priority areas. At the national level, the AU Action Plan proposes that governments focus activities on, among other things, establishing and maintaining investment friendly, and industry supportive, policies and institutional environments (including the establishment of Industrial Development and Investment Promotion Agencies and Small-scale and Rural Industries Development Agencies, and programs to support companies compliance with international standards); developing policies which maximize the use of local productive capacities and inputs, adding value/local processing of locally available natural resources and development of micro, small-scale and rural industries; setting aside earnings from sale of commodities for investment in industrial programs, enhancement of investment in infrastructure and strengthening of public-private partnerships in infrastructure development, and investment in research and technology development.

On a regional level, the ECOWAS Policy proposes diversification and broadening of the region's industrial production base through support for the creation of new industrial production capacities and the development and upgrading of the existing ones, enhancement and development of skills, investments in quality infrastructure, particularly in the areas of information, communication and transport, and greater trade integration.

Common to all these documents, and reflected in the industrial policy, is the focus on using natural resource base as an input for industrial growth, and the importance of improving investment and institutional climates, of investments in infrastructure, of greater trade integration and of strategic support by governments.

3.1.4.4 Alignment to international development objectives

Development of the industrial sector will have a direct impact on achievement of the Millennium Development Goals (MDGs) by increasing income, creating decent and productive employment for youth, and increasing the use of technologies to improve economies and production. The industrial policy also aims to be a vehicle for enabling the achievement of MDG goals by incorporating sustainable development principles including protection of environmental resources into its policies and strategies.

4 OBJECTIVES

4.1 Short-Term Objectives (2-3 years)

- There is an enabling environment for investment in industry and exports in traditional and new sectors by rebuilding infrastructure, reforming institutions and regulations, reducing unnecessary business costs, streamlining administrative procedures and facilitating trade through promotions and export strategies.
- Increase number of micro, small and medium industrial enterprises.
- Increase of local goods and services in the Liberian economy.

4.2 Medium to Long Term Objectives (5 years plus)

- Greater participation of women, disabled and other marginalized groups in the industrial sector.
- Restructure of state owned industrial enterprises. Establish vibrant domestic manufacturing sector which uses local raw materials for both export and domestic market and increase number of competitive MSME manufacturers.
- Establish dedicated industrial production and processing areas.
- Greater entrepreneurship development in Liberia.
- Establish a National Industrial Development and Financing Organization (NIDFO).

5 INDUSTRIAL DEVELOPMENT POLICIES

The Government recognizes that industrial transformation requires simultaneous improvements in many areas, but critical priorities lie in making improvements to education, financial and legal institutions and infrastructure. It has therefore identified 3 key policy levers that will help Liberia achieve its goal of industrial transformation:

- Legal and regulatory reforms
- Infrastructure development
- Investment in human capital

It should be noted that the identification of these 3 priority policy areas and also the other areas for action outlined in section 6, is not an indication that the Government is seeking to override market forces or ignore market signals; rather it is about the Government leveraging the influence it exercises in the economy to meet strategic needs of industry.

It is also important to note that other measures, instruments and institutions are required to support greater industrialization such as trade and tariff policies. Section 6 will examine what some of the other supportive measures might be in order to spark greater industrialization in Liberia. Section 8 will outline the implementation framework which will support the on-going monitoring and evaluation of the effectiveness of these policies, and set out a process for on-going policy debate and formulation.

5.1 Legal and Regulatory Reform

Legal and regulatory reforms are an integral part of economic reform in any country. The laws, regulations and institutional environment of a country shape daily economic activity, and are crucial to enhancing the economic healthiness of a country and economic opportunities for its citizens. Countries which have excessive regulation and bureaucracy hinder competitive and thriving firms, particularly those in the informal sector – an important consideration in Liberia since an estimated 75% of businesses are in the informal sector.[6] Furthermore, excessive red-tape have a disproportionate impact on those industries that do not have the resources to overcome those burdens such as micro and smaller enterprises – another important consideration in light of the Government's stated goal that growth will be broad-based and sustainable, and that MSMEs in other countries have been significant contributors to job creation and economic growth. The PRS highlights the need for Liberia to create a competitive environment for businesses by reducing unnecessary regulations, eliminating red-tape, shortening the time and costs for port and customs clearance and reform of tax systems.

[6] FIAS Study

Therefore, transparent and efficient institutional arrangements should be the end goal of Liberia's legal and regulatory reform.

The Government believes that industries should be able to operate within the rule of law and to benefit from protections that the law provides, and places priority on creating an environment which boosts business confidence and reduces risks to encourage investment.

Since taking office, the Government has begun the process of reviewing and reforming the administrative and regulatory procedures of doing business. The Government has directed efforts at the following areas:

- commercial law reform and establishment of a commercial court to improve contract enforcement
- improving access to finance and reforming the banking sector
- streamlining business registration processes
- streamlining business inspections and enforcement
- reforming labor laws and industrial relations
- amending the revenue code to further modernize customs procedures, reduce taxation rates and simplifying tariff and corporate tax structures

Policy 1: The Government will continue its efforts to improve the doing business and investment climate in Liberia by improving the clarity of rules and regulations, and the efficiency and transparency in administrative procedures in regards to industry. The Government will measure its efforts through improvements to Liberia's Doing Business and Index of Economic Freedom rankings and scores.

