

Constraints to Domestic Enterprise Financing in Post-Conflict Liberia

John Gorlorwulu

Abstract

Countries emerging from protracted and devastating conflicts are often seen as needing significant external intervention in their financial markets to rebuild their private sector and promote quick and effective economic recovery. Despite enormous challenges, the provision of credit or the implementation of various lending schemes often dominate efforts to promote domestic private-sector recovery in the immediate aftermath of conflict. This approach raises a number of questions: First, how effective are loan programs in the development of domestic enterprises in the immediate aftermath of conflicts? Second, can loan programs work without significant improvements in the business climate? How sensitive is the design of lending programs to the success of domestic enterprise development projects following devastating conflicts? This paper explores the experience of the Liberian Enterprise Development Finance Company, which was established in 2007 to provide medium-and long-term credit to small and medium domestic enterprises. In addition to shedding light on the challenges such an enterprise faces in a post conflict environment, the paper explores whether the strategies employed are effective and if there are opportunities for effecting remedial changes that could improve the outcomes of such a program in post-conflict environments generally.

Constraints to Domestic Enterprise Financing in Post-Conflict Liberia

John Gorlorwulu
Assistant Professor of Economics
George Fox University

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Center for Global Development
1800 Massachusetts Ave., NW
Washington, DC 20036

202.416.4000
(f) 202.416.4050

www.cgdev.org

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Foreword

I am delighted to sponsor this working paper by John Gorlorwulu who is an Assistant Professor of Economics at George Fox University. Gorlorwulu's paper focuses on the problems of access to finance for private enterprise in post-conflict Liberia. The paper is commissioned as part of CGD's work on weak and fragile states, which is focused on improving the impact and effectiveness of assistance in post-conflict environments.

Liberia, like most post-conflict nations, was left with a destroyed private sector and a decimated financial system. These areas are often the first targets of parties in conflict – both to take control of the assets and to prevent the opposition from beating them to the challenge. Consequently, the private sector is left without the collateral to access finance following the cessation of conflict. Reviving institutions to provide credit, therefore, takes priority in the revival of private enterprise. In Liberia, the Liberian Enterprise Development Finance Company (LEDFC), an ongoing donor-funded project, has many lessons, both positive and negative, to offer on this count. Gorlorwulu notes that LEDFC had some success in filling the gap in access to finance to private enterprise, but that there is considerable room for improvement in implementation. He argues that improved access to finance should be considered within the overall context of post-conflict reconstruction strategy. He points out for the need for sequencing of reforms such that the assistance afforded has maximal impact. He also contends that the reach of LEDFC has to be extended to smaller rural borrowers beyond the capital Monrovia, and that programs should operate for a longer duration of time.

Many of the problems noted by Gorlorwulu for Liberia are relevant for less developed countries in general. What is different in the case of post-conflict countries, however, is the *magnitude* of this deficiency. This paper shows that access to finance is one of several constraints to growth of private enterprise, and that sequencing of interventions is critical to success. Without infrastructure, institutions, and entrepreneurial and managerial capacities, finance alone is of little help in raising production. Overall, this paper shows the need for a comprehensive approach to address the varied constraints that undermine business viability in post-conflict environments. By analysing the case of Liberia, Gorlorwulu provides valuable insights as to how this might happen.

Vijaya Ramachandran
Senior Fellow
Center for Global Development

Introduction

Countries emerging from protracted and devastating conflicts are often seen as needing significant external intervention in their financial markets to rebuild their private sector and promote quick and effective economic recovery.¹ In developing countries where pre-conflict financial markets are generally weak to begin with, the effectiveness of such intervention is often complicated by a variety of other challenges exacerbated by conflicts. For instance, in addition to weakened financial systems, entrepreneurial and managerial capacities are often reduced due to the flight of populations as results of insecurity and economic hardship (Dornbusch 1993; Kreimer, Collier et al. 2000; Addison, Le Billon et al. 2001; Fosu and Collier 2005). Conflicts also often destroy the physical and human capital bases that are essential for a vibrant business climate. The weakening of the state also undermines institutions that are necessary for protecting property rights and supporting an effective regulatory environment where market-based activities can thrive.

Despite these enormous challenges, more often than not, the provision of credit or the implementation of various lending schemes often dominates efforts to promote domestic private sector recovery in the immediate aftermath of conflict. To the extent that credit markets depend on other factors to be successful, this approach by donor raises a number of questions. First, how effective are loan programs in the development of domestic enterprises in the immediate aftermath of conflicts? Second, can loan programs work without significant improvements in the business climate? Moreover, how sensitive is the design of lending programs to the success of domestic enterprise development projects following devastating conflicts?

To examine these questions, this paper explores the experience of the Liberian Enterprise Development Finance Company (LEDFC), which was established in 2007 to provide medium and long term credit to small and medium-sized domestic enterprises as a major aspect of Liberia's post conflict economic recovery program. In addition to shedding light on the challenges such an enterprise faces in a post conflict environment, the paper will explore whether the strategies employed are effective and if there are opportunities for effecting remedial changes that could improve the outcomes of such a program in post conflict environments generally.

¹ This is true of not only developing countries but also developed or industrialized countries. For instance, special banks were established to finance the reconstruction of Germany, other European countries and Japan following World War II. For an analysis of donor interventions in financial markets following world war II, see Dornbusch, R., Wilhelm Nolling, and Richard Layard, Ed. (1993). *Postwar Economic Reconstruction and Lessons for the East*. Cambridge, Massachusetts, London, England, The MIT Press. See also Mac Sweeney, N. (2008). *Private Sector Development in Post-Conflict Countries: A Review of Current Literature and Practice*. D. C. f. E. Development. Cambridge, UK..

Several reasons make Liberia a useful case for examining the challenges involved in financing domestic enterprises following conflicts. First, as result of the extremely violent and destructive nature of the Liberian conflicts, its economy was one of the most devastated of any recent major conflict. This can be clearly seen from the steep decline in real GDP per capita reflected in figure 1. As a result of this steep decline, it was obvious that rebuilding the domestic private sector would involve more than simply the provision of finance. To the extent that the data for evaluating the rationale and potential challenges for rebuilding domestic enterprises were clearly available, how policy makers consider those factors in the design of projects can be assessed more easily than in a context where destruction is not as pronounced. Moreover, while microcredit finance schemes dominate post conflict contexts, SME financing of the type used in Liberia is rare. Examining the initial experience of such an effort can provide clues as to what needs to be done to make them effective and the conditions under which they are likely to be viable options.

This research was conducted during the 2008-2009 period. The basic approach involved interviews of representatives of the organizations that set-up LEDFC, staff of LEDFC and representatives of the Liberian government and other donor agencies involved in private sector development in Liberia. The beneficiaries of LEDFC were also interviewed, as well as representatives of the Liberian business community. The research relied on field and other reports concerning various aspects of the Liberian business climate and reconstruction efforts. The list of those interviewed is attached to this report in appendix A.

It should be noted that during the final stages of fieldwork in April-May 2009, LEDFC was in the process of revising its lending strategies as response to emerging challenges and new opportunities. Staff of LEDFC expressed awareness of some of the challenges observed during this research; thus, it is expected that some of the recommendations in this paper will already have been addressed in the revised strategy by the time this report becomes public. It is, therefore, important to note that discussions in this paper deal with issues and facts covering the time period only up to May 2009. Hence, the experience of the new strategies relative to findings and lessons from this research will be briefly examined post script.

