LIBERIA

MINI-DIAGNOSTIC ANALYSIS OF THE INVESTMENT CLIMATE

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FIAS
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This report has been prepared by FIAS, a joint facility of The World Bank and the International Finance Corporation, in response to a request by the Minister of Commerce to undertake a rapid analysis of problems facing the investment climate in Liberia. FIAS visited Monrovia, Liberia in February/March, 2006 to undertake fieldwork underpinning the investigation and worked closely with The World Bank team in Monrovia. The FIAS mission would like to thank, in particular, Luigi Giovini, Country Manager, and Robert Krech, Consultant for their support, guidance, and assistance. In addition, the mission would not be possible without the administrative backing of Konah Johnson and Esther Bryant.

The FIAS team interviewed a range of domestic and foreign investors from different countries and various sectors, business groups, including chambers of commerce, foreign and local investor associations representing various sectors, accounting firms, law firms, and the donor community. The FIAS team worked closely with officials in many different ministries and agencies, including Minister of Finance, Antoinette Sayed. The team wishes to especially thank the Ministry of Commerce for the generous use of their time and resources.

Liberia: Mini-Diagnostic of the Investment Climate

Introduction

Since the cessation of the civil war in 2003 and successful free elections in 2005, the Liberian authorities have sought to reform the policy framework establishing the basis for a market-driven economy as a major building block in the post-conflict reconstruction effort. In our interviews with the public sector and private sectors, it became clear that the government is committed to private sector reform and willing to do whatever is needed to promote investment, development, and growth.

The FIAS mission arrived in Monrovia early in the post-conflict policy planning period and undertook an assessment of the investment climate with a view to identifying the fundamental issues which affect private sector development. Recognizing the previous work done by donors and others, the FIAS mission's investigation focused on the following areas: legal framework, business startup procedures, operating procedures (tax and customs), sectoral analysis of agro-business, and policy advocacy and public-private dialogue process as an instrument of change. Input into this analysis came from interviews with public officials, private sector representatives, the donor community, as well as the review of other studies.

We wish to note two caveats to this brief report. First, the scope of this initial mission is limited. We looked solely at the key policy/procedural/legal issues inhibiting the creation of a transparent, accessible investment climate which is conducive to private sector development, job creation, and growth. We fully acknowledge the urgent importance of other fundamental needs during the post-conflict reconstruction, for example infrastructure restoration, privatization, labor/productivity problems, nor direct social sector issues, this report addresses the critical need to stimulate private investment as part of economic recovery. Second, the mission recognizes that the devastating impact of the civil war has led to, among other things, the destruction of institutions, capacity, and processes. One purpose of this investigation is to assess the impact of the post-conflict environment and to recommend actions to remediate it.

The remainder of the report is organized as follows: the next section offers a brief assessment of the investment climate, followed by a presentation of specific issues with recommendations for addressing them.

I. General findings

The short study analyzed:

- Business startup procedures, and regulations
- Tax, customs, and inspections (operating)
- Sector: agro-business
- Policy advocacy and change management through public-private dialogue

In our investigation, the team distilled five over-arching issues which were found to affect all aspects of the economy and which set the tone for the investment climate. These include:

1. The size and breadth of **the informal economy impedes competition** and has a strong, negative impact on growth; likely sources include years of conflict (lack of rule of law), administrative barriers, fees and taxes, and lack of information;

2. By law**, the economy is not open to all residents of Liberia** which impedes growth and prevents job creation; for those accorded partial rights, the cost of doing business is made artificially more expensive and provides a disincentive to invest;

3. **Implementation of law is weak**; this appears to be due to a culture of corruption from a lack compliance and discretion, and lack of training and information;

4. **Low capacity in both the public and private sectors** threatens activation and implementation of a new policy framework underpinning the investment climate;

5. Considering low levels of capacity in government, it appears that **existing government priorities and resources are misallocated** from performing justified regulatory functions (revenue collection and implementation of laws and procedures) to creating unnecessary barriers (licensing, inspections) often driven by rent-seeking.