Promoting better practices

The Government recognizes the role better manufacturing and management practices have on improving Liberia's competitiveness and the associated public benefits they bring. Industries that meet minimum labor, health, safety, environmental, technological and intellectual property standards have a multitude of benefits - to the public: products that are safe to consume, manufacturing practices that allows the continuing and sustainable use of environmental resources, and a safe work place for employees; to the company: potential for higher margins, the ability to insert itself into global value chains, and reduce waste of firm's resources and cost of compliance; to Government: increased revenue intake as more products are made in Liberia and fulfillment of social goals.

The Government has an important role to play in promoting the adoption of improved manufacturing practices. It has already implemented a range of tools (and is continuing to develop new tools) to improve the manufacturing environment and the standard of goods manufactured in the country, including the environmental impact assessment process of the Environmental Protection Agency, occupational health and safety rules administered by the Ministry of Labor, zoning rules being developed and which will be administered by Ministry of Public Works, as well as the following:

- **Standards** - A new National Standards Laboratory will be in operation by middle of 2011 which will have responsibility for testing and verifying the standard of goods being imported and exported in 3 areas: chemistry, microbiology and metrology. The services being provided will be both regulatory and trade enhancing in nature (eg. the lab will be able to certify and assure the quality and standards of products). The Government is also developing a proposal for establishing a National Standards Body which will encompass the standards bureau of all Government Ministries and agencies. Standards for consumer products are also being progressively adopted.

- **Intellectual property** – Intellectual property laws are being updated to reflect Liberia's part in the international system of intellectual property registration and protection. It is also improving the capacity and the functions of the institutions responsible for enforcing property rights.

- **Good manufacturing practices –** Manufacturers have been asked to develop good manufacturing practices (GMP) handbooks for their operations based on guidelines sent to them by MoCI. GMP guidelines have been issued to manufacturers of food and beverages, and will be rolled out to other sectors in the future.

Policy 2: The Government will implement programs to improve (and reinforce) the standard of manufacturing and of products made in Liberia, and ensure that good standards and practices are maintained by industrial establishments. As a priority, the programs will be developed to apply to those firms that manufacture food and beverages and other sensitive products, as well as industries that manufacture alcoholic, tobacco and hazardous articles. These programs will be administered efficiently, transparently and on a co-ordinated basis across Government to avoid imposing unnecessary burdens on industry.

Reforms of State Owned Enterprises (SOEs)

The Government currently has various ownership stakes in 16 enterprises. These state owned enterprises (SOEs) are in various sectors including telecommunications, water, electricity, port and airport, rubber plantations, petroleum storage, housing and transportation.

These SOEs were put in place in order to instigate needed investment and enterprise in sectors that required large initial capital investments but where expected returns were low in the short term, and was therefore less attractive to private sector investment. Accordingly many SOEs were granted an effective monopoly in their sectors to protect Government's investment and some given self-regulating powers. However, Government ownership in many cases meant that necessary capital investment was not made, and many SOEs were inefficient as a result of poor management, political interference and corruption. Furthermore, the existence of these enterprises which often receive continuing subsidies, prevent other competitors from entering the market and exert disproportionate influence over the market and Government policies because of Government ownership. In an effort to make these entities viable and to also minimize the burden on Government, the Government has deemed it prudent to rationalize and/or restructure its ownership of SOEs.

The rationalization and restructure of Government's ownership of SOEs can be effected in a number of ways: from privatization, liquidation or making further investments in viable SOEs. However, any restructure will need to be strategic, and should take into account the social goals which the SOE currently serve. The experience of other countries like Singapore and the United Arab Emirates show that SOEs, with the right policies, can drive innovation and development; and that privatization may not always be appropriate.

The process of SOEs reform has commenced. A number of SOEs' budgets have been reduced drastically, in anticipation of either dissolution or privatization, and ways are being examined to increase efficiency of the other SOEs. Towards this end, the Government has constituted a committee to organize and implement the SOEs assessment and privatization and restructuring process of which MoCI is a key and active member.

Policy 3: The Government is committed to carrying out the strategic reform and restructure of SOEs to maximize the economic contribution of those enterprises.

In particular, the Government will:

- examine whether any of the SOEs can be the basis of a promising industry in Liberia, continue to conduct valuation assessments of SOEs, draft the necessary legislation to effect the rationalization of relevant SOEs whether by liquidation, privatization, public-private partnership, and then facilitate the enactment and implementation;
- design and implement restructuring plans for SOEs that are not liquidated, privatized or transformed into public-private partnerships, strengthen their management and governance, enhance their efficiency, and improve their operational and financial performance, possibly through the use of performance management contract; and
- undertake periodic assessments as to whether the remaining SOEs continue to be consistent with the Government's objectives of restructuring those companies that are moribund, unnecessary or more appropriate for privatization.

5.2 Infrastructure Development

The importance of infrastructure to economic growth, productivity and to a country's ability to structurally transform is often underestimated. Infrastructure:

- acts as an enabling resource for the economy;
- connects geographically separated economic agents;
- acts as an input for nearly all sector's production.

Studies have shown that better infrastructure promote greater rates of industrialization within countries. For example, a 10 per cent increase of the total road network per land area, whether it is paved or not, has shown to result in a 3.3% growth in manufacturing. If paved, road infrastructure causes a 5% growth of manufacturing. However, inadequate infrastructure can hold back economic growth per capita by 2% each year, and reduce firms' productivity by as much as 40 percent. Improvements to infrastructure therefore reduce the cost of manufacturing; and sustainable and long term economic growth will depend on strategic and complementary infrastructure development.

