

# **Liberia : Diagnostic Trade Integration Study**

## **Concept Note**

### ***Background***

1. Liberia was classified as a lower middle income country in 1985, ahead of both Senegal and Ghana. Fifteen years of brutal war have devastated the country's economy, its physical infrastructure, and its human resources. Liberia today is one of Africa's poorest nations, with a GDP per capita of approximately US\$150.
2. In August 2003, the warring parties ended hostilities with the signing of the Comprehensive Peace Agreement (CPA) in Accra, Ghana, and a National Transitional Government of Liberia (NTGL) was established to administer a two-year interim period leading to national elections in October 2005. These elections were held successfully and Ellen Johnson-Sirleaf became President. The economy has begun the long road to recovery, growing at 5.5 per cent in 2005 and 7.7 per cent in 2006. However, unemployment is high and, with many ex-combatants among them, it is critically important to revive the economy and create jobs in order to sustain peace.
3. Liberia is a small country of 3.5 million people. However, it is blessed with considerable natural resources spread over a land area of 111,000 square kilometers. This is 50 percent larger than Sierra Leone, which has almost twice as many people. All of the country enjoys ample rainfall. As a result, the agricultural and forestry potential of the country is great, with the most extensive tropical forests in West Africa, and ample land for agriculture. Timber and rubber accounted for almost all exports from 2000-2005, and reached a maximum value of US\$160 million in 2002. The country has exported palm oil, cocoa and coffee in the past, and continues to export small amounts of cocoa. Maritime fish resources are also plentiful and some fish exports persisted throughout the war period.
4. The country also has major mineral wealth. Prior to the civil war, the mining sector directly accounted for approximately 80% of exports and over 25% of GDP. The majority of this was from the production of iron ore with contributions also coming from the export of diamonds and gold. Industrial mining ceased during the war, though artisanal gold and diamond mining continued. Recently, Mittal committed to invest US\$1 billion to revive the iron ore industry and related transport infrastructure.

### ***Objectives***

5. The Diagnostic Trade Integration Study is an important first step in the implementation of the Integrated Framework (IF) initiative, which was launched by the development partners during a High-Level meeting of the World Trade Organization

(WTO)<sup>1</sup> in 1997. The IF seeks to mainstream trade into development strategies, and promote and coordinate technical assistance and investment projects by donors to facilitate better integration of least developed countries into the global economy. The partners have called upon the World Bank to take the lead in conducting the DTIS.

6. The DTIS seeks to: (i) identify the constraints the country faces in integrating into the global economy; (ii) develop a comprehensive program that outlines the actions required for removing these obstacles and making trade an integral component of the national development strategy; and (iii) identify technical assistance needs and coordinate donor support. The DTIS supports the Poverty Reduction Strategy (PRS) and builds on in-depth analyses of sectoral strategies, but with an emphasis on increasing growth through trade promotion, particularly through exports. Although Liberia benefited from little or no analytical work during the war, a surprising amount has been done in the last three years. This study will use what is already available, fill gaps where they exist, and coordinate with other initiatives to ensure as much consistency as possible.

7. In the case of Liberia, the timing is fortuitous as the full PRS is being prepared now and is due to be finalized early in 2008. The Government of Liberia has urged the World Bank to accelerate the DTIS process so that its findings and recommendations can be integrated into the PRS and discussions with the donor community. It will also be important for Liberia to begin the implementation process as soon as possible, including access to the funds available through the Enhanced Integrated Framework.<sup>2</sup> Consequently, upon receiving the official request from the Government, the World Bank task team leader immediately scheduled a preliminary mission. A proposal was submitted to the IF secretariat that the usual joint identification mission with other IF agencies be eliminated and that the team move directly to a main mission. This has been accepted.

8. The Government has also underlined the importance of close coordination with other agencies and initiatives, in particular the ITC-supported Trade and Export Promotion Framework. This document, which has just been finalized, provides a good introduction to most of the key issues to be covered by the DTIS.

### *Study design*

9. The DTIS format is by now fairly standard although it is flexible and must certainly be adapted to individual country circumstances. After a brief overview of the economy and macroeconomic issues of relevance to the country's competitiveness, the study typically examines a variety of cross-cutting themes before focusing on priority export sectors. Among the themes, trade policy and institutions, and the investment climate are

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<sup>1</sup> The leading trade-related multilateral organizations have participated in this initiative, including the World Bank, the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD), the International Monetary Fund (IMF), the United Nations Development Program (UNDP), and the World Trade Organization (WTO). Under the initiative, the World Bank has primary responsibility for helping countries prepare a Diagnostic Trade Integration Study (DTIS). However, it is also generally agreed that the diagnostic study as well as the implementation of the resulting policies will remain primarily a country responsibility.