These overarching issues were distilled from investigations in the following areas:

Legal Framework. Apart from the new tax and customs code adopted in 2000, important laws like those on companies and other businesses, the FDI legislation, the law on work permits, the land law and sector legislation do not reflect best international practice. Little has been done in the last 30 years to update business laws and some parts of the business legislation need to be modernized by introducing best international practice. In addition, many laws allow discretion to the administration or they are – contrary to the text - applied in a discretionary fashion. Case-by-case decisions yield to an uneven playing field among investors and the expectation of the private sector to receive individual deals and exemptions. However, business leaders, lawyers and judges were of the general opinion that Liberia's legal framework for doing business is broadly adequate.

Judiciary. Lawyers and businesses agree that the judiciary suffered strongly under the civil war in terms of diminished capacity, experienced and skilled judges, as well as independence. It takes several years to resolve a dispute and receive a title from the courts. Poorly paid judges are often not motivated or lack the necessary skills to deal adequately with a matter and the civil procedure law offers many possibilities to delay a judgment. The private sector consistently complains that going to court is not worth the effort because it takes too long to receive an enforceable judgment. As an alternative, several business associations have established ad hoc arbitration courts for their members as an alternative to the regular court system.

Administrative Barriers. Several procedures treated separately below pose administrative barriers to doing business. Some of the identified procedures are mentioned as priority issues in the next section.

a. Startup procedures and licensing. Startup procedures are not an impediment to invest in the country. It takes between 2 and 3 weeks to finish the entire procedure and cost less than US$ 100 to incorporate a local company or do the annual re-registration with the Ministry of Commerce. As an exception, sole proprietors with an estimated turnover of less than L$ 200,000 (US$4,000) are given the opportunity to register in a fast track procedure for a reduced registration fee L$ 200. Though formal entrepreneurs do not regard the registration procedure as a problem, there is considerable room for improvement. The process should be streamlined. There are too many ministries (Commerce, Foreign Affairs, and Finance) involved with the applicant carrying forms to each of the involved ministries.

Furthermore, a number of licenses must be obtained before starting a business. The municipality issues a business licenses and line-ministries (authorities) issue operational, import, and export licenses. While there are some justified regulatory functions not executed due to low capacity or a lack of political will, other licensing requirements are in place without having any regulatory function apart from generating revenues. In addition, the licensing fees are often excessive. For example, the annual export license for cocoa and coffee exporters does not have any regulatory function but the annual fee is high--US$10,000.

Finally, a major impediment for investors is excessive inspections of businesses linked to the licenses and permits issued. The next section will address this topic in greater detail.

b. Land. The experience of the private sector with land acquisition and site development is mixed. The cadastre and land titling system in place is not reliable. It is often difficult to determine clear ownership of land. It is not uncommon for deeds to the same property to be issued and additionally, false documents are sometimes used to support unfounded claims. Several legal regimes co-exist including customary law, the

1970 Land Law and land tenure rules dispersed in several other laws. Public domain land (tribal land) can be acquired by negotiating with tribal chiefs, and undergoing a process which leads to the creation of a land deed and requires the endorsement of the President. But the process can be long and there are no clear rules ensuring it is done in a transparent way. There are no estimates of the percentage of land in private or government hands, and what remains in public domain. There has never been a complete cadastral survey. Although land deeds can be registered and archived at the Ministry of Foreign Affairs, it is difficult to ascertain land ownership. This limits the use of land as collateral. In addition, there is no integral approach to determining land uses across the country. Initial efforts are being undertaken in forestry, but coordination is needed to establish well-defined areas for cultivation, mining, and conservation.

Another major impediment of the business climate is the constitutional exclusion of foreigners from owning land. First, foreign investors will hesitate to invest in a site if the only available property right is leasehold for not more than 21 years. The option to extend two times by 21 years does not provide sufficient certainty. Second, the value of a 21 year leasehold as collateral is limited. Third, banks refuse to accept land as collateral because in the case of default, the market for resale currently is reserved for Liberians, most of whom do not have the means to buy land.

