LUCID AFRICA CONSULTING INC.

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Lucid Africa Consulting Inc.

To the Esteemed Clients of Lucid Africa Consulting Inc.:

Welcome to the first quarterly newsletter from Lucid Africa Consulting Inc. (Lucid Africa). These newsletters have the objective of providing you with succinct analytical reporting on economic and political issues of relevance.

This first edition of Lucid Africa's newsletter focuses on West Africa. Three articles are included, one with a regional focus and the other two with a country focus. Brief summaries of each of these articles are provided below.

Article 1: *Canada's Trade and Investment Relations with the Economic Community of West African States (ECOWAS)*. This article provides a background to Canada's relationship with the 15 countries that make up the Economic Community of West African States (ECOWAS). It highlights the growing importance of ECOWAS countries as a trade and investment destination for Canada. Moreover, it underscores the various ways in which the Canadian government has attempted to facilitate trade and investment in ECOWAS. The article, however, acknowledges that Canada's approach in West Africa has lacked a regional focus and recommends that the government support the ECOWAS Commission in order, among other reasons, to provide a platform for instituting reverse trade missions and conferences that can connect Canadian firms with commercial actors in the region.

Article 2: *Ghana's Recent Robust Economic Performance*. This article explains Ghana's recent levels of robust economic growth and significant foreign investment. Key factors that explain Ghana's economic performance are identified, including political stability and institutional accountability, sustained increases in prices and production of gold and cocoa, developments in the oil and gas sector, and Ghana's relatively good infrastructure. In addition, the article outlines competitiveness issues that constrain Ghana's economy and highlights key vulnerabilities that may inhibit broad-based economic growth.

Article 3: *Liberia's Recent Stellar Economic Performance*. This article focuses on Liberia and attributes the country's recent stellar economic performance to astute leadership that has focused on macroeconomic stability, policy clarity in the mining and investment codes, and the aggressive promotion of foreign investment, as well as the upswing in commodity prices, particularly those of iron ore and rubber. The article also describes the outstanding bottlenecks and key risks to sustained economic growth and investment in Liberia.

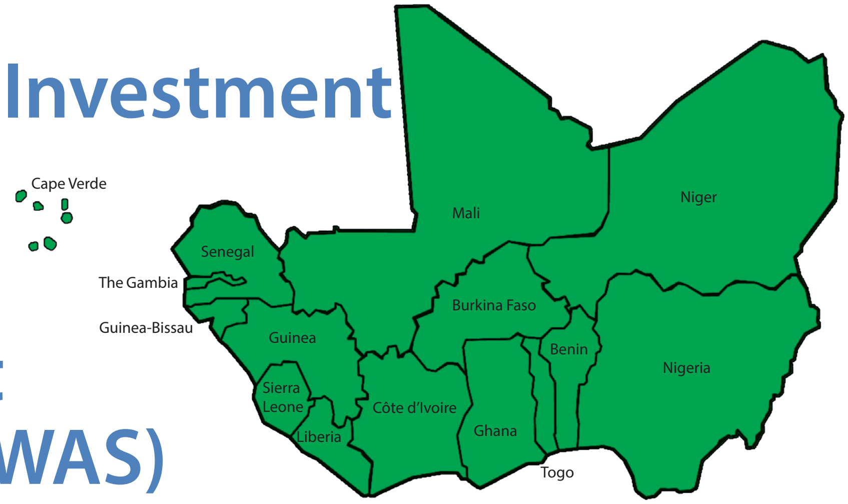
We at Lucid Africa will strive to ensure that our clients succeed in Africa by providing cogent analysis on politics, economics, industry, and value chains in Africa.

Thank you.

Sincerely,

David Shiferaw
10 December 2012

Canada's Trade and Investment Relations with the Economic Community of West African States (ECOWAS)



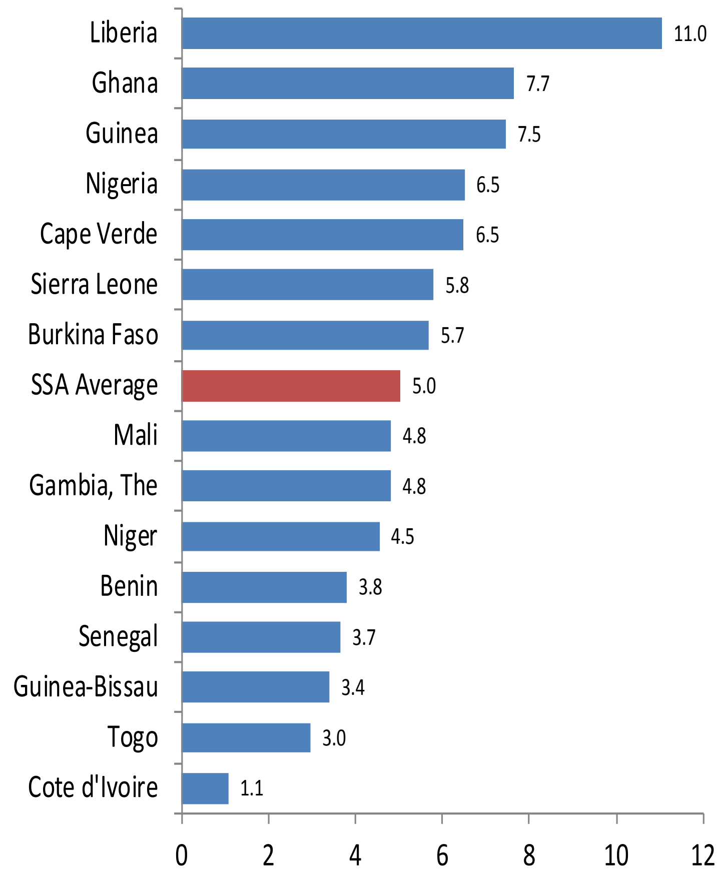
The Economic Community of West African States (ECOWAS) is a regional grouping of 15 countries headquartered in Abuja, Nigeria, that was founded in 1975 with the objective of promoting the regional economic integration of West African states.[i] ECOWAS states together represent a total population of 309 million and a GDP of US$364 billion (see Table 1).