<sup>2</sup> As much as US\$3-4 million may be available over the next five years.

always included, while customs, trade facilitation and transport are other common topics. Some analysis of the implications of trade – liberalization of imports and/or promotion of exports – for poverty reduction is usually included. The most important part of the DTIS is a detailed, and realistic, Action Matrix with clear priorities and time frame.

10. The Liberia DTIS will follow a similar structure, but somewhat streamlined in recognition of the work being done by others, the limited capacity of the Government, and the need to move quickly to implementation. The focus will therefore be on trade policy and institutions, the investment climate, and priority export sectors.

11. Considerable work is already under way on badly-needed customs reform in Liberia, with support from the large USAID program. Therefore, no original work is planned for this theme. Similarly, FIAS is undertaking a logistics value chain analysis, so there is no need to tackle it here. The key conclusions and recommendations on both topics will however be incorporated into the DTIS in order to present a complete picture of the key constraints to, and priority actions for, better trade performance.

### ***Trade Policy and Institutions***

12. Trade policy will require considerable attention, as Liberia is faced with a daunting array of agreements and negotiations which will severely challenge the capacity of its limited staff. Talks between ECOWAS and the EU over a new Economic Partnership Agreement (EPA) are at an advanced stage, although the scheduled date for completion (December 2007) may be missed. Liberia has not been able to participate actively in these discussions to date, but it is urgent that the Government and other stakeholders begin to understand the issues and engage in the discussions as they will have important implications for domestic protection and fiscal revenues, as well as regional integration.

13. Simultaneously, preparations for a common external tariff (CET) among ECOWAS member countries are moving forward fairly quickly, with final implementation scheduled for January 2008. This will basically define Liberia's tariff regime with the rest of the world. The ECOWAS Trade Liberalization Scheme (ETLS) defines the terms for free trade within the region, though implementation has been plagued with problems. Clearly ECOWAS trade agreements are another priority in the short term.

14. In addition, Liberia has been accepted into the US Africa Growth and Opportunity Act (AGOA) agreement and is keen to exploit any opportunities presented by the US market. Closer to home, the Mano River Union is attempting revival now that peace has returned to its three members – Liberia, Sierra Leone and Guinea. Coordination between these three countries is considered particularly important in the mining sector.

15. Finally, Liberia is about to begin the long process of WTO accession. This is less immediate than the other trade agreements, as it will probably take some five years to complete. However, it will require a major investment on the part of Government staff while also presenting an opportunity to rationalize a wide range of trade-related policies and bring them up to international standards.

16. The Government of Liberia will need to make some tough choices about where its modest human and financial resources could be best used in the coming years to respond to its daunting development challenges. At the same time, it will be important to build the capacity to deal with trade issues. The study will discuss the relative priority to be attached to the different trade policy issues and negotiations. It will also examine the current operations of the Ministry of Commerce and Industry and suggest ways to structure and expand its programs. We will also examine the institutional options for handling export promotion, quality control and standards compliance. The division of labor across Ministries and between the public and private sectors will be a major consideration. Consultation and coordination mechanisms will also be discussed.

### *Investment climate*

17. The Government of Liberia is committed to providing a favorable environment for private sector investment, as already demonstrated by the Mittal deal. Not surprisingly, however, the post-war situation poses many difficulties for the private sector, in terms of infrastructure, institutions and regulations. The challenge for the Government is to identify the high-priority and low-cost measures which can make an immediate difference while beginning work on the long-term requirements. One way to determine priorities is to seek out those obstacles which are critical for the sectors with the highest growth potential. Most of these sectors are likely to be export-oriented. The DTIS will concentrate on identifying the subset of reforms which are particularly important for export expansion, while recognizing that this will only provide a partial agenda for the investment climate.

18. Liberia was covered by the Doing Business survey for the first time this year. Not surprisingly, it ranked poorly, 170<sup>th</sup> out of 178 countries. Its worse scores were on dealing with licenses (176), registering property (167) and enforcing contracts (165). Fortunately it did relatively well on trading across borders (98). Liberia has not benefited from an Investment Climate Assessment, but IFC and FIAS are active in the country, they have conducted a mini-diagnostic, and they assisted the Government to draw up an Action Plan. Their initial focus is on reducing informality, investment promotion institutions and laws, and the creation of a structured public-private dialogue. The DTIS will build on this work and use the newly created Public-Private Forum to raise awareness of the Integrated Framework and seek input to the study.