Site development, on the other hand, is not seen as a problem for businesses. Construction permits from the Ministry of Works and approvals from the City Council can be obtained in due time according to the business community and the ministry.

c. The tax system, as specified by the 2000 law, in general provides a range of appropriate instruments and rates to cover large enterprises which have the capacity to meet compliance requirements. A notable exception is the corporate tax rate of 35 percent, which is high relative to the regional average (around 30 percent). For large businesses a key problem is the wide-spread use of discretion in both rates and application of the tax code, resulting in a significant reduction of revenue collection relative to potential.[1] Additionally, the incentive system (last revised in 1975) is outdated and includes incentives known to be ineffective at encouraging investment (such as tax holidays) but effective in reducing government revenue; legally, incentives are also subject to discretionary amendment by the Minister of Finance. Taken together, these features of the tax system have resulted in a narrow tax base as well as low levels of collections.

For small businesses, the special tax regime (4 percent turnover tax or 3-tier single payment) is a good alternative for small firms in theory, but in practice it does not appear to function well in terms of coverage. For those small firms not eligible for the single payment option, the main complaint is that the turnover tax option places a high burden on firms, both financially and in terms of monitoring requirements. As the system stands today, even the flat tax payment system is out of reach for most informal operators who lack capacity.

[1] In particular, only about 65 percent of large taxpayers are actually paying taxes, and thousands of SMEs remain in the informal sector—many of which suspected to be viable taxpayers.

Finally, the tax authorities face severe constraints in carrying out their mandate to raise revenue, attributable to the lack of computerization and low levels of capacity.

d. Customs regime remains the major impediment to doing business by any firm engaged in cross-border trade. The non-computerized, non-harmonized system is rife with onerous red tape and procedural barriers, thus resulting in high time and financial costs for entrepreneurs. In addition, ad hoc valuation and categorization decisions by customs authorities and inspectors generate uncertainty and open avenues for corruption. Third, the customs code is not consistent with the WTO-compatible system used by pre-shipment inspections, thus generating additional fees for importers and extending the clearance time. Finally, the low capacity of staff, lack of computerization, and information dissemination among customs officials result in long clearance times, inefficient processes, and lack of ability monitor the flow of goods. These problems, in combination with porous borders and poor port infrastructure, have resulted in low efficiency, low trade tax collections, and high levels of smuggling (informal cross-border trade).

The agro-business sector is a major employer and export earner in Liberia. Traditionally, the agriculture system has been dual: subsistence farming and plantations of export crops. Years of conflict had an adverse impact on the sector, displacing populations and destroying infrastructure and processing facilities. Public institutions supporting the sector were rendered non-operational or weak in governance where functioning, including in the allocation of concessions. There has been no revision of the legal and regulatory framework underpinning the sector. Most farmers use shifting cultivation systems with low productivity. The introduction of more efficient farming techniques is hampered by lack of access to inputs, machinery, finance and limited skills. Poor road infrastructure limits access to markets, and virtually non-existent storage facilities limit the volume of produce that can be readied for sale. Market price information mechanisms for farmers are underdeveloped. Farmers associations and cooperatives were disrupted by the war and are in the infant stages of organization, with the exception of rubber planters.

Rubber has become the main Liberian export after the imposition of UN sanctions on timber. Rubber production is at risk unless significant investment in replanting high yield trees takes place, both in large concessions and small holdings. Liberia also exports coffee, cacao and palm oil. Major rehabilitation of existing plantations is needed. Liberia has potential to increase production of traditional export crops, develop rice production in swamps, and develop other sectors such as fisheries, fruit canning, and other food processing.

Business advocacy in Liberia is structured along both ethnic and sectoral lines. The relatively high number of advocates still faces challenges of coordination and expertise in policy advocacy. Business associations in Liberia mostly serve as business-to-business networks that facilitate information flows, provide alternative financing (through loans and investment) and dispute resolution (through mediation), and serve as liaisons with the informal sector. While local and foreign investors identify a similar number of binding constraints, the discrimination against foreign investors remains the main point of contention. Government recognizes the need to reach out to the private sector but former relationships have been mostly rent-driven. Private sector advocates express the need for better dialogue with the government through a transparent and institutionalized process.

II. Specific findings: priority business climate issues and recommendations

The remainder of this mini-diagnostic report highlights six key areas which, in our view, need to be considered in order to improve the investment and thus to promote private sector development, jobs, and sustainable economic growth. These issues were selected as priorities on the basis of the potential positive impact on the business climate and on the prospects of obtaining results relatively quickly. In addition, we distilled these issues in view of the absorptive capacity of the public and private sectors.