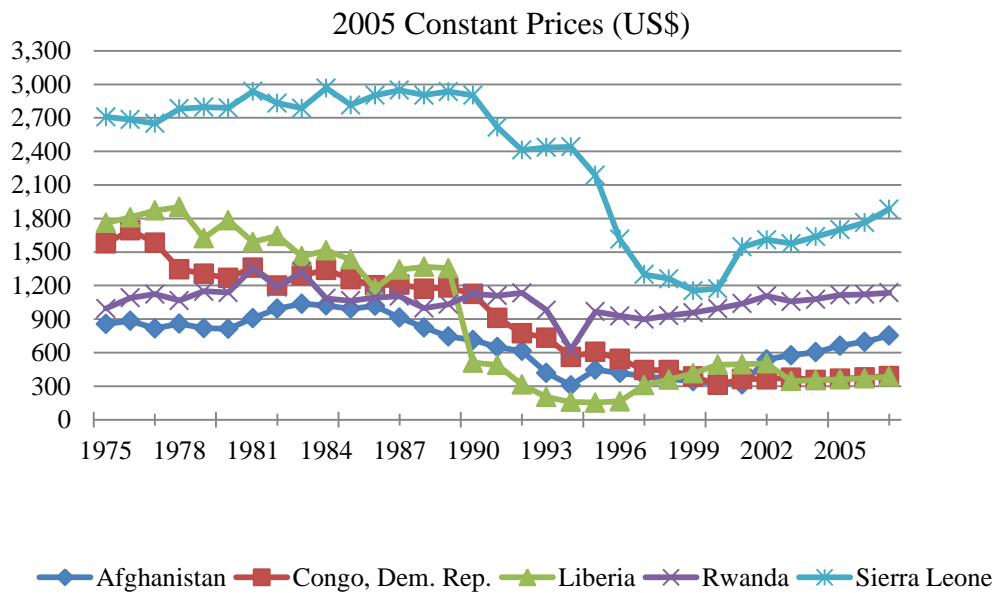
The remainder of the paper is organized into four sections. Section 2 provides a background to Liberia's post conflict economy, highlighting the major challenges and the effects of the conflict. Section 3 describes the LEDFC projects and section 4 analyses the challenges and progress of the effort. Section 5 concludes the paper with a discussion of broader issues raised in the paper, lessons for fostering greater access to finance for domestic private enterprises in similar post conflict situations and some caveats and limitations of the study.

Postwar Liberian Context

While the end of the Liberian long-running civil war in 2003 raised hopes for the effective reconstruction and reconciliation of the state, the conditions that prevailed were far from conducive for any normal economic activity.² As a result of more than a decade of an extremely violent and destructive civil war, the Liberian economy fell from its pre-war peak by more than 90 percent (Radelet 2007). Compared to other developing countries, Liberia experienced one of the worst declines of an economy due to conflict during the last three decades (see figure 1).

As a result of this devastation, the private sector and public institutions faced a number of challenges that were important for designing and implementing domestic enterprise development projects. First, despite the significant international goodwill toward Liberia and the resumption of many bilateral aid programs, economic recovery was difficult due to the widespread destruction of national capacity (UNDP 2006).³

Figure 1: Real GDP Per Capita: Liberia and other Conflict-affected Countries



Source:⁴ <http://pwt.econ.upenn.edu/> Real GDP per capita. Accessed 3/6/10

² Note that the Liberian war ran from 1989 to 2003.

³ This engagement was reflected in significant support for a contingent of United Nations peace-keeping forces (UNMIL) to provide security and support humanitarian relief projects. The US government also renewed its commitment to Liberia by increasing economic assistance through public and private channels.

⁴ Complete source for this data is: Alan Heston, Robert Summers and Bettina Aten, Penn World Table Version 6.3, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, August 2009. Real GDP per capita (Constant Prices: Chain series)

The collapse of the economy and the fighting destroyed most of the infrastructure, institutions and capital base of the economy. Decades of economic decline and fighting prevented the maintenance and rebuilding of roads, water systems and other utilities. According to UNDP, at the end of the conflict in 2003, only 15 percent of the roads had been spared destruction. In particular, ports and other essential infrastructure could not meet local demands and, in many cases, they were non-existent.

Further, lack of economic opportunities for several decades due to instability, economic decline and conflict led to significant capital flight, brain-drain and collapse of state and other institutions.⁵ Hundreds of thousands of Liberians also became refugees, a situation that drastically reduced the workforce in the country. The disruption of educational institutions further eroded the capacity to develop the human capital base. These problems were further compounded by significant predatory behavior by warlord, combatants and corrupt bureaucrats. Hence, during the early stages of the post conflict period there were significant shortages of skilled-labor for all institutions in Liberia. While the return of refugees alleviated some of the problems, this benefit was offset by significant increase in demand for skilled labor to support government and donor humanitarian and reconstruction efforts.

This harsh economic environment with limited institutional capacity, infrastructure and human capital undermined private sector development efforts in a number ways of which the effect on the supply credit for private sector development was visible and severe. The destruction of financial institutions and assets, as well as capital flight, limited the supply of credit. While a few banks emerged quickly following the conflict, they were all located in Monrovia, the capital city, and provided mainly money transfer services and short-term credit with terms of 6-12 months to businesses involved in retail and wholesale trade.⁶ Uncertainty and the elevated risk of default and loan repudiation due to prevalent predatory behavior undermined lending activity. Moreover, the absence of an effective legal recourse to contract enforcement as result of the weakened state increased the risk of loan repudiation. The elevated risks were also based on significant erosion in norms and a rise in predatory behavior during the conflict whereby armed gangs and war lords actively engaged in looting and confiscation of property. The limited availability of a trained pool of workers to support bank operations also limited any opportunity to engage in lending activities. As a result of this

⁵ It is important to note that the Liberian civil war that ran from 1989-2003 was preceded by a decade of economic mismanagement that destroyed much of its private sector and infrastructure.

⁶ This type of financing was directed mainly toward trade and service-related businesses. Hence, there was significant shortage of local sources to finance working and fixed capital for domestic enterprises, as these require medium to long term financing of more than a year.

limited market for credit, business development depended mainly on microcredit, remittances and retained earnings.

To the extent that the needs of small and medium-sized enterprises exceeded microloans and the businesses had suffered significant losses of capital, policy makers generally argued that the SME sector could not develop without significant intervention in the financial markets. These challenges were compounded by the fact that the Liberian state had limited access to normal international credit with which to rebuild infrastructure, let alone develop credit programs. Due to a significant accumulation of debt and arrears to the international financial institutions and bilateral donors, access to international credit was not possible.

Hence, policy makers concerned about rebuilding the economy quickly argued that extraordinary external help was necessary. Without such assistance it was determined that it would be difficult to achieve a peace-dividend, a situation that would threaten the peace and security that had been achieved. It was in this context that discussions were held to create a facility to finance domestic enterprise development through non-traditional aid channels.

Liberian Enterprise Development Finance Corporation (LEDFC)

LEDFC rose out of those efforts of the Liberian government and the international donor community to assist the development of domestic enterprise. In addition to private sector development, an aim of the effort was to provide assistance in such a way that would contribute to reducing the threat of conflict by improving living standards in relatively short period of time and broadening the benefits of development to groups previously excluded or marginalized in Liberia. This overriding objective was based on the generally accepted view that inequality and economic hardships were major contributing factors to the Liberian conflicts (UNDP 2006; Radelet 2007).

While domestic capacity in Liberia was known to be generally weak and basic infrastructure of all types generally inadequate, policy makers argued that the absence of working capital and other financing to build fixed assets were major constraints to reviving the domestic private sector.⁷ In addition to the need for operating capital and capital to rebuild fixed business assets, policy makers argued that there was a need for additional resources to provide training to entrepreneurs, managers and workers to ensure that the enterprises that would be financed would have the capacity to operate effectively.⁸ While it was widely accepted that significant problems existed in other aspects of the Liberian economy, the provision of capital was the main focus of domestic private sector development.

⁷ LEDFC's initial program brochure justified the project in terms of the lack of financing for working capital and fixed assets in Liberia.

⁸ See communiqué from the Liberian business forum.

It is worth noting that pressures to quickly rebuild the domestic private took precedent over careful consideration of what would be needed to rebuild the private sector with significant local ownership or if in fact such an objective could be expected within a reasonable period given existing conditions and the history of limited Liberian entrepreneurship in the SME sector. The dismal performance of the Liberian private sector performance immediately before the conflict began is well-documented.⁹ There are also several instances in which earlier efforts to develop Liberian-owned enterprises had failed to meet expectations.¹⁰ Moreover, while during the conflict entrepreneurship increased considerably among Liberians, this increase occurred mainly in the informal sector where human capital and other resources vital for effective business management are usually lacking. Hence, the pursuit of investment capital superseded an appropriate assessment of domestic absorptive capacity for the capital and the prospects for profitable business development by Liberian entrepreneurs.