19. Two issues which invariably arise are taxation and access to finance. The study will assess the impact of the current tax regime on exporters, in terms of tax rates, the number of taxes, and tax administration. It will also examine the availability of funding for exporters, interest rates, and the options for innovation in financing instruments. In both cases, the link to the macroeconomic framework will be discussed. The available knowledge on customs reform and logistics will be integrated here. Key infrastructural obstacles will be noted but no original work on solutions will be attempted.

### *Priority sectors*

20. The major exports over the last six years are presented in the following table. It is likely that actual exports are somewhat higher due to cross-border trade with neighboring countries (notably in cocoa and coffee). More importantly, this data excludes the mining sector which was traditionally the largest source of foreign exchange and will undoubtedly resume that role in the coming years. Indeed, pre-war exports of four iron ore companies peaked at a present-day value of US\$1.3 billion per year, dwarfing all other commodities.

#### ***Major exports of Liberia: 2000-05*** *(US\$ millions)*

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Timber	61.0	69.2	100.4	54.6	0.0	0.0
Rubber	57.1	54.0	59.2	43.9	93.4	98.7
Cocoa	0.6	0.5	0.4	0.9	3.5	5.7
Coffee	0.5	0.0	0.2	0.1	0.0	0.0
Other	1.1	4.3	6.3	9.5	7.0	7.8
<b>Total exports</b>	<b>120.3</b>	<b>127.9</b>	<b>166.5</b>	<b>108.9</b>	<b>103.8</b>	<b>112.2</b>

Source: IMF, Liberia: Statistical Appendix, May 2006.

### *Wood products*

21. Timber exports peaked at US\$100 mil. in 2002. However they collapsed in 2004 due to a ban inspired by concerns that these exports had been used to fuel the war. Sanctions were lifted in 2006, a tracking system is now being put in place to enable verification of the source of all timber, and exports are expected to resume by early 2008. In recognition of the key role played by the sector, this and other issues are being pursued under the Liberia Forestry Initiative (LFI) with support from a consortium of agencies (World Bank, FAO, USAID and others). In consultation with key players, it was agreed that the DTIS could be helpful in focusing on the potential for value-added processing of wood. This is a priority concern of the Government and not something which the LFI has yet been able to tackle. The DTIS will examine the potential for value-added activities such as production of plywood, furniture, bio-fuel chips, and other processed wood products, as well as non-wood forest products.

### *Agricultural exports*

22. The World Bank and the FAO are currently finalizing a Comprehensive Assessment of the Agricultural Sector (CAAS) in Liberia. This provides an important information base on which to build the analysis of the DTIS. However, the discussion of export crops is more limited than for food crops, and there is a need for greater discussion of policy and institutional options. The World Bank is deepening the analysis through its new Agriculture and Infrastructure Development project. The DTIS will coordinate closely with country team members responsible for this project.

23. The second major export, rubber, is fairly well understood and does not require a detailed analysis. Most exports are managed by large companies, such as Firestone, which have a long-standing experience in the country and the world market. There is unlikely to be any potential for further processing beyond block rubber at this time. However, a few specific issues have emerged. As the plantations are generally very old, and in poor health, a major replanting effort is needed. This will entail considerable cutting of old trees and the production of huge quantities of rubber wood. There is interest in identifying opportunities to introduce value-added activities for this wood.

24. Second, there is considerable interest in expanding rubber – and oil palm – plantations, but the Government has no clear policy on allocating concessions. Concessions given in the past are being reviewed and possibly renegotiated and new ones allocated under a different, more transparent framework. The Government has requested help in defining a model concession. The IFC is doing work on this, to which the DTIS will contribute drawing on experience in Côte d’Ivoire.

25. A third issue will concern the potential for involvement of small holders either as out-growers associated with large estates, or as independent farmers. There is a commitment from the new Government to pursue a more diversified approach than in the past, with less reliance on large plantations. The study will assess the potential for alternative approaches, as well as options for improving existing out-grower schemes.

26. Cocoa is the only other agricultural export of significance at present, though at a much lower level than rubber or timber. Some value chain work has already been conducted on cocoa and the Sustainable Tree Crop Program has begun to provide support to this sub-sector. Based on the DTIS work in Sierra Leone, the cocoa sub-sector probably holds promise for major income generation among smallholders in Liberia as well. Thus, the report will examine the priority to be attached to reviving the cocoa sector, and determine the critical constraints to be addressed in the short to medium term.