This initial set of recommendations also could lead to follow-on work. We recognize that the list is neither comprehensive nor exhaustive. The six issues are:

1. **Informality as a severe constraint** on growth and job creation;
2. **Legal framework is discriminatory** and thus not consistent with international best practice;
3. **Uncoordinated**, **excessive, and inefficient inspections**;
4. High cost of operating a business due to **excessive customs procedures** and uneven playing field caused by **discretion in the tax system**;
5. **Agro-business sector suffers from low capacity and inadequate laws**;
6. **Lack of effective public-private dialogue process promoting policy change**.

Each issue is briefly presented along with a set of recommendations to tackle them.
It should be noted that each of the recommendations requires a number of initiatives in capacity building and knowledge transfer.

Issue 1: Informality is a severe constraint on growth and job creation

Background

In Liberia, there are at least two distinct sources of informality. First, in part due to years of conflict, the rule of law eroded, skilled members of society were displaced, access to local and international markets was interrupted, and information was less widely available or unreliable. Consequently, much of the economic activity occurs in the informal sector, which is characterized by micro and small businesses. Second, many established firms of various sizes *choose* to be informal due to the high cost of complying with administrative requirements and procedures.

Estimates by the World Bank suggest that 80-90 percent of the labor force operates informally in Liberia**.** The economic and social costs of informality are high. Along with loss of possible government revenues, trust in public institutions to create an atmosphere of commercial stability and fairness is low. As a result, informal businesses must adapt to an un-regulated environment which creates unfair competition with formal firms, making formalization almost impossible because it is too costly. This issue is especially pressing for micro enterprises which do not have the flexibility or margin to change their production and cost structures.

On government side, low capacity and political will has resulted in non-implementation of the law, which, although doesn't force firms to operate informally, facilitates it.

Recommendations

To combat informality in those firms with capacity which choose to operate informally, the main recommendation is to assess and ***ease the administrative and procedural burdens in all aspects of the business climate (see the other issue recommendations).*** Reducing the cost of doing business reduces the disincentive of entering the formal sector.

For small businesses which have low capacity, poor access to information on formalization, a "carrot" approach is needed. As a first step, an inter-government/ private sector plan should be set up to offer a complete simplified administrative package for micro and small businesses, including a simplified registration, licensing, and tax program. Second, ***an information and sensitization program should be set up across the country,*** targeting the benefits and responsibilities formal entrepreneurship.

Provide on-going training on operating, marketing, and financing procedures for micro and small businesses through the creation of a privately run center. Capacity building should begin in parallel through training programs on procedures and regulations for operating in the formal sector. Guidance should also be provided throughout the process of formalization.

Issue 2: Legal framework is discriminatory and not consistent with best practice

Background

The legislation of Liberia discriminates against foreign investors mainly in three areas:

- According to the Constitution, foreigners are prohibited to own land. The only possibility for foreigners is to obtain a 21-year leasehold with the option to renegotiate the terms for two additional 21-year periods;

- The Liberalization Act of 1975, as amended, names 26 sectors which are restricted to Liberian citizens. By constitution, foreigners of non-black decent are not allowed to become Liberian citizen. The effect is Liberian citizens fronting for foreign businessmen to circumvent the law;

- Foreigners of non-black decent have no possibility to become Liberian citizens and need to obtain and renew residence and work permits for a fee of US$1150.

The unequal treatment of foreigners affects the investment climate in several ways. First, it sends a negative signal to the outside world and potential foreign direct investors. Second, foreign investors in the country with the necessary capital cannot make use of existing investment opportunities in the forbidden sectors. Third, land is necessary for manufacturing business but cannot be obtained by foreign investors with the necessary capital. The discrimination of foreign investors results in slower job creation, less tax revenue and therefore less business opportunities for local investors and lower economic growth.

Recommendations

Revise the legislation that discriminates against foreign investors. The existing legislation has a negative impact on the investment climate by hampering investments from the group of potential investors with considerable capital. The Liberalization Act, Land Act and finally, the Constitution should be revised. It is understood that the issue is particularly sensitive and needs to be accompanied by a public awareness campaign.