It should be further noted that a publicly financed private lending institution like LEDFC is rare in post conflict reconstruction efforts in developing countries, especially those focused on the SME sector.¹¹ Instead SME financing by donors have typically involved working with established commercial banks to facilitate increased lending to specific groups by providing guarantees and other incentives and inducements. In a few cases, equity funds have been used but these tend to be in the context of more developed economies. Hence the LEDFC effort is a unique experiment in the context post conflict reconstruction in an underdeveloped context which became the an option due to limited commercial banking capacity in the country following the war.

The Formation of LEDFC

LEDFC was licensed in 2007 in Liberia as a private corporation by a partnership consisting of the US Overseas Private Investment Corporation (OPIC) and RLJ Group of

⁹ See the following for some evidence on past efforts and the generally weak domestic private sector capacity:

United Nations Industrial Development Organization. Regional and Country Studies Branch.

(1988). *Liberia :*

resource-based industrialization and rehabilitation. [Vienna], UNIDO.

United Nations Industrial Development Organization. Regional and Country Studies Branch.

(1989). *The Agro-based industries in Liberia : key characteristics and rehabilitation issues*.

[Vienna], United Nations Industrial Development Organization.

¹⁰ See Kraijj (1983) and Clower etal (1966) for some examples and elaborate discussions of the reasons for some of the failures.

¹¹ For examples of emerging and commonly used financing schemes, see the recent working paper from the Center for Global Development:

<http://www.cgdev.org/content/publications/detail/1425145>.

Companies (RLJ). Despite the fact that OPIC, the majority share-holder, is a US government institution, LEDFC functions as a private commercial facility that is expected to be profitable. CHF International, a nongovernmental organization, manages LEDFC, and is not a shareholder.¹² These three organizations play different roles in LEDFC. OPIC is the financier of all of LEDFC loans. RLJ finances LEDFC's operating capital. CHF International manages LEDFC and provides operational oversight.

While the Liberian government has neither an ownership stake nor a management role in the partnership, it undertook a number of reforms that were generally consistent with the interest of the partners. These included reducing the requirements for an American business to operate in Liberia and granting rights to US airlines to operate in Liberia. This reduced the hurdles for American investors to operate in Liberia and to make new investments. It is important to note a few American companies, including RLJ, have subsequently invested in Liberia and received financing from OPIC.¹³

Although the initial plan for LEDFC called for the establishment of a \$7 million fund to provide technical assistance to domestic firms receiving financing from LEDFC, this fund was never set up due to a lack of financing. OPIC and RLJ did not invest in this, and neither did the donor agency that initially was expected to undertake the technical assistance component. Therefore, LEDFC had no provision for building the capacity of businesses in which it invested.

While LEDFC was set up as a nonbank lending corporation, it was licensed in Liberia under banking rules making it regulated by the Central Bank under the same rules that apply to depository institutions. An important aspect of this regulation is that loans must be supported by collateral whose value is 1.4 times the value of the loan.

¹² Information from representatives and others associated with the formation of LEDFC suggests that the partners came together largely out of happenstance and the decision of Robert Johnson, shareholder of RL Johnson Group of Companies to invest in Liberia. In addition to his interest in making direct investments in Liberia, Robert Johnson, a key partner in RLJ Group of Companies, had developed an interest in supporting Liberia's reconstruction. It was clear that such a project involving OPIC, therefore, would not only help with his social goal, but also could be useful in the future financing of other projects in Liberia in which RLJ was interested. When RLJ provided \$3 million in seed capital for the initiative, it became possible for OPIC to contribute the \$20 million in capital to set-up the fund. CHF International involvement came about largely through the fact that OPIC and RLJ needed an organization to manage the enterprise. As OPIC and CHF International have worked on other similar projects in Lebanon and Bosnia, and CHF International was already involved in other projects in Liberia, it became obvious that the organization was the most reasonable partner to run the enterprise.

¹³ RLJ Companies have subsequently made a number of investments in Liberia that are partially financed or insured by OPIC.

This regulation is designed mainly for commercial banks, but the absence of regulations for nonbank institutions led to LEDFC being licensed under that rule.

Programs and Policies

The LEDFC implements two lending programs in Liberia: 1) loans to finance fixed assets (such as equipment, buildings and other productive assets) with repayment terms of 3-5 years; and 2) loans to finance working capital with repayment terms of 3-12 months. The loan size ranges from a minimum of \$25,000 to a high of \$1,000,000. Interest rates are based on the commercial rate, which ranges on average from 15 percent to 18 percent.¹⁴ Despite initial plans that included an equity program, none of the current LEDFC programs are equity based.

In order to apply for a loan, an entrepreneur must be a Liberian or from the Liberian Diaspora. A LEDFC loan application requires a business plan and a credit history. For existing businesses, bank records for the previous year are also required. While a business can be in any sector, LEDFC prefers those with high-growth prospects, employment generation opportunities, a strong owner or manager, and proprietary products and services. The business must also be officially registered.¹⁵

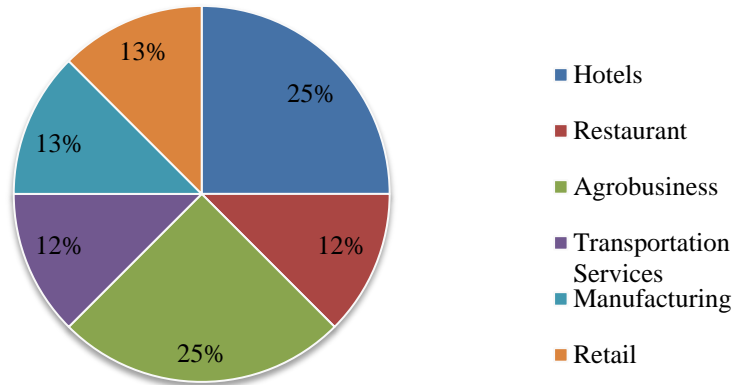
Initial Experiences: Progress and Challenges

Despite significant challenges, LEDFC was able to finance eight SMEs within a year. These loans were used to finance operations, acquire machinery and raw materials and construct facilities. Some of the funds went to expand existing enterprises, but most went to start-ups businesses. The eight businesses fall in various sectors of the Liberian economy (Chart 1). LEDFC staff indicated that applications have been in the hundreds, but that less than 10 percent of those meet the basic application process and procedures.

¹⁴ Note that since LEDFC is engaged in long term lending its risks should be higher. Hence, its risk-compensated interest rates should be higher than these short term interest rates if it following the market. However, information on specific interest rates the corporation has used were not disclosed.

¹⁵ This information is based on the organization's brochure available at its offices in Monrovia in 2008.

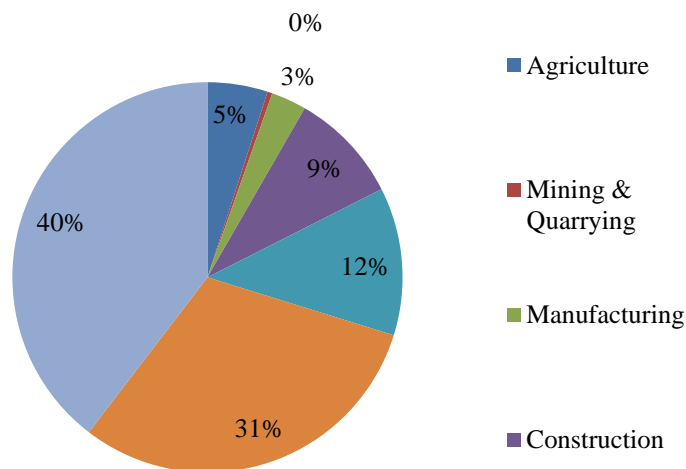
Chart 1: LEDFC Financed Businesses (Up to April 2009)



Source: Based on LEDFC supplied data

As the only institution that offers medium to long term financing to Liberian-owned enterprises, LEDFC is filling an important gap in the Liberian financial system, as indicated by staffers. This view is supported by the lending practices and patterns of the commercial banks in Liberia. Commercial banks offer mainly fee-based services and loans of terms not exceeding six months. Their activities are also concentrated in a narrow set of sectors that are typically involved in trade and other services (Chart 2). From this it is clear LEDFC is a unique institution in the Liberian financial system. Hence, demand for its products is expected to be very significant.