27. While the focus on cocoa seems justified, parallel suggestions to revive the coffee sub-sector have not yet been resolved. The international market prospects for robusta coffee, such as that produced in Liberia, are not strong. The crop is more demanding than cocoa in terms of labor input, which is likely to be a constraint in rural Liberia. Currently, there are no traders dealing in coffee exports in the country, and farmers are showing little interest themselves, sometimes even uprooting their trees. This report will help clarify the prospects of the coffee sub-sector.

28. A cross-cutting, institutional issue of relevance to cocoa and other cash crops is the future of the Liberia Produce Marketing Corporation (LPMC). As in many other countries in the sub-region where similar institutions prevailed, this Corporation used to play a central role in agricultural export development. Some associate the decline in exports with the demise of this Corporation; others feel it captured an inordinate share of the world price. While it no longer has a de facto monopoly, it still charges a franchise fee to waive its de jure monopoly rights. It also retains some functions of quality control.

This study will review the arguments for and against a revitalized LPMC in light of the current situation, and provide recommendations on the appropriate mix of public, private and NGO interventions to provide the necessary services.

29. Liberia was a major exporter of palm oil in the 1980s. Today it exports minimal quantities while importing significant amounts. The international market has become highly competitive with cheap Asian palm oil dominating the trade, but recent demand for biofuel has pushed up the world market price. Liberia should be able to satisfy its own needs and resume exports, at least to the sub-region. Foreign investors have shown interest though no major deals have yet been signed. The study will assess the realistic potential for this sub-sector.

### *Fisheries*

30. The rich ocean fishery of West Africa extends to the territorial waters of Liberia. It has attracted foreign fishing vessels throughout the war, and small volumes were exported. Eight industrial fishing companies legally operate 27 boats today, and all their catch is landed in Monrovia for the local market. There are no recorded exports. However, it is believed that the catch is grossly under reported, and that a number of industrial fishing vessels are engaged in illegal trans-shipments on the high seas. The sector faces huge challenges if it wishes to re-enter the export business, and if the country hopes to recoup its fair share of the profits. The study will build on the Comprehensive Assessment of the Agricultural Sector to review the options for profitable public investments, fishing agreements, and job creation for Liberians.

### *Mining*

31. The mining sector has potential to become an important driver of economic growth. In addition to the planned Mittal investments in iron ore, some 20 companies are prospecting for iron ore, gold, diamonds and other minerals. The ban on diamond exports was lifted in March 2007, and a first shipment was made in September. However, further work is required on implementing the Kimberly Process. The Government has also agreed to implement the Extractive Industries Transparency Initiative – and to extend it to the timber industry.

32. However, there is a serious lack of geological data, no functioning cadastre, inadequate laws and regulations, and weak state capacity to monitor the sector. A framework to manage relations between mines and neighboring communities is also needed. The World Bank has conducted a preliminary fact-finding mission to review the mining sector. The DTIS will elaborate on the issues raised by that mission and draw up a prioritized action matrix to guide government and donor interventions. This will cover both industrial and artisanal mining.

## *Trade and Poverty*

33. The study will summarize the key ways in which trade can benefit, or hurt, the poor with a view to informing the PRSP. This will include an assessment of the impact of potential growth in different agricultural exports on rural employment and incomes. The direct and indirect benefits of mining, timber and fishing expansion will be analyzed, along with the risks. The study will also offer some general discussion of the implications of current import policies and an EPA for the poor.

### *Schedule*

July 2007	Preliminary mission by World Bank TTL
October	Concept note review by Bank and IF agencies
November 5-16	Main mission, including awareness-raising workshop with ITC
January 2008	Draft chapters submitted to Government for review
March	Interim workshop to review draft report
April/May	Final draft report reviewed by Bank and IF agencies
July	Delivery to client
July/August	Validation workshop
August	Final revisions
September	Submission of final report to Government

### *Team composition*

Philip English	Task team leader, trade policy
Jean-Paul Chausse, Franklin Philips	Agricultural exports
Michel Mueller, Jonathan Mason	Mining sector
Andrew Singer, Amin Modad	Trade institutions, investment climate
Dirck Stryker	Macro, finance, taxation
Graeme Macfadyen	Fisheries
Jukka Tissari, Anthony Taplah	Wood products