Liberia's infrastructure was severely and extensively degraded as a result of the 14 year civil war, and the lack of maintenance and investment throughout. For example, the LEC generation capacity is at 9.6MW and with 80 kms of transmission lines, is capable of supplying Monrovia only. The Government is undertaking a comprehensive program of rehabilitation and construction of primary infrastructure, with a focus on restoration and delivery of basic services, supported by our donor partners (eg. the Emergency Power Programs sponsored by USAID, the European Union and the World Bank among others). For both big and small industries already operating in Liberia, the lack of infrastructure has been a challenge which many have overcome by their own resources: they have built infrastructure like roads or wells, and have purchased generators to supply electricity to their businesses. Using electricity as an example, in 2009 industry was the second biggest user of grid-electricity provided by LEC (approximately 36% or 3.5MW), and local enterprises have indicated that there would have been even greater demand but for the unreliability of service and the high costs. Efforts have been made to meet future industry needs by engaging private sector investment in infrastructure through contracting private sector service providers (eg. Buchanan Renewables for electricity) or by linking-in infrastructure investments with grants of concession rights (eg. ArcelorMittals' US$1 billion rehabilitation of the Buchanan Port and the Yekepa-Buchanan rail).

The World Bank has calculated that infrastructure investments in sub-Saharan Africa should exceed 5% of GDP to achieve the UN Millennium Development Goals and an additional 4% of GDP should be added for operation and maintenance to ensure sustainability of infrastructural investment. As a proportion of overall Government spending, infrastructure accounts for approximately 8.7% of the budget.[7] This is compared with private sector related investment in infrastructure which is anticipated to total over US$3.7 billion.

Industrial demand for infrastructure over the coming years will also affect infrastructure planning by Government. For example, the LEC is expecting that industry demand for electricity will reach 17.5MW in 2013 and 26.95MW in 2020 (35% of overall total electricity demand). IFC projects very similar figures – estimating in 2007 that industry demand for electricity will almost quadruple between 2009 (3.2MW) and 2010 (13.9MW), and to double between 2010 and 2020 (27.7MW). The National Energy Policy also anticipates sectors of growth (such as cement processing, rubber processing, breweries), as well as the traditional sectors such as mining and agriculture, will be the largest industrial consumers of electricity. However, the actual expected infrastructure demands of industry are not particularly well understood and there are no strategic plans at the Government-level to meet them.

The Government recognizes the positives of privately funded infrastructure and will going forward ensure that such infrastructure is integrated into its infrastructure development plans. Better co-ordination and planning will result in duplication being avoided and maximized efficiency and benefits, and the possibility of accelerating economic development by prioritizing infrastructure rehabilitation/construction around a range of development needs.[8] To facilitate improved planning and co-ordination, as a starting point, the Government will seek to better understand infrastructure demand of industry.

Policy 4:

- The Government will carry out an assessment of present and future industries' infrastructure needs.

- The Government commits to integrating into all levels of Government infrastructure planning the forecasted demands of industry with a view to maximizing synergy between infrastructure and economic opportunities and encouraging decentralization of economic opportunities. The Government will leverage the potential for economic growth and industrialization to be accelerated and its effects to be distributed more widely throughout the country through better access to infrastructure and integrated use.

[7] FY2010-2011. Estimate of MoF.

[8] In recognition of the important role infrastructure plays, the Government commissioned a the Growth Corridor Study that recommended that the overall economy would benefit from Government creating a sufficiently high-level commitment to ensuring infrastructure needs of businesses are integrated into infrastructure planning eg. utilizing development corridor strategy to crowd-in investment, and create synergies among diverse activities along growth axes where users can share infrastructure.

- The Government will provide greater incentives to industrial customers to make investments in hard infrastructure to ensure that the choices about which infrastructure and where infrastructure is located suit Liberia and the specific needs of the relevant sector best. The Government will also examine other options to promote greater infrastructure development in Liberia such as Public Private Partnerships (PPPs), build-operate-transfer (BOT) arrangements, or the establishment of co-operatives or other organizations to bring together resources and agents within a value chain.

5.3 Investment in Human Capital

Liberia has a large but unskilled work force – the unemployment rate is estimated to be around 80%, with a large youth population (60% of its population is under the age of 25) and low adult literacy levels (estimated to be at 55.5%).