Chart 2: Distribution of Commercial Loans by Sector (2008)



Source: Central Bank of Liberia, 2008 Annual Report

Given that LEDFC has financed hotels, manufacturing and other formal sector businesses, it is clear that the institution has helped to increase the participation of Liberians in industries in which Liberian ownership has been generally limited. In the pre-war era, Liberians were not significantly involved in the hotel, construction and manufacturing sectors (Kraaij 1983). Traditionally, the main areas of business activities for Liberians have been petty trade, subsistence agriculture and other activities in the informal sector. In particular, Lebanese merchants and other foreign nationals have historically dominated the formal sector in the country (Nelson 1985). To the extent that Liberians are now involved in these businesses through LEDFC financing, marks a turning point and opportunity for greater participation of domestic entrepreneurs in the Liberian economy.

Notwithstanding the successful establishment of LEDFC and the provision of a few loans, staff of the institution, however, expressed that they face a significant number of challenges. First, it was noted that the limited number of loans approved to date is not enough to have a significant impact on reviving the domestic private sector in a timely manner nor reducing Liberia's high unemployment rate. They expressed that while demand is extremely high for the products, it has been difficult to approve many loans due to the lack of a qualified pool of applicants.

Second, it can be noted that the eight loans made between 2008 and 2009 were much lower than the expected target of more than 100 businesses per year as was implied in the initial plan. The stated goal of the LEDFC is to assist about 1,500 Liberian businesses in five years. At the current pace of eight businesses per year, it is not even possible to meet that target in 10 years. This pace is also much lower than the pace at which foreign investment is occurring in the Liberian economy. For instance, in 2008, 18 foreign investment licenses were approved by the National Investment Commission, a public entity through which foreign investors work to establish businesses in Liberia (National Investment Commission: Liberia 2008). This was more than twice the number of projects financed by LEDFC even though LEDFC projects are much smaller in scale and the pool of applicants from which it draws is arguably much larger than that of the commission.

Thirdly, while a goal of LEDFC is to expand opportunity to groups previously marginalized in the Liberian economy, LEDFC's financing has been concentrated in areas where economic conditions are generally better and to sectors that are controlled by those at the higher end of the social and economic scale in Liberia.¹⁶ For instance, no funding has gone to any agricultural project. Furthermore, all of the businesses that have received funding are located in Monrovia, the capital city of Liberia.

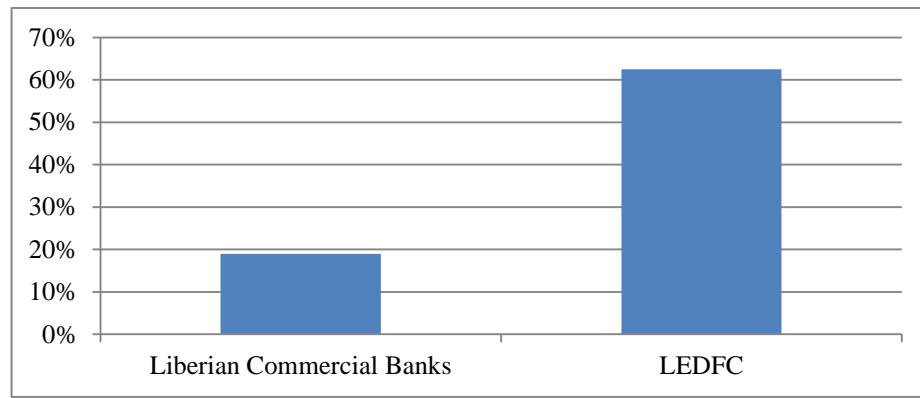
Fourthly, LEDFC has had a much higher loan underperformance rate than the commercial banks in Liberia (Chart 3). Of the eight businesses financed, only two were current on their loan repayments as of May 2009, and three had failed completely. This

¹⁶ It is worth noting that at least three of the entrepreneurs are members of the Liberian US Diaspora. Two of these businesses were underperforming on their loans and one had failed.

underperformance rate is more than three times the rate for the banking sector, a sector that is largely a post conflict sector. This indicates a bleak prospect for loan repayment and business mortality.

Since LEDFC is the only lender to the SME sector, and this sector is its sole clientele, LEDFC is also overexposed to the failure of this sector. LEDFC's portfolio is not diversified sufficiently as such it is at a high risk of failure. Hence, LEDFC could quickly face a considerable bad debt situation if this trend holds.

Chart 3: Loan Underperformance by Institution



Source :LEDFC and Central Bank of Liberia

Analysis of LEDFC's Experience

To examine the underlying causes of LEDFC's experience, the author interviewed representatives of four organizations: 1) LEDFC; 2) Liberia's major donors (USAID, World Bank and UNDP); 3) the National Investment Commission (NIC) of Liberia (the government agency responsible for private sector development); and 4) the Liberian business association. The interviews examined LEDFC's experiences relative to the post-conflict context. Results of the interviews are summarized in appendix B. The main findings from the interviews are discussed under the appropriate headings in this section.

Issues Involving Entrepreneurial Behavior and Capacity

Most representatives indicated that several problems have made it difficult for the LEDFC to make loans. These problems involved obstacles to establishing acceptable collateral and the failure of applicants to submit well-developed business plans due to limited technical capacity and experience. Most applicants did not have adequate collateral to meet the minimum loan requirement of \$25,000. In addition, a LEDFC

representative indicated that about 90 percent of the initial applications received were incomplete.

LEDFC representatives indicated that the lack of adequate collateral to meet the minimum \$25,000 loan size has hampered loan processing.¹⁷ They argued that because most projects are at the start-up stage, only a few applicants have adequate capital to meet the collateral for a \$25,000 loan. They also expressed that most successful applicants have had to supplement their business assets with their personal assets (such as their homes). They also reported that in some cases assets from family members have been used to achieve the collateral value of 1.4 times the loan.

Representatives identified entrepreneurship-related constraints as factors that limit the domestic private sector's access to credit. They all indicated that the domestic private sector has a poor record of loan repayment in Liberia.¹⁸ This view was also consistent with the historical record.¹⁹ LEDFC staff expressed that, given the lack of sufficient capacity and willingness to enforce contract law and property rights in Liberia, it was difficult to foreclose on a loan, a condition that minimizes the cost of debt repudiation.

Representatives of LEDFC also implicated a culture of loan repudiation a factor in the poor repayment of loans. They indicated there was a general lack of good record keeping, which made it difficult to keep track of loan repayment schedules and terms. This, they believed, may reflect the limited experience of entrepreneurs with formal credit. They also believe the legacy of relief has not helped. As a result of the reliance of the general population on relief assistance, which is often provided as hand-outs, they indicated that Liberians have become accustomed to charity. As a result, they said that many loan recipients behaved as though the loans were grants and thought that LEDFC would be lenient with enforcing the terms of the loan contract. LEDFC representatives also indicated that the war undermined entrepreneurial capacity such that managers are more concerned about the short term than the long term, which makes it difficult for them to manage their enterprises in a manner that would enable them to meet debt service payments.

The limited managerial capacity of most entrepreneurs was also considered a major barrier to lending on commercial terms. Many entrepreneurs in Liberia start

¹⁷ This was indicated in interviews with LEDFC staff.

¹⁸ For some historical examples, see Kraaij, F. P. M., van der, (1983). *The open door policy of Liberia : an economic history of modern Liberia*. Bremen, Im Selbstverlag des Museums.