Provide assistance to domestic investors instead of legal protectionism from foreign competition. The main reason for the dominance of foreign investors in the Liberian economy is a lack of training and capital. Programs in access to finance and capacity building to strengthen the Liberian business community are necessary to enable them participating in the economy.

Adopt an Investment Code. One tool to market Liberia as an investment destination is to adopt an FDI Law according to best international practice. It should be clear that the discrimination of foreign investors is not a good message and will rather scare potential investors away. An FDI Law should also include necessary investor guarantees like expropriation clauses, international arbitration, access to land, and right to work permits.

Issue 3: Uncoordinated, excessive, and inefficient inspections

Background

Businesspeople complained strongly about the myriad of inspections. Inspections are apparently conducted in groups of 4 to 5 inspectors per inspecting authority and most businesses are inspected several times per week by various ministries and authorities (Immigration, Ministry of Finance, City Council, City Police and the Ministry of Health). Some of these groups harass businesses every other day, which means between 50 and 100 inspectors come to a single business per months.

Needless-to-say that such visits do not fulfill any regulatory function. However, the inspectors try hard to find and sometimes fabricate an offense to fine the business. In many cases, the inspecting group asks for unofficial payments. This routine has been so institutionalized that it is common practice to issue a receipt for bribes under the heading "miscellaneous expenses" and the business can deduct it from the taxes. Businesses targeted by inspectors are usually visible companies of some size. Informal small businesses are not inspected.

Recommendations

Stop the practice of sending inspectors in groups from one authority. Generally, there is no reason for sending more than one inspector to a company unless it is an outstanding issue that needs additional expertise.

Coordinate the various inspection activities of the government. The inspecting authorities (Immigration, MoF, City, MoH, etc.) need coordinate their inspection activities. They may come together in one group and only when there is regulatory justification. As a rule, each authority should not conduct a regular inspection of a business more often than once a year.

Consider the establishment of an integrated inspection service. One way to conduct inspections more efficiently is to create one over-arching inspection service in charge of all inspections in the country.

Revise all inspection plans and introduce risk-based random inspections. Inspections have a regulatory function and should be conducted according to the individual risk of violations. An inspection plan should acknowledge the individual risk of a firm.

Redirect inspections towards informal businesses. One function of inspections should be to detect informal businesses. However, pursuant to the first set of recommendations above, informal businesses will not formalize if submitting to a regulatory regime means becoming subject to official extortion to remain "legal" via rent-seeking inspections.

Revise the salary structure of inspectors. Inspectors should to be independent to lower temptation for unofficial payments.

Issue 4: High cost of operating a business due to excessive customs procedures and un-even playing field caused by discretion in the tax system

Background

Customs

The process of importing and exporting entails excessive red tape and incurs substantial time and financial costs on business. The high cost of cross-border trade is also passed on to the consumer, which affects both marketability and competitiveness and locks out the poorest from the market. As a result, the current trading system invites corruption ("facilitation fees") or complete avoidance (smuggling). From a government perspective, the incentive to work around the system results in lost revenues. Additionally, the customs code is obsolete and out of sync with the rest of the world, which has adopted the detailed WTO classification system. The use of such an antiquated code has resulted in classification problems and again invites circumvention of the current customs system. Additional issues: lack of capacity, lack of computerization, and no information flow.

Tax and Discretion

By law, the tax system allows the Minister of Finance to authorize deviations from the tax code. The system, as is, has allowed for special treatment contracted by individual firms, which effectively lower the cost of operating relative to their competitors. The net result is, from the government's side, a loss of revenue; from the investor's side, this practice results in uncertainty and non-transparency of the playing field which is a strong deterrent to investment. Also, the system of incentives is outdated and ineffective at achieving its investment promotion aim, though it does incur revenue losses. Additional issues: the lack of capacity, lack of computerization, lack of understanding of the effects of the tax regime on business.