The Government recognizes that in the short term, mass employment opportunities will need to be created for unskilled to semi-skilled workers as a means of immediate poverty alleviation but also as a way of creating a stable political environment and inclusive growth. These opportunities will be offered in the labor intensive sectors such as mining, forestry and agriculture. The Government however recognizes that Liberia is not immune to the forces of globalization – and that it will eventually shape the demands on Liberia's labor force, and also require Liberia to respond to the opportunities it will present, particularly as Liberia competes with other countries to insert itself into value chains which are increasingly international and competitive. Therefore, for the medium – long term development of Liberia, it will be necessary to accumulate the human factors to allow industries to upgrade and be competitive by investing in institutions that provide education and training opportunities for the labor force. In view of the longer-term opportunities and challenges within the wider labor market, the Government recently adopted a National Capacity Development Strategy (NCDS) to provide a framework for how Government will coordinate and manage capacity development within Liberia.[9]

In terms of vocational training, the Government has currently 113 vocational schools in Liberia (80 of which are public, the remainder privately operated). There are also 4 multilateral high schools which combines normal course study with vocational programs. The courses offered are predominantly in traditional areas of carpentry, plumbing, electrical works, general construction and draughting, welding, and mechanics. Students can enroll in 3 types of programs offering either basic, intermediate and advance training, with the majority of students enrolling in the 12 month long basic program. MoE estimates that most graduates from vocational schools are self-employed. The vocational schools suffer acutely from lack of investment – most are not adequately equipped, and students are being trained on out-dated tools. MoL forecasts that the short-term labor demands of industry will be met by vocational school graduates, particularly in the areas of carpentry, welding, draughting, and operation of heavy machinery, but has indicated that those graduates will not be adequately trained in modern practices and technology. However, linkage with industry is weak and an ILO survey underscored the large skills gap between the positions available and skills needed,[10] and the lack of co-ordination

[9] This policy is aligned to 3 of the 4 strategic goals of the NCDS: a. Planning capacity investments for sector growth and reform, b. Matching the supply of capacity to current and emerging demands in the economy and supporting capacity development institutions to meet demands, and c. Investing in institutional capacity to deliver services to the Liberian people.

[10] Employment Sector Employment Report No. 7 'Promoting Job Creation for Young People in Multinational Enterprises and their Supply Chains: Liberia', 2010

between supply and demand. Many firms overcome the skills gap by providing their own training programs to supply trained labor for their needs (or an employee 'grows' within the firm) or else have had to recruit from outside of Liberia. The gap between supply and demand will worsen when the current generation of trained workers retires, to be replaced by a generation whose education and professional development has been interrupted. Many firms also expressed their reluctance to invest in the training of their workers due to the high costs they incur and the fear of labor turnover. The concessionaires have made commitments to invest in capacity building and training – for example ArcelorMittal and BHP plan to spend US$1 million each year to support students of geology and related fields. There is an immediate need at the national level to look at how the Government can leverage the investment being made by such firms, and the know-how that will be present in Liberia, for the benefit of Liberia.

The Government believes that there is a need to make crucial investment in training institutions and also to work closely with the private sector to ensure that training programs meet the labor market's existing and future requirements.

To meet labor force demands of industry, the Government will observe the following principles:

- ***the training system will be demand-led***
- ***the training system will meet today's as well as tomorrow's skills needs to ensure Liberia's workforce can meet the needs of opportunities in the new economy***
- ***the Government will encourage female and other marginalized group's participation in the industrial workforce***
- ***the Government will better integrate education, labor and economic policies***
- ***the Government will collaborate and co-operate with the private sector and other members of the non-Government sector***

Policy 5: The Government is committed to investing in the building of capacity of Liberians for employment in the industrial sector.

- To enhance the on-going identification of labor needs of industry and to ensure that appropriate programs are developed so that the Liberian workforce can meet the challenges and demands of the future, the Government will promote greater public-private dialogue on skills training and vocational education and apprenticeship programs.

- The Government will encourage private sector-led initiatives to support the provision of employment and training opportunities to Liberian staff in specialized technical areas relevant to industry. The Government will look also at the various ways it can encourage the on-going training, retraining and skills upgrading of employees in the private sector whether through

cost-sharing, collective funds that companies contribute to and which provides grants to defray or subsidize the costs of on-going training of their workforce.

As Liberia takes the steps necessary to build its industrial capabilities, improve productivity, and transform the industrial sector, its industries will need to continue to acquire new knowledge and upgrade their technological resources to enhance its competitiveness and sustain continuing growth in the medium-long term. To facilitate this process, the Government recognizes the importance that technology and research play in ensuring that Liberian companies and their employees possess the necessary technological capabilities to participate in the global market and meet the demands of the new economy.

Policy 6: The Government will encourage investment in technology and research to increase resources for business, industrial development and improve competitiveness. This will be achieved by creating initiatives for industrial and technology development including, building strategic alliances with higher-learning institutions, acquiring appropriate technologies, incentivizing technology up-grade, facilitating technology transfer and building effective linkages within and outside Liberia with a view to ensuring the continuous acquisition and provision of knowledge resources for industrial development and competitiveness. This will be done by establishing and strengthening, as appropriate, technology centers and research institutions in order to assist in the identification of technology needs for industry, advise on the selection of technology and research priorities, analyze information about imported technology and assist in the installation and maintenance of technology.

6 KICK STARTING INDUSTRIAL DEVELOPMENT

In addition to the horizontal policies of section 5 which will benefit all industries, the Government believes that specific measures in the following areas are necessary to stimulate industrial development in Liberia:

- Specific sector support
- Providing fiscal incentives to industries
- Creating physical areas like SEZs that agglomerate industries to crowd-in investment and maximize potential synergies between the activities of those industries
- Protecting domestic industries

6.1 Specific sector support

The experiences of other countries' industrial transformation such as Brazil and Botswana indicate that vertical intervention is often times necessary, provided that:

- it supports sectors which have a comparative advantage;
- it is done in connection with reforms of key areas; and
- the industrial structure which it ultimately results in is appropriate to its natural endowments (whether labor or natural).