¹⁹ The performance of several lending programs in the late 1980's was generally poor and most public institutions offering credit were generally subject to high default rates. In some cases, loans were provided not on the basis of the ability or willingness to pay, but rather for political and other non-economic reasons. See Liberia: Ministry of Agriculture (1985). Proceedings of the Liberian Agricultural Policy Seminar, 1985, Yekepa, Nimba County, Liberia. Monrovia, Ministry of Agriculture.

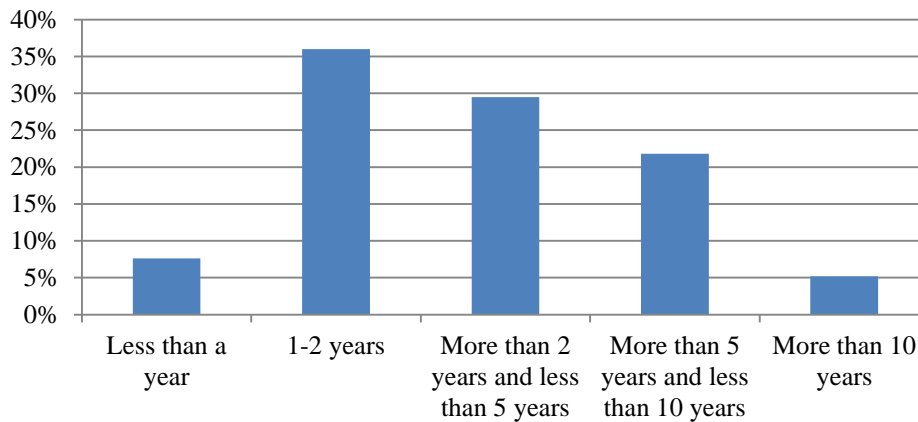
businesses to create self-employment. Many chose this because of the lack of other employment opportunities. Hence, these entrepreneurs typically have neither the skills nor the motivation and commitment to do what is necessary to develop and manage a viable enterprise. Because of this feature of Liberian entrepreneurs²⁰, representatives of LEDFC and other donor agencies said that their experience and skills are often insufficient to operate the businesses they propose according to loan terms. It was reported that many entrepreneurs lack the capacity to conduct cash flow analysis as they do not have or keep good financial records. As a result, it is often difficult to determine the amount of loans their businesses are capable of supporting. For start-ups, bank accounts are often unavailable. Most domestic entrepreneurs also appear to enter business mainly as a means of employment or choose a business based largely on interest as opposed to economic sense.

Informality of Liberian businesses was also regarded as a problem for any formal lending program in Liberia by nearly all of the interviewees. It was the general view that most entrepreneurs function informally. This means that they are not licensed and cannot adequately establish ownership of their business assets such as land and machinery. The reasons for the high informality are related to the process for registering businesses. Research shows that many businesses view the registration process as cumbersome and expensive, and, as a result, most choose to remain informal (The Investment Climate Advisory Service. 2007). Most representatives of the donor agencies said that without improvements in the registration process, it would be difficult to expand the pool of applicants to include many SMEs in the informal sector.

Finally, the age of the businesses in Liberia was considered a systemic problem that has affected business performance. On study indicates that more than 70 percent of Liberian businesses in the postwar period are less than five years old (Chart 4). This means that the domestic private sector is infected with systemic risks due to the lack of experience in the new environment. Start-ups typically have a much higher failure rate than matured industries due to limited knowledge about the business environment. The result of this is that business failure and underperformance rates are significantly higher for start-ups than mature enterprises.

²⁰ It is important to note that this feature of starting business out of necessity to create employment is not peculiar to Liberians. This behavior has been noted in many studies of entrepreneurship in Sub-Saharan Africa.

Chart 4: Distribution of Liberian Businesses by Age



Source: 2007 IFC Study on Barriers to Enterprise Formalization

Along with the problem of limited entrepreneurial and managerial capacity, competition from well-established foreign merchants in Liberia also present unique and difficult challenges to the new businesses in sectors dominated by these foreign merchants. Many sectors of the Liberian economy are dominated by Lebanese and other foreign nationals who, using efficient networks and relying on a long history of entrepreneurship, conduct business at levels much superior to that of domestic entrepreneurs (Kraaij 1983). Some of the sectors, consequently, are dominated by foreigners; namely hotels, construction and wholesale trade, although these have recently attracted more domestic entrepreneurs. Given their weak entrepreneurial capacity, domestic entrepreneurs are likely to perform poorly when they compete against their foreign counterparts. The result is that the failure rate of a Liberian-owned business is likely to be much higher.

Issues involving the Business Climate

Most interviewees regarded the business climate as a binding constraint on private enterprise development in Liberia. LEDFC representatives indicated that the high cost of doing business is a major problem for many of their projects. Inadequate port services, bad road conditions, and lack of publicly supplied electricity and other public services were generally considered major risk factors to business profitability and success. Some entrepreneurs benefiting from LEDFC reported that long delays at the sea port of Monrovia, the major gateway to the Liberian economy, increased their cost of operations and reduced their ability to get their products to the market on schedule. One entrepreneur indicated that the delay in receiving shipments on time prevented the project from starting before the loan was due. As a result, the entrepreneur made loan payments not from the project that was financed, but from other parts of his operations and from new loans. Another pointed out that the delays in getting furniture cleared

from the port led her to procure furniture locally to avoid delaying the opening of her hotel. Hence, she had to pay for furniture twice and hoped that she would be able to resell the imported furniture later. This created significant problems in the operations of her enterprise as operational funds were used to purchase the furniture locally.

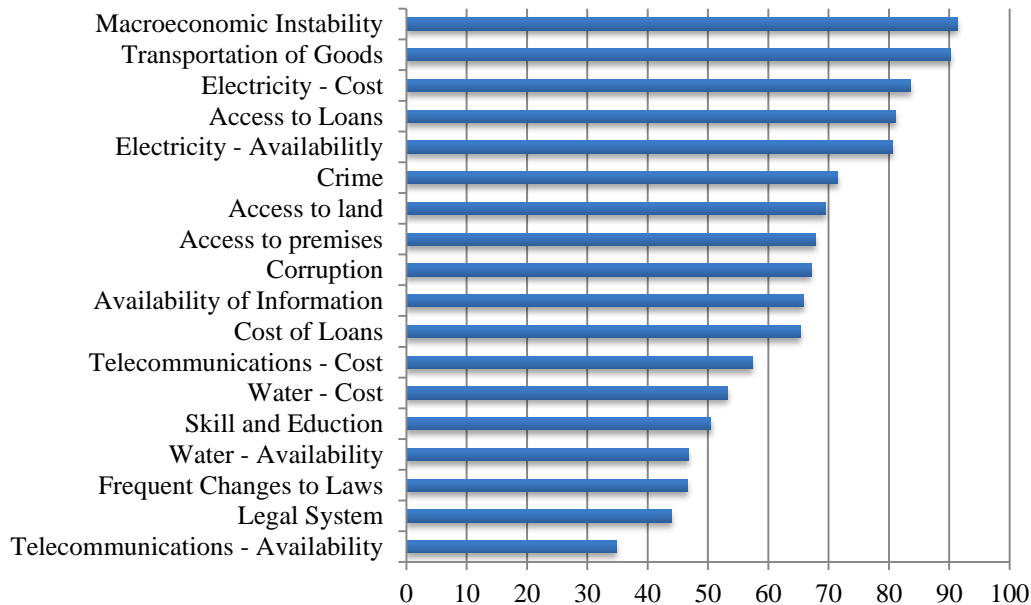
In addition to the specific problems of transportation bottle-necks, the lack of publicly provided electricity, which elevates the cost of operating hotels and other energy-intensive enterprises, is a major constraint to the success of any private sector development effort. The former general manager of LEDFC indicated that in some instances, the cost of energy ranges between 40 and 50 percent of business revenue on a monthly basis. Discussions with a manager of one of the LEDFC-financed hotels indicated that given the low demand for hotel accommodations at times, the cost of the operations often exceed revenues because of the high cost of imported diesel needed to maintain their power generators. Moreover, because of the importance of electricity to their business and the lack of public power supply, reliable hotels usually have two power generators to ensure a back-up supply in the event that one fails. In other words, the cost of the capital for power is doubled in these cases because of the lack of a reliable public power supply.

