

# Is There Nothing Wrong with the [Liberian] Economy?

Amin Modad



There is an ongoing debate on the state of the Liberian economy. I am compelled to put aside sentiments, personal relationships, and political allegiances to enable me objectively respond to this debate. It is high time that we all did to prevent further decline of what we have all worked so hard to build and preserve. I also believe that it is my obligation (like many of you) even more so when I have all at stake as a Liberian entrepreneur. I fervently believe that being conscious of where Liberia has risen from over the last 8 years, significant progress has been made to

normalize the socio-political and economic situation in the country; one only has to have lived in Liberia since 2005 to appreciate the levels of growth and development Liberia has experienced as well as the foundation of peace and goodwill Liberia enjoys through the savvy leadership of President Sirleaf.

Despite this, being an entrepreneur and a trade development professional, I must say that the economy is severely stressed. Unless those of us entrusted to safeguard the interests of the Liberian people begin to realize our limitations and except our mistakes with conscientious efforts to make changes, we are on a downward trajectory. Liberia experienced a surge in investment and commercial activities in the last couple of years of the first term. Government initiatives and programs conceived in the early years of the administration began to show fruition as the government began implementing areas of the national development agenda. This spurred private sector activities in diverse sectors for example, construction contracts were in abundance with the construction of roads, schools, and hospitals. The procurement of goods and services generally improved while other service sectors piggybacked. Opportunities for wealth creation were being visible and Liberia experienced an unprecedented emergence of a TRUE decentralized middle class. However, immediately before the elections, there was an impasse; the world held its breath to see how the elections would end, which was a major test to our resolve for peace and stability. The economy began to gradually recede immediately after the elections as investors and donors continued the 'wait and see' attitude due to the then brewing fracas over the election results. FDI took a plunge as with ordinary investment speculation. Hotels like mine experienced a drop in occupancy especially from business clients. This was exacerbated by a reshuffle that did not meet the expectations of the public and partners. Delays in completing and passing the budget had the most cataclysmal effect on the economy and nation as a whole.

Having served on the board of a commercial bank during this period, the banking sector immediately experienced widespread defaults on loans by contractors, suppliers, and service providers who had borrowed in anticipation of being paid by the government or like myself, in anticipation that the surge in commercial activities seen in 2011 would continue. There is a ricochet effect; in simple terms, when there is a budgetary crisis with long delays in disbursements (especially so when the government is the most dominant employer and purchaser of goods & services), government employees, services providers and suppliers of goods will not get paid; people go into defaults with their banks and banks performance ratios (such as loan to deposit) go out of balance and they in turn don't lend; local entrepreneurs are not able to cover their overhead or obtain short term financing to keep afloat most often leading to downsizing or even closure. Consequentially, a bulk of the population (publicly and privately employed) cannot support their families and must curtail spending. Activities that parallel economic growth such as the building of new homes, starting of domestic enterprises, and increase in employment all systematically decline.

Equally challenging even to the most experienced leadership is, when the budget is over ambitious &

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concluded without capturing the inputs, programs, and strategies of the individual entities. As such, there is a disconnect between the agenda & work plan of the individual agencies and what they will end up being compelled to do with the scanty allocations they are spared. As a short-term fix, which we are experiencing now, the government will attempt to raise revenue at all costs thereby imposing further stress on businesses that already don't have the incentives to operate and succeed. We forget to realize that when there are no counterbalancing measures put in place to circumvent budgetary lapses, the economy implodes.

We created phenomenal policies and strategies over the first 6 years of the administration, but have begun faltering in their implementation by developing ad hoc agendas to fit budget lapses. For example, the Ministry of Commerce to which I once served as Advisor to the Minister, developed through broad based engagements with the private sector and donors, contemporary Trade, Industrial, and SME policies. However, the ministry is unable to implement these without the budgetary support. Thus, even though there is an ambitious administration with revived interests and plan, there is not enough money to implement them or jumpstart programs that development partners might be interested in funding. In the case of many agencies, the Ministers might actually accomplish more if 80% of their staff just stay home and get paid. This way, the institution could conserve and use savings to implement a couple of tangible programs such as establishing a Value Addition Center to support light processing or a Trade Store to promote Made in Liberia products.

The President needs to intervene perhaps drastically to improve interagency cooperation at the Ministerial or top level (predicated upon a concerted national agenda); currently, there is an infectious disconnect that is unsupportive of her vision and is affecting productivity in various agencies. It is so easy to slip into the trap of shifting responsibilities and attempting to solve such situations with short-term individualized interventions that most often create artificial and formal barriers. There is another caveat, donors and partners are becoming weary due to lapses in the implementation of key planned activities and the unnecessary ongoing public debates and internal frictions. From experience, donors and development partners are very sensitive to poor coordination.

The government needs to realign the functions of the various institutions/ministries to resolve overlapping functions and the evolution of super bureaucracies.

We have made progress to liberalize trade through the development and implementation of World Trade Organization (WTO) compliant trade policies as well as alignment of our tariff system with the ECOWAS Common External Tariff. A key part of WTO commitments is reductions in tariff rates, and removing unnecessary nontariff measures. To effectively facilitate trade, Liberia is obligated to improve and simplify customs procedures, streamline and increase the predictability of the systems for doing business. Many short-term interventions to stabilize the economy might lead us to administer contravening measures that would raise concerns with our trading partners; these actions might not have to be systemic.