The PRS and other reports such as the World Bank's CASS-Lib study highlighted that Liberia's current comparative advantage lies in its abundant natural resources. In recognition of this, the Government has prioritized the development of domestic resource-based sectors that utilize the available raw materials; materials which typically undergo minimal transformation before sale and/or export from Liberia. The Government has developed several specific strategies which support maximizing the use of local productive capacities and inputs, including the 2010 Liberia Agriculture Sector Investment Program which focuses on developing out-grower programs and on building and making investments in infrastructure and support mechanisms for agricultural value chains. The Government has also developed the Cassava Strategy to create a cassava-based industry in Liberia. Other programs are being initiated such as the joint project between UNIDO, UNOPS and MoCI which will focus on developing fisheries, food and vegetable, rice processing and timber and rubber wood processing value chains.

There are also ready linkages to other sectors of the economy that have not been explored. For example, there is also a future and ready demand for goods and services that will be created when large investments being made in Liberia come on-line. The most immediate will be construction - roads, access ways and other infrastructure such as housing, factories and storage - and services like transportation, supply of food and groceries, hotels/accommodation. The

Government should be specifically supporting efforts to support local entrepreneurs to fill these demands.

Policy 7:

The Government will improve the productivity and competitiveness of Liberia's industrial sectors by supporting sectors of comparative advantage within West Africa, the wider African region and internationally. The Government will also strive to achieve greater linkages between industry and other economic activities in Liberia through the creation of information portals, networks, product support and services, as well as the promotion of research and development, application of new technological knowledge and technological transfer to local industries.

6.2 Fiscal Incentives

The Government of Liberia recognizes that in view of its limited resource base, the only way to overcome the country's serious resource constraint is by attracting investment, domestic and foreign, and it therefore welcomes investments both domestic and foreign in Liberia. Furthermore, Government appreciates that the maintenance of a stable macro-economic and political environment is essential to maintaining and encouraging further investment in-flows.

The Government also recognizes that investments offer Liberia an opportunity to kick-start creation of industries through access to necessary capital, technology, and foreign markets and development of know-how and skills.

To attract further investments, the Government has already put in place stronger legal protections for foreign investors through the Investment Act of 2010. In addition, in 2010 it reformed the system for granting incentives so that it is more transparent and more certain for businesses with incentives now being granted on the basis of discrete criteria being met.

Policy 8: The Government will use incentives to promote investment in industrial activities and capabilities, and it will track and measure the impact incentives granted have to ensure the use of incentives is done in a transparent manner and serves the Government's strategic goals of generating investment, promoting sustainable economic growth, diversifying economic activities and expanding the private sector.

6.3 Industrial Zones

Liberia has become an attractive destination for foreign direct investment (FDI), particularly in its natural resources industry, with over US$8 billions committed since 2006. FDI will play an increasingly important role in the economic development of Liberia as it provides the missing capital, technology and linkage to outside markets that hamper the Liberian economy and industry.

However, Liberia's current ability to absorb FDI is low – the investment climate is poor, and barriers to trade and investment are many. Institutions are weak, with transparency, poor information flows and low capacity an issue. Accessing infrastructure and services is also difficult and expensive, and the complexity of the land system (and the scarcity of appropriate industrial land) is a constraint to investment and development.

For Liberia to develop economically, it will be important for it to create practical and immediate solutions to these challenges to complement the national program of economic and legal reforms.

In countries like Mauritius, Kenya and Ghana, creating initial geographical concentrations of productive activity have helped to accelerate and leverage private sector investment, boost productive capacity and facilitate economic growth and development.   Such geographical areas also focus the provision of needed infrastructure, utilities and services which are otherwise not available, and help overcome institutional issues such as land ownership which might be difficult to address on a national level. This in turn reduces investment entry and operating cost, creates greater certainty for investors, and encourages greater investment.

The structure of management and operation for these areas vary, eg. in some economic zones, unique laws apply to encourage investment. Therefore, Liberia will need to decide on a model that balances on one hand long-term national interest, and on the other, the need to promote investment.   A further consideration is the need for plans for industrial areas to be integrated into master development plans at a local, regional and national level in order to promote more efficient and integrated mixed-use of land, avoid the risk of development not being wide-spread, and ensure industrial zones are not stranded by being anchored to key inputs and infrastructure.

In Liberia, there is a 80-acre freezone at the Freeport of Monrovia which was established under the Industrial Freezone Authority Act. The freezone, which is administered by the Liberia Industrial Free Zone Authority (LIFZA), was originally established to facilitate the development of Liberia's manufacturing capabilities by creating an 'enclave' whereby companies located there pay corporate taxes only and are exempt from paying duty and tariff. The freezone had capacity to cater for up to 70 manufacturing enterprises but it is currently being occupied by UNMIL. Otherwise, the only other industrial or commercial area designated by Government is in Gardenersville, which was designated as a industrial park for zoning purposes but currently does not confer any special preferences or treatment on the businesses situated there. MoPW is currently leading efforts to develop a set of zoning rules for the country.