The challenges with the port were confirmed by a representative of the Liberian Business Association, who indicated that delays at the port were typical and can be the source of shortages of supplies on the Liberian market. Much-needed dredging of the port is still pending, and, as a result, there are significant technical challenges in getting supplies through the ports.

These findings were consistent with responses to questions about the business climate in the International Finance Corporation (IFC) research on barriers to enterprise formalization in Liberia. The responses to those questions are summarized in table 2. Macroeconomic instability, cost of transportation, electricity and access to loans were ranked as the top four issues for more than 80 percent of all respondents.

It is interesting to note that about 65 percent of entrepreneurs in the interview regarded the cost of loans as an important factor, but ranked other factors higher. This suggests that other problems may be more important to most entrepreneurs than interest rates. Moreover, the fact that finance-related issues are not the top problems from the interview may suggest that addressing financial problems alone will not be enough to address the challenges the Liberian private sector faces.

Table 2: Liberia: Obstacles to Business Operations and Growth, 2007



Source: IFC Liberian Business Climate Survey

Issues Involving the Public Sector

The lack of public programs, such as loan guarantees and business development services, was regarded as important factors in the weak performance of the domestic enterprises in general. There is no business development program to develop the entrepreneurial and managerial capacity of SMEs. There is also no loan guarantees program to reduce lending risks for commercial lenders.²¹ It found that the National Investment Commission (NIC), the agency responsible for private sector development in Liberia, has only recently begun to discuss loan guarantees. The director of the SME division was not aware of any business development program in the country. The NIC has none. While two universities offer business degrees, most entrepreneurs do not participate for reasons of capacity, cost and convenience.²²

Conversations with the representatives of government and aid organizations also revealed that there is no SME development strategy in Liberia. Some representatives indicated that only recently have conversations begun about developing

²¹ The argument for loan guarantees is that it could help entrepreneurs to access larger loans with lower collateral since the guarantees can reduce collateral requirements by reducing lender's risks and losses.

²² Experts interviewed in Liberia, including LEDFC staff, indicated that issues of cost and convenience were major obstacles to access to educational programs at the universities.

a strategy for SME development. In the meantime, there is no guidance on what the priorities are, and how they are or should be coordinated with other programs. The donor agencies believe that this inhibits effective coordination and information sharing among the different groups working in the private sector.

Representatives of the business community expressed that macroeconomic policies are also not tailored specifically to supporting the development of SMEs. Besides efforts to improve the business climate through regulatory and legal reforms that should benefit all businesses, they argued that SMEs have not been a focus of business development policies in Liberia.²³

The government representative blamed heavily the lack of capacity in the public sector for the inadequacy of public programs for SME development. The director of SME at the NIC indicated that the department did not have a budget. His claims were supported by direct visits at the NIC and conversations with various staff. Inquiries about research done on SMEs or strategies did not yield any favorable results. The annual report indicating the number of businesses assisted to access commercial loans was the only publication available on SMEs. The SME department's primary program was assisting domestic entrepreneurs to prepare loan applications for a designated fund set up by local commercial banks.²⁴ Outreach to LEDFC was not in place.²⁵

Other (Institutional) Issues

Analysis of the partnership involved in LEDFC also reveals a number of weaknesses in the roles, governance, incentive structure, and basis for effective monitoring and evaluation. While the Liberian government was instrumental in the establishment of the fund, follow-up by the key agencies that are responsible for SME development in Liberia have been limited. The government's role in the partnership also remains undefined and the relevant agencies of government for SME development have not developed complementary programs to help Liberian entrepreneurs take advantage of LEDFC funds.

²³ These arguments are supported by the annual reports of the Central Bank of Liberia (2004-2008). For instance, the Central Bank regulations that require a collateral-loan ratio of 1.4 for even non-depository institutions such as LEDFC prevent many potential SMEs from accessing the capital. There are not initiatives to grant better access to the SMEs in foreign exchange markets. They must therefore compete with larger companies on equal terms. Duty free privileges and business incentives are general for all businesses without any preference given to domestic SMEs.

²⁴ ECOBANK and the Liberian Bank for Development and Investment (LBDI) are participants in this program.

²⁵ This section is based largely on observations and conversations with the Director of SME's in Liberia.

The partnership lacks a verifiable performance metric for ensuring its effective governance and administration. While the discussions that led to the partnership stressed that a fund would be set up to finance SMEs, the implementation plan lacks a clear working definition of SMEs, the number of businesses that would be financed, and the process for identifying potential businesses. As a result, there is little or no objective basis to evaluate the progress of the fund.

The question of whether the partners involved in LEDFC are the right ones given the objective and the tasks that must be undertaken was examined in the context of the economics of conflicts and post conflict recovery literature and discussions with LEDFC staff. The information from representatives and others associated with the formation of LEDFC suggests that the partners came together largely out of happenstance and the desire on the part of Bob Johnson, shareholder of the RL Johnson Group of Companies, to carry out projects in Liberia. Moreover, observations of the profile of these key partners indicate that they are not experienced in the type of project they have implemented in Liberia. OPIC usually works through the American private sector to conduct businesses in developing countries; rarely does it set up a brand new entity as it has done in Liberia. While CHF International has been actively involved in private sector development in other countries, these projects have been more oriented toward microenterprises or the financing of major US enterprises in postwar environments with conditions much better than in Liberia. Hence, the types of institutions needed to ensure that the enterprise could be designed in a manner that fits the Liberian context were clearly absent in the partnership. While the Liberian government could have played that role, its reduced capacity made this nearly impossible.

The lack of adequate local supply of qualified loan officers in Liberia to support LEDFC operations constrains LEDFC's ability to supply more regions and sectors outside of Monrovia. Most of LEDFC's current loan officers had no prior experience in this type of lending. It was difficult to find applicants with basic skills in accounting and financial analysis from the pool that applied.²⁶ Since Liberia's banking system was decimated in the late 1980's due to excessive public sector borrowing and adverse macroeconomic conditions and policies, the local pool of human capital for the industry is thin. Hence, it is not feasible for LEDFC to expand lending without increasing its training and recruitment budget.

LEDFC is also constrained by the fact that it is a purely commercial venture that has to charge interest rates based on the market. Because it is set-up for domestic entrepreneurs who lack adequate capacity and face a tough environment, risks of lending to them is rather high. As a result, the risk-compensated interest rate has to be significantly higher than those of the commercial banks, given the longer contract terms and concentrated pool of risky domestic entrepreneurs. The goal of financing domestic enterprises also leads to an overexposure of LEDFC to systemic risk because its portfolio

²⁶ Former general manager of LEDFC indicated this lack of trained staff was a major challenge in getting the enterprise established and working effectively.

is concentrated in a highly risky pool of investments given the limited entrepreneurial and managerial capacity of the Liberian business class.

Finally, setting up a new enterprise without significant investment in developing its capacity has created challenges for the effective development of strategies and programs to fit the postwar Liberian realities. Setting up a brand new financing outfit in a context of limited human capital and financing experience has meant a steep learning curve for LEDFC. Knowledge about the local business environment and the capacity to meet risk-assessment needs have taken much longer to develop. For such an enterprise to be successful requires significant investment in developing its human and other capacities in order to cope with the substantial challenges that plague financing domestic SMEs in a complex, underdeveloped, and unstable postwar environment.

Conclusion: Synthesis, Lessons and Caveats

Are the problems experienced by LEDFC peculiar to the institution or do they reflect the general challenges typical in a project of this type in post conflict environments? Should these challenges be expected based on the literature on the economics of conflict? What lessons could this experience have for financing SMEs in other similar post conflict environments? Are the lessons generally applicable to underdeveloped post conflict economies?