Recommendations

Customs

- ***Roadmap import and export processes,*** determine time and financial cost and decide which processes are essential and which fees are legitimate and eliminate any unnecessary steps
- ***Prioritize the implementation of a fully integrated computer system*** such as ASYCUDA++

Tax

- End the use of discretion for any taxpayer***, only grant incentives on the basis of published set of incentives open to any qualified investor***
- ***Revise the system of incentives*** in line with international best practice
- ***Review tax system on small business*** with a view to targeting informal firms
- ***Implement computer system*** which interfaces with customs

Implement information campaign and outreach programs aimed at informal firms**.**

Issue 5: Agro-business sector suffers from low capacity and inadequate laws

Background

Investment in agro-processing is hampered by low availability of skills and high operational costs. The limited food processing industry existing before the war has been destroyed with the exception of breweries. Current processing of locally-grown agriculture products has been reduced to some basic rubber and coffee processing facilities. The shortage of skilled workers will require extensive investment in training by new investors. Investment in processing is also hampered by the high cost of fuel to run generators and the lack of reliable clean water supply; electricity and water costs can add to up to 60% of production costs, discouraging investment to increase the value-added of Liberian exports.

Inadequate laws and regulations and lack of clarity in their implementation increase the cost of exports. Former export monopolies have been eliminated de facto, but the legal and regulatory framework remains unreformed. This has led to distortions in the value chain of some export commodities such as coffee or cocoa in which the former monopoly, the Liberian Produce Marketing Company (LPMC), appoints intermediary agents and charges a franchise fee to waive its *de jure* monopoly rights to private exporters. LPMC also retains some functions of quality control. The lack of clarity in the regulatory framework and the high bureaucratic burden are among the probable factors behind the high levels of reported informal trade in coffee and other agriculture commodities.

Unclear land tenure and land use policies hampers the development of the sector and its sustainability. The land tenure system is dysfunctional, making it difficult to prove land ownership.

Recommendations

Undertake value chain studies of the main export crops to uncover systemic and structural constraints to growth and build consensus about solutions, including examples of international best practices.

Reassess the role of the LPMC, eliminating its monopoly status by repealing the law, and reevaluating the provision of regulatory and quality certification functions in the cocoa and coffee sectors.

Initiate a coordinated approach to define a land use policy which includes the Ministry of Lands, Mines and Energy, the Ministry of Planning, Ministry of Agriculture, and other relevant government agencies.

Prioritize investments in rural infrastructure, such as roads and electricity to facilitate upstream production and storage, along with field to market transportation to better link the breadbasket areas of Liberia with high population areas.

Issue 6: Lack of effective public-private dialogue process promoting policy change

Background

Business advocacy in Liberia is aligned along both ethnic and sectoral lines. The Chamber of Commerce (CoC) was reactivated in 2000 and is now encompassing most of the business associations of Liberia. While the CoC, collects fees on a voluntary basis and has only 45 individual member companies, it serves as an umbrella organization for an array of specialized business associations.

The relatively high number of members still face challenges of coordination and little expertise in policy advocacy**.** Associations are uneasy about advocating for investment climate policy reform and are often conceived as a way for entrepreneurs to get access to government official to that could resolve personal problems rather than a way for the business community as a whole to defend its interest and promote a better business environment. Some associations also appear to present internal governance issues. The last attempt to create a comprehensive policy reform plan by the CoC dates from 2002 and was hampered by inefficient public-private consultation.

There is no adequate mechanism for public-private dialogue. Past relationships have often been ineffective, based on corruption avenues, rent-seeking, or cronyism.

Recommendations

A dialogue mechanism needs to be established through a transparent and institutionalized process. Such a process could allow reform proposals to be formulated by members of the public and private sectors in specialized working groups. Associations would gain by reaching consensus among themselves before approaching government to reduce their vulnerability to rent-seeking through uneven application of laws. The Government would gain by providing, at the highest level possible, a single point of liaison with the private sector to facilitate and monitor advocacy interactions with public officials.

Build capacity of Chamber of Commerce (and/or relevant alternatives). SMEs in particular would benefit from business development services, especially in the agriculture and forestry sector. Capacity building activities could include formulating policies to encourage the growth of SMEs, map business opportunities for filling gaps between supply and demand, undertake sector studies, help secure financing, facilitate international certification for their products and processes, and initiating capacity building and skills training by conducting seminars, workshops and training programs.