The Government has already begun to consider the creation of special economic zones in Liberia. A preliminary study on the benefits of establishing a SEZ for Liberia was carried out[11], and it found that establishing SEZs in Liberia would help accelerate industrialization and attract investment by:

- jump-starting international and domestic investment
- triggering and focusing building of required infrastructure and utilities, and in particular would be a means of implementing more innovative policy solutions to infrastructure development (eg. public private partnerships) that otherwise would not be feasible
- focusing development of legal/economic reforms and incentives and support structures, which have the potential of scaling up across the country
- overcoming certain restrictions that otherwise hinders industrialization and investment, for example land ownership

A study sponsored by the IFC projected that 151 firms could be expected to locate in a SEZ of approximately 148 hectares in size over a 10-year period, with demand coming from both domestic and international firms.[12]

Policy 9: Government will promote the establishment and expansion of areas for industrial production and processing such as export processing zones, industrial estates and special economic zones.

In particular, the Government as a first step will reconsider the pre-feasibility study on SEZs in Liberia and whether further study is required, and agree a policy at Government level on SEZs and concrete action plans to implement its policy.

6.4 Protection of domestic industries

The rise of domestic industries depend critically upon the ability of domestic firms to undertake needed investment, generate and manage technological change, and compete in domestic and foreign markets, and also be protected from the advantages conferred on foreign firms.[13] Thus, for domestic industries to thrive, particularly in Liberia where the current level of industrialization is low, measures and institutions that nurture and promote those firms need to be in place.

[11] IFAA, *Establishment of Special Economic Zones in Liberia: A Pre-Feasibility Study Final Report*, February 2009. Interest was expressed by a Chinese company to help develop a SEZ in Buchanan and a study tour to China was carried out and report made to the President. A Special SEZ Committee was established by the President, and pre-feasibility study prepared.
[12] See footnote 5.
[13] UNCTAD, *Rethinking industrial policy*

An overwhelming share of Liberia's enterprises was established less than 5 years ago (87.8% of enterprises in the informal sector, 59.2% of enterprises in the formal sector).[14] The majority of them are also smaller enterprises, each employing 10 or less people, but together they are the largest employer in Liberia. These young, small, enterprises will mature and become the future industries on which Liberia's economic growth depends; but they face challenges in the form of difficulty in accessing capital, information, support services and advice/training. However, little support has been given to this sector in Liberia, and until recently there was no specific office of Government set up to exclusively oversee MSMEs activities, and policies on MSMEs were not co-ordinated (though a MSME policy is under development).

The Government will act to protect these domestic firms (particularly MSMEs) at these early stages of development to ensure that they have the chance to become established and to survive in the market. The Government will act so as to not distort the market or favor rent seekers.

Currently, the only formal protection for Liberian businesses is in the Investment Act, which reserves certain sectors for 100% Liberian ownership and certain sectors for joint ventures. However, ownership is merely a threshold question and the Government recognizes that other support mechanisms are needed to encourage wider entrepreneurship, continuing investment, technological improvements and innovation and increased competitiveness.

Policy 10:

- In order to provide more targeted support to nascent domestic industries, the Government will establish a National Industrial Development & Financing Organization (NIDFO). The NIDFO will amongst other things provide support services to these nascent industries through a combination of business incubation, incentives, financing, training and information/outreach programs in conformity with the AU Action Plan.

- The Government will also support in conformity with the AU Action Plan, micro, small to medium industries by building the capacity of domestic MSMEs, enhancing access to financing by MSMEs, train and sensitize MSME (including on standards and intellectual property) and creating an enabling environment for market access by MSMEs. There will be a specific focus on rural industrialization and encouraging the establishment of cottage industries in the rural areas.

- The Government will also prioritize the identification of linkages between local industries and priority sectors selected by Government (eg. the agricultural sector), examine how Liberian industries can fit into local, regional and global value chains, and provide matching services.

[14] FIAS, *Informality Survey*

The Government will also initiate competition law reforms to prevent monopolistic and restrictive trade practices.

It should also be noted that measures which promote domestic enterprise will need to be in line with the non-discrimination provision in the Investment Act of 2010 and similar requirements imposed through membership of international organizations like WTO or bi-lateral agreements with other countries. It should also be noted that the services and support to be provided by NIDFO will be progressively adopted to ensure that it has developed the relevant experience and know-how to administer the relevant function.

7 REFORM OF THE MINISTRY OF COMMERCE AND INDUSTRY

Crucial to the implementation of Liberia's industrial policy is the re-organization, appropriate allocation of resources and building of institutional capacity within MoCI, the lead ministry on industry within the Government of Liberia.

In 2008 an institutional assessment was carried out which identified lack of resources, capacity and training as challenges affecting MoCI. MoCI is therefore working with the Governance Commission on the reform of the Ministry as a whole, including its mandate, functions, and streamlining of divisions. MoCI is also carrying out a 3-year strategic planning exercise for the Ministry.

Part of the process of reform will be the revitalization of the Bureau of Industry. The Bureau, which was created by an Act of Legislature, has the mandate to promote the development of the manufacturing sector and agro-industries in Liberia. It currently has 4 divisions – Division of Standards, Division of SME/SMI, Division of Industrial Administration and Supervision (DIAS) and Division of Industrial Development (DID). The Bureau is expected to be streamlined into 3 divisions covering standards, SMEs and industry. The proposed structure is shown in Annex 2.