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Let me use this medium to suggest few interventions that the Government needs to focus on to attain sustainable economic development:

1. Knowing that our comparative advantage lies in our natural resources, the Government must begin to fund programs that support the emergence of vibrant Small & Medium Industries (SMIs). Concomitant to this, quality improvement and standards must be prioritized to ensure the competitiveness of locally produced goods in order to access other markets. Liberia has been often classified as a Net Importer because we import almost all our consumables (such as sardines that is abundant in our waters or edible oils). By developing SMIs, we could make significant strides towards balancing our trade and avoid some of the effects of global trends that we might not be able to control. This also ties in to the current debate re increase in foreign exchange rate. Many factors affect the availability of foreign currency on the market. However, taking a look at our Balance of Payments and current trade flows we need to increase exports and retain capital in country. I don't believe the export of raw/unprocessed resources by foreign companies would optimally improve our net foreign assets since these companies by virtue of their models expatriate profits and capital. Whereas, a domestically owned SMI that adds value to say rubber or timber for exports will most likely bring back and retain in country most of its earning.
2. Create both fiscal and non-fiscal incentives for businesses (especially Liberian owned) to thrive; such need not be discriminatory or contravening to multilateral obligations. Undue stress on the business community also affects the survival of local enterprises, discourages FDI, and heightens uncontrollable corruption especially when several agencies are compelled to raise revenue or blamed for the budgetary shortfalls. Even when the intent is not corrupt, just the mere fact that multiple agencies begin to inspect businesses and firms, impose fines, or prosecute businesses all at the same time borders harassment and create poor public sentiments. Government must not be deterred from its desire to strengthen the business environment and facilitate trade.
3. Increase (rather than cut) the budgets of agencies that affect Trade and the proper exploitation of our resources such as the Ministries of Agriculture, Commerce, the FDA, and LPMC (or a similarly reconstituted agency). Focus and money must be placed on programs that support value addition, the increase of local production, and improvements on quality & standards to ensure Liberia's trade competitiveness. Increased trade results in increased revenue for both the private and public sectors, and increases net foreign assets without imposing business barriers or fighting around the budget. There is no sustainable way of generating revenue without offering something for money (which is called Trade); what do we have to trade? Our resources. But I stress here again, we must make the move from just exporting unprocessed resources to adding value for greater returns.
4. Implement a rationalized reorganization of government that would bring in competences and experience rather than merely reshuffling officials (this recommendation doesn't in anyway

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conclude that there aren't competent officials already in government.). We have a savvy and experienced President with enormous integrity, goodwill and support from development partners; but she cannot do the work by herself and must be able to rely on able lieutenants. It is like building a 20 story building with 4 inch blocks from the foundation up and then using gold bricks for the top floor.

5. Great work in being done re the construction of roads. This must continue strategically to open access to markets, facilitate trade, and improve access to social services rather than for political gains.
6. Tourism is a great but underexploited opportunity that the government must begin to prioritize. Our rich and diverse culture & history and geographical assets could make Liberia a touristic destination. Relatively, there is a need to improve the country's image; we must market Liberia. Despite the many good news that have come out of the country since President Sirleaf's ascendancy, we are still a post conflict nation that has been scarred by years of economic mismanagement, mediocre leadership, complex fragmentized society (not limited to tribal, religious, gender, and fraternal), and unfavorable international relations.

The world still sees a nation ravaged by corruption, wars, etc. Whereas, with our turn for the better and the goodwill this administration has, we could market our experience in conflict resolution & peace building and make Liberia a destination for global conferences, and peace talks in addition to ecotourism. Why do we have to go all the way to cold Geneva to settle regional disputes?

Government must pay attention on developing the skills needed to drive tourism and cater to increased economic activity; the hospitality sector must be supported and incentivized. Hospitality must be included and subsidized at the University Level. Providing quality hospitality service is a challenge for hoteliers and restaurateurs as there are no formally trained Liberian chefs, hotel managers, and etc.

7. Existing concessions must be reviewed without intimidating investors with the intent of ensuring that corporate social responsibilities and other obligations of the concessionaires are being met. Furthermore, government needs to be more prudent in negotiating new concessions. We are yet to experience the optimal effects of the over \$16B we have attracted especially when concessionaires are not fully utilizing or developing local skills and resources or procuring from domestic suppliers. Partnership with local businesses must be embedded to ensure that concessionaires invest into building local businesses to supply their needs as an alternative to bank financing.
8. **BUILD LIBERIAN MILLIONAIRES!** Concessions must be encouraged to establish partnerships with Liberian entrepreneurs and the communities in which they operate. This applies to the emerging

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oil sector. From the onset, government needs to award a couple of oil blocks or sell shares to Liberians even before prospecting rather than merely allowing large multilateral companies acquire all the blocks and give out X percentage to Liberians at their bargaining terms. With such discretion, these shares would be available only to the few elites and those in power who can advance the agenda of these companies. On the other hand, if say shares of just 3 out of the 13 oil blocks are opened to 1000 Liberians each who will own and in turn negotiate or partner with foreign investors, the chances of spreading wealth and building Liberian millionaires would be greater. Let us learn from the mistakes of other oil rich countries and neighbors such as Ghana and Nigeria. How else would we develop vested interests in peace, security, and a vibrant political system?

9. Provide customized lending facilities to support entrepreneurship, mortgage & home construction, education & specialized training, healthcare, and manufacturing. In the developed world, Home Starts (measuring how many new homes are built in a period) is a critical indicator of economic strength and directly relates to the performance of other industries such as banking, the mortgage sector, raw materials, employment, construction, manufacturing and real estate. In a strong economy, people are more likely to build new homes; conversely, in a weak economy, people are less likely to.

There has been condemnation of the CBL from some quarters for injecting funds through the commercial banks for lending to Liberian businesses. I don't know how, why, and where that argument is coming from. Unless it was not strategically implemented and lacked the monitoring mechanisms, it was an unprecedented and overdue move by the government that is HELPING us.

These and several other interventions can develop a sustainable capitalistic private sector driven economy with more revenue generating opportunities to drive an ambitious development agenda.