Lessons for Post Conflict Domestic Enterprise Financing

From the foregone analysis a number of lessons can be drawn for financing SMEs in a post conflict environment. These lessons address several issues: 1) what type of financing is likely to be effective in the aftermath of protracted and devastating civil war in a highly underdeveloped country? 2) How should such a financing mechanism be set-up in this context? 3) What are the relevant issues in facilitating access to credit for domestic enterprises post conflict?

Lesson #1: *Facilitating effective access to finance for domestic enterprises is likely to require first addressing the critical and broader issues (such as infrastructure, managerial capacity and business climate) that affect private sector development in a post conflict environment.* Entrepreneurs in post conflict environments face other challenges in addition to their limited access to finance. When these other challenges go unaddressed, financial assistance may fail to effectively foster domestic enterprise development.

Lesson #2: *The design of business finance programs in post conflict environments must be sensitive to issues of collateral in the choice of the financing strategy.* Debt financing strategies can only work when the damages to property and property rights from conflict are minimal and the scale of expected operations match the size of the loan.

Where property rights are not adequately protected, establishing ownership or seizing collaterals in the cases of default could be difficult. Defining the appropriate collateral and the process for adjudicating default cases need to be clearly understood beforehand as should the extent to which they can be used to reduce moral hazard in the contract.

Lesson #3: *When conflicts devastate the private sector, the duration of financing projects for domestic enterprise recovery and rebuilding has to take into the time it might take to establish adequate capacity in the private sector.* Because most of the domestic enterprises likely to be financed are at the beginning stages of development, they require significant amount of time before they can become profitable and viable businesses. Moreover, because the post conflict environment is often characterized by delays, many businesses are likely to take longer to establish due to setbacks in getting inputs and completing major tasks such as construction. As others have noted, donors must be willing to make longer-term commitments if their financing projects are to be successful.²⁷

Lesson #4: *Financing strategies that include entrepreneurial capacity building and self-enforcing mechanisms to contain moral hazard may be more suitable in post conflict environments than debt financing.* Specifically, the venture capital model may be preferable because it allows enterprises to receive significant managerial and entrepreneurial assistance while giving the investor the opportunity to monitor their operations and reduce moral hazard. It may also give young businesses enough time to develop since the model does not require repayment of the invested funds until the enterprise matures. For such a strategy to be viable however significant work remains to be done to develop it for post conflict environments like Liberia. Currently, it remains untested and undeveloped for developing countries.

Lesson #5: *Sequencing and coordination of financing programs with other major aspects of reconstruction may help to increase the viability and effectiveness of such efforts.* While businesses often urgently need credit in the immediate aftermath of conflicts, a minimum level of institutions, infrastructure and markets are necessary for financing programs to work. Sequencing loan programs after major infrastructure projects or coordinating financing programs with technical assistance programs to build entrepreneurial capacity may be more effective.

In conclusion, it is clear from the Liberian case that the provision of credit alone in a context where there are significant institutional and infrastructural problems may not be an effective strategy for rebuilding domestic enterprises following a major

²⁷ Chand, S. and R. Coffman (2008). How Soon Can Donors Exit From Post-Conflict States? *Working Paper*. Washington, Center for Global Development.

conflict. The Liberian case shows that the constraints of infrastructure, institution and entrepreneurial and managerial capacities are as important to enterprise development as finance, if not more. Moreover, the limited success of the standard debt-financing model may suggest that such models may not fit the needs and capacities of entrepreneurs affected by conflicts and with limited experience with such models. Hence, success at building domestic enterprises may need to recognize the need for addressing the comprehensive set of constraints that undermine business profitability and viability in difficult post conflict environments and not focus simply on the provision of credit.

Limitations of the Study

The lessons from this study should be considered carefully with respect to the context and the conditions that prevailed in the immediate aftermath of the Liberian conflict and the history of entrepreneurship in the country. Liberia is arguably one of the worst cases of state collapse in recent history. Given this, it is highly possible that many other post conflict cases would not face the same level of difficult challenges LEDFC has faced. With a functional banking system, loan guarantees and subsidies can be used to facilitate access to credit, programs that have proven to be effective and less difficult to develop and manage. In Liberia these options were not feasible due to limited commercial banking capacity.

It is also important to point out that Liberia's low entrepreneurial and managerial capacity may not be common to all conflicts. Liberia had a unique history that accounts, in part, to its limited entrepreneurial and managerial capacity. For historical reasons, the elites preferred occupations in government and related activities (Clower 1966; Gårdlund 1968; Kraaij 1983). This led to the condition in which private enterprise was largely left in the hands of foreigners. Hence, there was limited entrepreneurial capacity even before the war. Other countries might not be in such a dire condition. Therefore, the scale of business support services necessary to restore adequate entrepreneurial capacity may be much lower than what the Liberian experience suggests.

Finally, facilitating access to credit need not rely exclusively on the small-scale project discussed in this paper. Financial systems can be rebuilt anew with significant positive results following conflicts. For instance, brand new development banks were established in Japan and Germany to reconstruct those economies after World War II. Hence, to the extent that donors can commit to a comprehensive approach to reconstruction in developing countries, better models that include the establishment of formal institutions may be preferable to the small-scale financing option examined in this paper.

Post Script

As mentioned in the introduction, the information included in this paper is current up until May 2009. By August 2009, LEDFC began to implement a revised strategy. This new strategy provides a basis to consider how the new changes relate to the lessons discussed in this paper and how likely are they to address the problems examined here. While information on the revised strategy is limited to postings on CHF International's website and personal communications,²⁸ the revised strategy reflects significant changes in lending criteria and the focus of the effort. For instance, the minimum loan amount has been reduced from \$25,000 to \$10,000. As the loan size was considered as much larger than what Liberian entrepreneurs typically require and can manage, this reduction in the threshold is likely to result into higher lending activities. This change is also consistent with lesson # 3 in this paper, which is that financing programs have to be sensitive to local conditions to be effective. Lowering the threshold to an amount that is much lower is consistent with the limited managerial capacity and current needs of most Liberian entrepreneurs.

Under the revised strategy start-ups no longer qualify for LEDFC funding; only businesses with established record of performance are eligible. This change is likely to improve loan repayment rates as start-ups are riskier than established businesses. While this change improves the repayment prospects, it raises questions about the potential for the project to reach communities and groups beyond those that are already successful. This issue is important particularly in postwar Liberia as most observers believe that promoting broad-based development is essential to changing the conditions that led to the conflict.²⁹

Finally the revised strategy defines 'Liberian ownership', the target group of enterprises, to mean businesses in which a Liberian has a majority stake. While the initial strategy emphasized Liberian-ownership or ownership by the Liberian Diaspora without a specific definition, the revised strategy considers any business in which a Liberian or a member of the Liberian Diaspora has more than 50 percent ownership. This change means that joint-ventures involving Liberians and foreigners now qualify to apply for LEDFC funding. Clearly this change will enable more businesses to qualify for LEDFC funds as there are a large number of capable foreign entrepreneurs in the Liberian economy that occupy a dominant position in most profitable sectors. The effect of this change on promoting domestic indigenous enterprises, however, is not clear.

Preliminary reports indicate that loan approval rates have increased since the implementation of the revised strategy (see Appendix E for list of new projects based on

²⁸ CHF International, "Liberia: Stimulating Enterprise and Entrepreneurs: Liberian Enterprise Development Finance Company (LEDFC)" (August 2009).

²⁹ Radelet (2007, p.13), for instance, stresses the importance of sensitivity to factors that lead to uneven development in reviving the postwar Liberian economy to ensure that conflict conditions are not inadvertently supported.

research by John Simon, CGD Visiting Fellow). A logical next step in learning more about effective SME financing strategies in post conflict environments from the LEDFC experience would be to examine whether the changes support the broader goals of reconstruction assistance in a manner consistent with reducing conflicts by encouraging broad-based development. It is also important to see if these changes adequately improve lending and loan repayment rates over the medium to long term. It would be useful to examine if fundamental changes addressing issues of collateral, business climate, infrastructure, institutional capacity and technical assistance for businesses are necessary for such an effort to meet the goals of conflict-sensitive reconstruction of postwar underdeveloped countries.