The new Industry Division is being designed to be aligned to the policy activities and objectives of the Industrial Policy. In addition to taking on the role of the secretariat of the Industry Co-ordination Committee (see section 8), it will:

- support private businesses in their effort to comply with government regulations rather than be seen as adversarial and in search of opportunities to levy fines.
- become a voice for domestic industry at all relevant forums, and act as a promoter of the industrial sector and coordinator of cross-sectoral search.
- articulate the importance of the industrial policy, keep social and equity concerns at the forefront and ensure policies are effectively targeted towards reducing inequalities.
- avoid pursuing stand-alone promotional activities, and instead tackle barriers to industrial diversification and development in a comprehensive way.
- ensure dialogue and consultation with the private sector is regular, but also that interests of small businesses are effectively represented in policy-making.
- distribute and coordinate responsibilities for implementation, monitor and evaluate strategies employed.

In order to perform those roles, the financial, physical, and human resources of the Industry Division needs to be reorganized, allocated appropriately and developed. Research, diagnostic and analytical capabilities needs to be improved, information systems needs to be established to allow industry information to be accessed by both public and private sector. Planning and monitoring and evaluation processes need to be embedded. Communications and mechanisms of impartial enforcement of rules that it will be required to enforce need to be improved. To that end, MoCI will be seeking to leverage external support for the development and strengthening of the capabilities of the Industry Division.

8 IMPLEMENTATION FRAMEWORK

The policies that are being proposed in this document are cross-cutting – touching on areas of responsibility of various Government Ministries, as well as activities undertaken by non-governmental organizations and the private sector. Therefore, it is vital that the implementation process harness political leadership and create ownership within the various actors to ensure that the efforts to develop an industrial sector in Liberia are successful.

The Ministry is proposing the following implementation framework:

- Establishment of a co-ordination committee (Industry Co-ordination Committee) which will have 2 functions – on-going deliberation and coordination of policy formation and implementation. Members will comprise Government Ministries and agencies.
- Establishment of a network of ad hoc teams, committees, or groups to provide specific stakeholder input and support on initiatives of the Industry Co-ordination Committee, and to perform monitoring & evaluation and feedback functions.

Supporting the Industry Co-ordination Committee will be the secretariat which will be constituted by MoCI staff.

8.1 Rationale

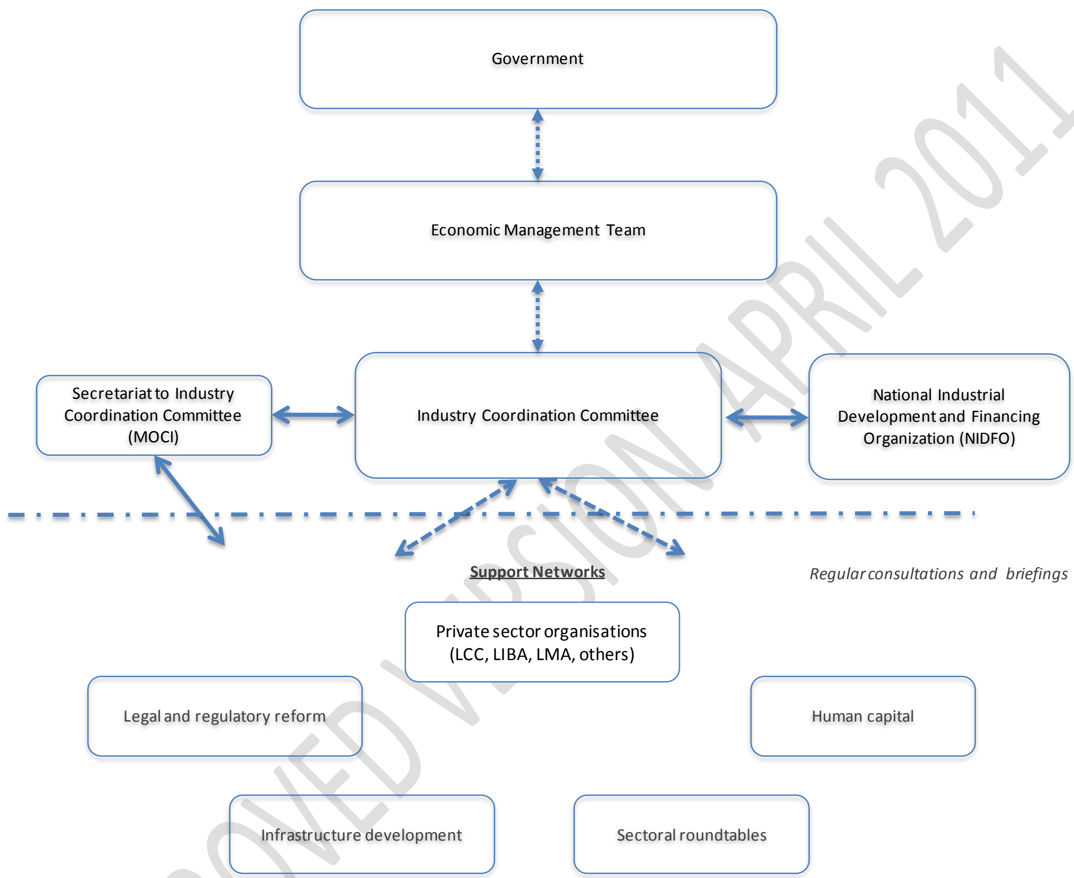
The rationale for the proposed implementation structure is to:

- create a process for industrial policy making which is organized, coordinated, collaborative and transparent;
- increase the capacity of Government to efficiently and effectively choose policies that are most likely to spur the development and address market failures that might otherwise limit diversification of industrial activities.
- harness the knowledge and resources both within and outside of Government. The Government does not possess all necessary information and in some cases may know less than the private sector about which market barriers limit industrial diversification and growth. Additionally the resources of individual Ministries are limited, and much of the policy issues within the industrial policy are cross-cutting.
- minimize the possibility of policies being formulated to benefit a single sector or activity, and discourage rent seeking.