Over the period 2005 to 2011, the economies of ECOWAS states on average grew by an annual rate of 5.3%.[ii] Five ECOWAS states – Liberia, Ghana, Guinea, Nigeria and Cape Verde – were among Africa's top 12 economic performers. Moreover, except for Cape Verde, these top performing ECOWAS states are rich in minerals.[iii] Figure 1 provides the average annual growth rate of ECOWAS countries over this period, benchmarked to the sub-Saharan African average.

Table 1. ECOWAS States - Basic Statistics for 2011

	Population, Millions		GDP, US$ Billions		GDP / Capita
Benin	9.1	3 %	7.3	3 %	802
Burkina Faso	17.0	5 %	10.2	3 %	600
Cape Verde	0.5	0 %	1.9	1 %	3,798
Côte d'Ivoire	20.2	7 %	24.1	7 %	1,195
Gambia, The	1.8	1 %	1.1	0 %	625
Ghana	25.0	8 %	39.2	11 %	1,570
Guinea	10.2	3 %	5.1	1 %	502
Guinea-Bissau	1.5	1 %	1.0	0 %	629
Liberia	4.1	1 %	1.2	0 %	281
Mali	15.8	5 %	10.6	3 %	669
Niger	16.1	5 %	6.0	2 %	374
Nigeria	162.5	53 %	235.9	65 %	1,452
Senegal	12.8	4 %	14.3	4 %	1,119
Sierra Leone	6.0	2 %	2.2	1 %	374
Togo	6.2	2 %	3.6	1 %	584
	308.7	100 %	363.7	100 %	

Figure 1. Average Annual Economic Growth Rates, ECOWAS States, 2005-2011



This report will briefly summarize Canada's trade and investment performance in ECOWAS states. This summary will first outline Canada's export and import performance with ECOWAS states in comparison to sub-Saharan Africa and the African region. Thereafter, the report will look at Canada's direct investment activities in ECOWAS states. The report will finish with a brief conclusion and recommend that the Canadian government work with the ECOWAS Commission both to support regional economic integration efforts and to develop a platform that supports the connection between Canadian firms and economic and commercial actors in the region.

Canada's Trade Relationship with ECOWAS

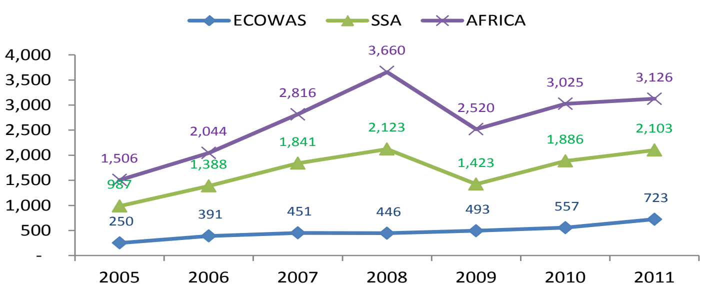
Exports:

• Canada's total exports to ECOWAS states increased by 189% from US$250 million in 2005 to US$723 million in 2011.[iv] This rate of growth in exports was greater than that of Canada's total exports to sub-Saharan Africa and to the Africa region as a whole, which grew by 113% and 108% respectively over the same period (see Figure 2).[v]

• Canadian exports to Nigeria and Ghana comprise the bulk of Canadian exports to ECOWAS states. Between 2005 and 2010, exports to Nigeria and Ghana constituted 37% and 32% respectively of Canadian exports to the ECOWAS states.[vi] Only South Africa provided a larger export market in sub-Saharan Africa than either Nigeria or Ghana.