Government at all levels needs more effective lines of communication to their private sector constituencies. Outreach activities such as creation of educational material, a compliance promotion program, and formalization initiatives would facilitate a culture of entrepreneurship and compliance, translating into the creation of more micro businesses and better coordination between public authorities.

III. Next steps

The next step is for the authorities to consider the proposals set out in this report and decide whether they fit within the emerging policy agenda. FIAS remains ready to begin engagement in these (and other) areas and to serve as a liaison with other donors. As mentioned above, each of the proposed recommendations requires capacity building to accompany the technical reform and knowledge transfer. Although the technical work can be completed in the short and medium term, the capacity building component is a long-term activity. FIAS would facilitate the long-term capacity building both of the public and private sectors with the assistance of the IFC's long-term technical assistance facility, PEP- Africa, and other donors.

The matrix attached below summarizes the issues, recommendations, and identification of where FIAS, PEP-Africa, and other donors can provide assistance.

Liberia: Mini-diagnostic of the Investment Climate - Summary Matrix of Issues and Recommendations

Issue	Recommendations	Possible intervention
1. Informality is a severe constraint on growth and job creation	• Roadmap and cost (time and financial) each administrative procedures in business startup, tax and customs, and land acquisition and titling. • An inter-government/private sector plan set up to create an administrative package for micro and small businesses, including a simplified registration, licensing, and tax program. • Provide on-going training on operating, marketing, and financing procedures for micro and small businesses through the creation of a privately run (donor) finance.	FIAS to undertake an administrative barriers to investment and from analysis design an action plan for policy reform. Program to be done in 2 phases: diagnostic/solution design and implementation. PEP-Africa to provide public and private capacity building component
2. Legal framework is discriminatory and not consistent with best practice	• Revise the legislation that discriminates against foreign investors • Provide assistance to domestic investors not legal protection from foreign competition • Adopt an Investment Code	FIAS to provide legal reform assistance including investment code drafting/review (under admin barriers program)
3. Uncoordinated, excessive inspections	• Stop practice of sending inspectors in groups from one authority • Coordinate the various inspection activities of the government • Consider the establishment of an integrated inspection service • Revise all inspection plans and introduce risk-based random inspections • Redirect inspections towards informal businesses	FIAS to undertake inspections reform under admin barriers PEP-Africa to provide public and private capacity building component
4. High cost of operating a business due to excessive customs procedures and uneven playing field caused by discretion in the tax system	• <u>Customs</u>: roadmap import and export processes, determining time and financial cost and determine processes are essential and which fees are legitimate and eliminate any unnecessary steps • Prioritize the implementation of a fully integrated computer system such as ASYCUDA++ • <u>Tax</u>: End the use of discretion for any taxpayer, only grant incentives on the basis of published set of incentives open to any qualified investor • Revise the system of incentives in line with international best practice • Review tax system on small business with a view to targeting informal firms • <u>Tax and customs</u>: Implement information campaign and outreach program aimed at informal firms.	FIAS to lead triage of customs procedures and tax advice under admin barriers; FIAS to advise on incentives in conjunction with work on the investment code. Computerization should be done in a multi-donor context PEP-Africa to provide public and private capacity building component
5. Agro-business sector suffers from low capacity and inadequate laws	• Prioritize investment in rural infrastructure • Undertake value chain studies of the main export crops • Reassess the role of the LPMC, eliminating its monopoly status & repeal the law • Legal review of land laws and a revision o f the procedures to register deeds. • Initiate a coordinated approach to define a land use policy which includes the Ministry of Lands, Mines and Energy, the Ministry of Planning, Ministry of Agriculture, and other relevant government agencies.	World Bank sector department to take lead on agriculture sector issues FIAS to undertake land and legal reviews under administrative barriers program PEP-Africa to provide public and private capacity building component
6. Lack of effective public-private partnership for policy change	• A public-private dialogue mechanism needs to be established through a transparent and institutionalized process • Build capacity of Chamber of Commerce (and/or relevant alternatives) • Government at all levels needs more effective lines of communication to their private sector constituencies	FIAS and PEP-Africa to provide capacity building in public private dialogue