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Appendix A:

List of Interviewees

Monique Cooper
National Policy Analyst
United Nations Development
Program
UNDP - Liberia

E. Augustus Erskine
Former General Manager
Liberia Enterprises Development
Finance Company
Monrovia, Liberia

E. Edward Gboe
National General Secretary/CEO
Y.M.C.A.
Monrovia, Liberia

Nowai Gorlorwulu-Gbiliala
Executive Vice President
Golden Key Enterprises, Inc.
Monrovia, Liberia

McDonald C. Homer
Team Leader, Economic Growth
Office
U.S. Agency for International
Development
Monrovia, Liberia

Abraham B. Ndofor
General Manager
Liberia Enterprises Development
Finance Company
Monrovia, Liberia

Kelvin Paye
Business Manager
Venture Industrial & Construction
Kende-town-Paynesville, Liberia

Wilmot A. Reeves
National Economist
United Nations Development
Program
UNDP – Liberia

Franklin Siakor
Senator Bong County
The Liberian Senate
Monrovia, Liberia

Stuart C. Willcuts
Chief of Party
Liberia Community Infrastructure
USAID
Monrovia, Liberia

Appendix B: Summary of Responses from Interviews

| | Liberian Enterprise Development Finance Company (LEDFC) | Small and Medium Enterprises Financed | Donors & Aid Agencies | Liberian Government & Business Association | Other Organizations |
|--|--|---|--|---|---|
| Financial System Issues | Limited long term credit; limited opportunities for joint projects; commercial credit restricted to short term loans | Limited access to other loans; complicated credit processes; high interest rates and many conditions | Do not serve domestic entrepreneurs; difficult to meet collateral and other requirements; mainly geared toward the short term | Limited credit from commercial banks; only short term loans available; high loan default rates | Banking system poorly managed; kick-backs and other governance problems are common |
| Entrepreneurial & Managerial Issues | Limited capacity; no repayment culture; expect grants not loans; poor record keeping; short term oriented | Few capable entrepreneurs but constrained by the shortage of skilled labor; significant investment in training and management capacity; difficulties in managing war traumatized workers | Limited generally to mainly microenterprise potential; oriented to the short term; lack of commitment to enterprise development long term; and poor work ethic | High loan default rates; poor entrepreneurial and managerial capacity; limited collateral to access commercial credit; typical loan needs fall within 1,000 to 7,000 US\$ | Entrepreneurial capacity improving; loan needs are mostly for short term and modest (range 1,000-25,000 US\$) |
| Business Climate | High cost of fuel and transportation; limited regulatory frameworks | High cost of fuel and transportation; significant delays in acquiring inputs from abroad; stiff competition from Lebanese merchants; adversely affected by uncertainty and global downturns | Unable to compete with foreign entrepreneurs (Lebanese); cumbersome business registration processes; high cost of doing business | High transport and fuel costs; delays at port; limited skilled labor | Generally poor. Undermines the success of many businesses and borrowers. |
| Public Program and Regulatory Issues | Collateral requirements too high; limited loan enforcement capacity; limited credit records; no loan guarantees or other public programs | Unaware of business support policies besides import duties | Lack of public services; complicated business registration processes; no strategy | Limited resources to establish business support services; limited data on current domestic enterprises; no SME development strategy | Financial system regulatory oversight generally weak and have led to abuse of programs |

Other Relevant Issues

Low educational and skill levels among business people; high minimum loan requirements; loan term too short given post conflict conditions and limited entrepreneurial capacity; need for more technical assistance to build capacity; difficult to find skilled loan officers; credit risk assessment given lack of records and limited business history

LEDFC Loan process unclear; limited internal capacity to serve businesses; rigid process for resolving repayment problems

Lack of SME strategy; divided business community; more attention toward aid programs and less on domestic strategy

No contact with LEDFC; trying to work with commercial banks to streamline loan process and assist entrepreneurs; problems with ensuring loan payments by participating borrowers; LEDFC requirements too high for entrepreneurs

Financing model based on the 'Susu', a traditional rotational credit scheme, appears to work for small loans—low default rates.

**Appendix C:
Acronyms**

| | |
|-------|---|
| CGD | Center for Global Development |
| DAC | Development Assistance Committee |
| HIPC | Heavily Indebted Poor Country |
| LBDI | Liberia Bank for Development and Investment |
| LEDFC | Liberian Enterprise Finance Corporation |
| NIC | National Investment Commission/Liberia |
| ODA | Official Development Assistance |
| OECD | Organization for Economic Cooperation and Development |
| OPIC | US Overseas Private Investment Corporation |
| PRS | Poverty Reduction Strategy |
| RLJ | Robert L. Johnson Group of Companies |
| SME | Small and Medium-Sized Enterprise |
| UNDP | United Nations Development Programme |
| USADF | US African Development Foundation |
| USAID | US Agency for International Development |

**Appendix D:
Investments Processed by the National Investment Commission, Liberia,
2008**

| Projects | Industries | Investment(US\$) | Jobs |
|--------------------------------------|---|-------------------------|--------------|
| Libplast Packaging Inc. | Plastic Minerals | 2,475,569 | 27 |
| Sethi Brothers Inc. | Building Materials | 2,241,980 | 103 |
| Afbeko Inc. | Cocoa & Coffee | 4,011,021 | 35 |
| Knu Shong Industries | Vegetable Oil | 1,977,958 | 26 |
| Fouani Brothers | Vegetable Oil | 3,685,343 | 78 |
| Krystal Clear Purified Water | Mineral Water | 280,216 | 34 |
| Buchanan Renewable (Fuel) | Wood Chips | 24,236,502 | 307 |
| Boima Engineering Inc. | General Construction | 1,683,487 | 45 |
| Liberia General Recycling Plant | Scrap Materials | 2,109,190 | 186 |
| Venture Corporation Inc. | Building Materials | 1,078,896 | 51 |
| Golden Gate Group | Hotel | 8,861,406 | 108 |
| Mission Builders International | Hotel | 8,436,216 | 199 |
| Safari Enterprise Ltd. | Hotel | 8,023,378 | 92 |
| Buchanan Renewable Technical Service | General Service | 25,076,675 | 442 |
| Local Farm Agro | Rice & Oil Palm | 5,000,000 | 250 |
| Victory Enterprise | Liquor & Gin | 1,079,423 | 50 |
| General Industrial Corporation | Liquor & Gin | 2,294,380 | 54 |
| Sea Board Incorporated | Flour Mill, Grains Storage & Port Rehabilitation | \$30,000,000 | 200 |
| Total (18 Projects) | | 132,551,640 | 2,287 |

Source: National Investment Commission of Liberia, 2008 Annual Report

**Appendix E:
Liberian Enterprise Development Finance Company (LEDFC) Progress
Update**

- In early 2009, a new General Manager was appointed to run LEDFC. LEDFC's credit underwriting processes were strengthened, the staff received intensive training, and new marketing initiatives were launched.
- The target market was shifted from financing start ups to financing existing proven businesses seeking to upgrade and expand. New loans are being made to finance equipment and inventory. The pipeline is growing. New loans include the following:

| | Type of Business | Amount |
|-----------|-------------------------|---------------|
| 1 | Transport | \$195,385 |
| 2 | Cargo | \$152,227 |
| 3 | Commercial real estate | \$40,000 |
| 4 | Construction materials | \$10,000 |
| 5 | Photo processing | \$22,500 |
| 6 | Manufacturing | \$22,800 |
| 7 | Trade | \$69,400 |
| 8 | Agriculture | \$49,692 |
| 9 | Vehicle dealership | \$37,000 |
| 10 | Medical | \$15,000 |
| 11 | Trade | \$5,000 |
| 12 | Blacksmith | \$10,360 |
| 13 | Service | \$15,000 |
| 14 | Meat processing | \$206,088 |
| 15 | Manufacturing | \$17,955 |
| 16 | Business products | \$15,000 |
| | Total: | \$883,407.00 |

Source: Note from John Simon, Visiting Fellow, Center for Global Development