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Talking Points for Session 2: UNIDO LDC Ministerial Conference
"SDG 9 and the path to graduation"

Entrepreneurs create jobs, but they need access to capital and markets, technology transfer and favorable interest rates. What are the main constraints to private sector investment in manufacturing in LDCs?

- The economic empowerment and growth of LDCs is the SMEs. In Liberia and specifically the MOCI, we have embarked on a journey to transform our MSMEs from micro to small, small to medium, and medium to large enterprise. SMEs are the missing link to inclusive growth as they account for approximately 60-70% of total global employment. They make up over 95% of all firms and account for approximately 50% of GDP. In Liberia, MSMEs are the primary source of income for approximately 80% of Liberian households. They form a major part of the real economy but majority in countries like ours operate in the informal economy and impact mostly young people, the majority of our population. In Liberia SMEs are the emerging cores of the domestic corporate private sector.
- Specific to manufacturing:

Access to land and the land tenure system. Manufacturing industries require significant amounts of land space. In Liberia, land ownership is a complex issue and many investors find the cost to lease land disproportionally high compared to the level of investment. In the 'conflict prone counties' of Nimba, Lofa and Grand Gedeh, the prevalence of disputes has been estimated at about 25%,

Taxation structure.

Arbitrary enforcement and inspections processes.

Lack access to financing and long-term capital, the base that companies are built on. High risks associated with small and medium enterprises, whether real or perceived, exist in the absence of financial instruments that manage and diversify the risk. In Liberia, less than 10% of commercial banks offer loans to SMEs and mostly with high interest rates. About 35% of small firms and 27% of medium firms and 30% of large firms view access to finance as a major constraint. Such explanation appears to lie in micro distortions such as a risky and adverse credit environment, weak contract enforcement, lack of credit reference systems and the absence of a credit bureau that serves as a mechanism for filtering good borrowers from bad and risky ones.

Inadequate Infrastructure development. Electricity: Power tariffs in Liberia are about the highest in the world at US$0.52 per kilowatt, with coverage to less than 5% of the country. This cost pales relative to the average cost of operating generators, which the World Bank puts at US$3.96 per kilowatt hours, implying significant cost for the more than 63% of firms that primarily rely on generators. The cost of fuel is a major factor in these high tariffs. These conditions are largely a consequence of the destruction of Liberia's hydroelectric dam and the diminished capacity of the Liberia Electricity Corporation, which provided as much as 191 MW of power prior to the war. The LEC now provides about 22.64 MW of power with an implying urban access rate of about 5.6% and National electricity access in Liberia is 1.7%. Liberia's low supply of electricity presents significant challenges to the attainment of economies of scale for firms and economic sectors. Scale economies are generally intense in the use of electricity. Firms in vegetable and agro-processing, for example, are not competitive in the absence of reliable and affordable electricity supply.

Roads: Only about 6.9% of Liberia's entire road network and about 39% of the primary road network straddling the key growth corridors are paved. During the rainy season these unpaved roads deteriorate significantly, exacting huge toll on individuals and businesses.

Telecommunication and water networks are also lacking. Ensuring connectivity through telecommunications and information technology has become particularly important in recent years, helping to overcome some of the barriers of inadequate physical infrastructure, but Liberia has not solidified its telecommunications infrastructure sufficient to augment the other infrastructure constraints. (Ace fiber optics cable will have a positive impact on investment growth)

Rule of law. Liberia's private sector partners have sited weak legal regulatory framework, such as an efficient court system and other dispute resolution mechanisms as principal constraints to doing business in Liberia. According to the World Bank Doing Business Survey, the time it takes to litigate contract enforcement cases in Liberia is about 3.5 years. Litigation in Sierra Leone according to this same source is about 1.4 years. Such high costs in terms of litigation time are symptoms of dysfunctions in a country's judicial system. The evidence surveyed suggests that these dysfunctions may be affecting the confidence firms have in the Liberia judicial system. The impact of weak contract enforcement appears to be huge on banks, which are heavily intense in the constraint. A review of the sample of cases at the Commercial Court, which was created to relax contract enforcement constraints, shows that about 22% of the cases have involved banks. Banks are important and relevant because they are gateways to expansion of private sector credit.

Human Capital: Firms in Liberia generally complain that they cannot meet their skills demand and some appear to be bypassing this constraint by importing skilled labor.

Political instability and corruption.

Two key challenges in LDCs are infrastructure and productivity. Industries are not creating enough jobs like for the millions of young people moving into cities each year. Should UNIDO shift its strategies to help countries shift workers into more productive industries?

Specific to Liberia, we have a youthful population. 65% under the age of 35. The GOL recognizes the critical role this age cohort plays in national development and has acknowledged that Liberian youth are the country's most valuable asset. Thus, a key objective of the National Development Agenda is to develop skills among youth that make

them increasingly employable and productive. Two programs the Liberia Youth Employment Program (LYEP) and the Youth Employment Skills Program (YES) are the mechanisms that are being used to address youth needs and direct investments in technical and vocational education, as well as other secondary and tertiary education to ensure that Liberians have the skills to respond to job opportunities.

What are the measures that the LDCs could take at the national level to facilitate the creation of a conducive domestic environment for attracting FDI?

The total share of FDI to LDCs in global FDI remains only around 1.7 per cent, underscoring that much more needs to be done. Stronger and more focused policies, strategies and mechanisms by LDCs, home countries of FDI, international organizations and other stakeholders can substantially increase FDI flows to LDCs in the coming years. An enabling business environment benefits all businesses. In Liberia, we are advocating the government support in the following core areas to promote increased FDI:

- Improving our physical infrastructure. We have an enormous and ongoing task for rehabilitating physical infrastructure (including roads, electricity, water, ports and telecommunications). While these improvements are impressive, there is still much to be done.
- We have to reduce the legal and regulatory costs of doing business. While we scored high ranked30 out of 189 in starting a business. It takes 48 hours, to register a business, now fully automated. Quite impressive, however, the overall ease of doing business indicator ranked Liberia as 180. Lowest 10%.
- We need to improve our judicial system. We now have commercial code and commercial court to establish modern laws to govern commercial transactions and resolve dispute. When these are fully capacitated, they will significantly improve the investment climate, ensure greater security for commercial transactions, substantially improve access to finance and inspire greater confidence in Liberia s an investment destination. We are on the throes of enacting the Foreign Trade and Competition laws & develop the institutional structure to address uncompetitive practices.

- We need to align labor market development with private sector needs.
- Continue to strengthen relations between GoL and private sector. Maintain a dialogue with the two ensure that reforms are enacted in collaboration and not opposition.

Gains:

The Executive and Legislature in passing the Small Business Empowerment Act elevating the MSME

Division to the Bureau of Small Business Administration. The Act sets aside 25% of all public procurement opportunities for Liberian owned businesses with 5% of that allocation for Liberian women owned businesses.

Lastly, Our accession to the WTO in at the 11th Ministerial in Nairobi. WTO Ascension: What does it mean for us – well, think of it this way – domestic reforms that makes our systems more easily accessible, where the rules are the same for everyone, where the processes for doing business are clear and predictable tend to work to the benefit of MSMEs who have smaller profit margins who cannot afford to spend money on unplanned incidentals. It works for MSMEs who want to export to the global market by putting in place the standards regime that allow for our products to be exported and access global value chains. It makes the rules of participation more transparent.