8.1.1 Purpose

The purpose of the implementation framework is to achieve the right balance of stakeholder involvement, and to ensure that the process carries public legitimacy and credibility. The stakeholders who are themselves principal actors will inform, drive, and implement the policy development process. At the same time, the implementation framework will have mechanisms for monitoring and evaluation to ensure transparency and public accountability, and improve the ability of Government to learn from the policies enacted.

8.2 Institutional design



Economic Management Team

MoCI will report to the Economic Management Team (EMT) of the activities of the Industry Coordination Committee and the EMT will provide a framework for the policies being developed by the Industry Coordination Committee.

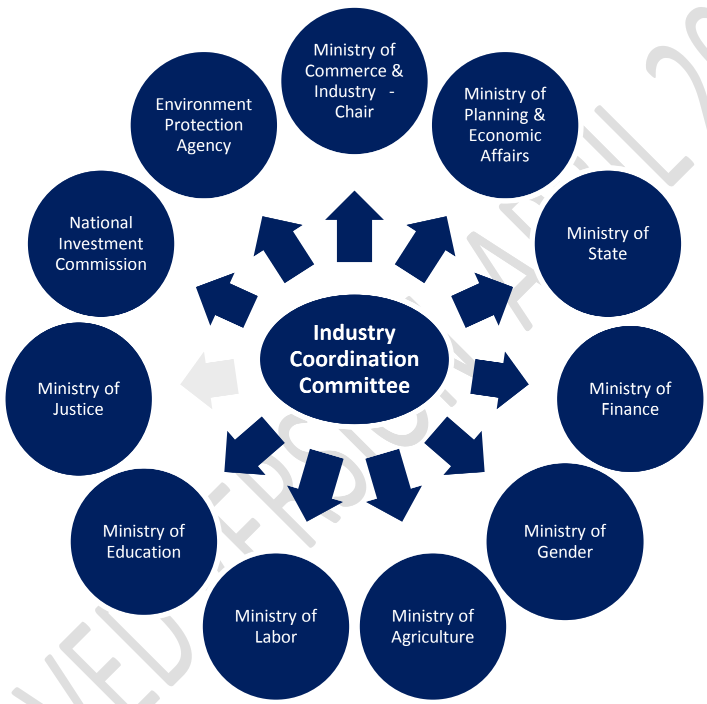
Industry Coordination Committee

The committee shall comprise stakeholders from the public sector, the private and non-governmental sector, and will take on the following activities:

- gathering information about objectives of industrial policies;

- discovering where barriers to industrial diversification and growth exist;
- distributing and coordinating responsibilities for solutions, including changes in legislation and regulation, and obtaining financial support for initiatives;
- evaluating outcomes; and
- ending policies that do not meet specified objectives.

Membership of the Industry Coordination Committee is as follows based on relevance to policy areas. The committee will update and consult key private sector stakeholders twice a year.



It is recommended a secretariat of at least four individuals be established to run the day-to-day affairs of the body and also to provide technical support to the Industry Coordination Committee in the execution of the above listed responsibilities.

Members of the committee shall meet quarterly to review reports produced by the secretariat and other related developments and institute corrective measures as may be deemed necessary.

Monitoring and Evaluation

In addition to staffing the Industry Coordination Committee the secretariat will gather information from various private and public agencies to report outcomes of the policies using the stated objectives as a measuring stick for success or failure.

Support Networks

The Industry Coordination Committee shall be empowered to establish from time-to-time teams, committees, or groups to leverage strategic support of initiatives.

The membership of these teams, committees or groups shall draw on various levels within government and in various geographic regions and where necessary will incorporate the County Development Officers, as well as representatives from the business sector. Initial committees will be based upon the 3 key policy areas, namely legal and regulatory reforms, infrastructure development and investment in human capital. A 4th committee may be constituted to deal with the specific sector and vertical policies.

Transparency and Accountability

The work of the committee will be governed by mechanisms to ensure transparency and accountability on a policy and operational level. Operations shall be published and decisions and policies announced by the Industry Coordination Committee secretariat.

ANNEX I – LIST OF ACKNOWLEDGMENTS

National Industrial Policy Committee

Mr Samuel R Monger, Senior Industrial Policy Advisor (Chair)

Mr Fred V Johnson, Director, Division of Industrial Development

Mr Thomas Duoku, Assistant Director, Division of Industrial Development

Ms Olivia Mak, Liberia Fellow

Ad hoc members: Mr Julius Saye Kehnel, President's Young Professional, Mr Andrew McIntire, Intern, Carnegie Mellon University

External Assistance

Dr Ramesh Shah, UNDP Consultant

Ms Monique Cooper, UNDP

Mr Eric Werker, Economic Advisor, Government of Liberia

Mr Lakis Papastavrou, UNOPS

ANNEX II – PROPOSED STRUCTURE OF BUREAU OF INDUSTRY