• Canadian exports to ECOWAS states primarily comprised cereals, motor vehicles, capital equipment and worn clothing.[vii]

Figure 2. Canada's Total Exports to Africa, 2005-2011, US$ Millions



Source: Industry Canada website

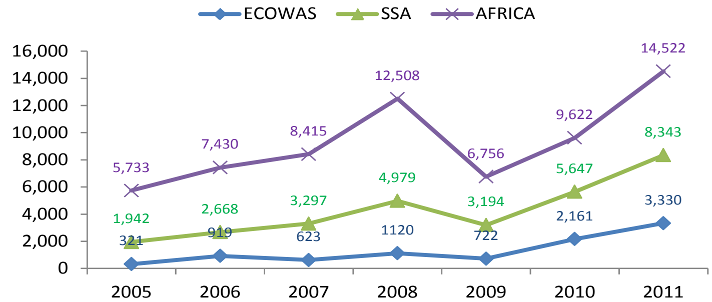
Imports:

• Canada's total imports from ECOWAS states grew by 935% from US$321.7 million in 2005 to US$3,330.9 million in 2011. This rate of growth was significantly greater than that of Canada's imports from sub-Saharan Africa and the Africa region as a whole, which grew by 329% and 153% respectively (see Figure 3).

• Canadian imports from Nigeria and Cote d'Ivoire dominated Canada's imports from ECOWAS states. Over the period 2005 and 2011, Canadian imports from Nigeria and Cote d'Ivoire comprised 70% and 21%, respectively, of Canadian imports from ECOWAS states. Nigeria's exports to Canada were the second highest of any sub-Saharan African country after those of Angola.

• Canadian imports from the ECOWAS states primarily comprised petroleum products, cocoa products, and rubber and articles thereof.[viii]

Figure 3. Canada's Total Imports from Africa, 2005-2011, US$ Millions



Source: Industry Canada website

The Canadian government's support for increased trade relations between Canada and the ECOWAS states falls within the rubric of improving Canada's trade relations with Africa and Less Developed Countries (LDCs). As a result, all ECOWAS countries except for Cote d'Ivoire, Ghana and Nigeria fall under Canada's Market Access Initiative, which provides duty-free and quota-free access to the Canadian market.

In addition, commercial relations have also benefited from trade financing and risk mitigation solutions provided by Export Development Canada, as well as market intelligence services provided by the Canadian Trade Commissioners' Office.

Canada's Investment Relations with ECOWAS Countries[ix]

Canada's Direct Investment to ECOWAS Countries:

• Available data from Statistics Canada suggest that Ghana and Burkina Faso were among the top recipients of Canadian investments in Africa.[x] In 2008 and 2009, direct investment flows from Canada to Ghana and Burkina Faso totaled US$1,130 million and US$157 million respectively.[xi] Over this period, Canadian investment flows to Ghana were the second highest in Africa after those to South Africa.

• Canadian investments in the ECOWAS region remained strongly tied to mining, oil and gas. Canadian companies operated a number of producing gold mines and oil fields in ECOWAS states (see Table 2). Many more Canadian

Table 2. Canadian Producing Mines and Fields in ECOWAS

Country	Company	Share	Mine/Oil Field	Annual Capacity
Burkina Faso	IAMGOLD Corp.	90%	Essakane	9,800 ounces
Burkina Faso	High River Gold Mines Ltd	90%	Taparko-Boroum Mine	3,100 ounces
Burkina Faso	Semafo	90%	Mana Mine	3,700 ounces
Cote d'Ivoire	La Mancha Resources Inc.*	46%	Ity Mine	1,900 ounces
Cote d'Ivoire	Canadian Natural Resources Ltd.	58%	Baobab Oilfield	17,520 b/d
Cote d'Ivoire	Canadian Natural Resources Ltd.	59%	East Espoir Oilfield	6,700 b/d
Senegal	Teranga Gold Corp.	90%	Sabodala Gold Operations	5,400 ounces
Guinea	Semafo	85%	Kiniero Mine	1,250 ounces
Ghana	Golden Resources Resources	90%	Bogoso/Prestea	7,300 ounces
Ghana	Golden Resources Resources	90%	Wassa Ltd.	7,000 ounces
Ghana	Kinross Gold Corp.	90%	Chirano Mine	8,000 ounces
Mali	Avion Resources	80%	Tabakoto Mine	5,000 ounces
Mali	IAMGold	40%	Yatela Mine	2,500,000 ore
Mali	IAMGold	41%	Sadiolo Hill Mine	5,300,000 ore
Niger	Semafo	80%	Samira Hill Mine	3,000 ounces

Source: USGS 2010 Minerals Yearbook

Note: *Canada's La Mancha Resources acquired by Egypt's Sawaris in 2012 and Canada's Avion Resources was acquired by Endeavour Mining Corp. of the Cayman Islands in 2012.*

companies, however, were involved in exploration activities and mine development.

• Areas outside of the mining sector are also seeing increased activities by Canadian companies such as Manitoba Hydro, SNC Lavalin and Bombardier. Manitoba Hydro is actively involved in management contracts of public utilities in ECOWAS countries.[xii] SNC Lavalin on the other hand is currently involved in social and physical infrastructure works in Ghana, Mali and Senegal.[xiii] Moreover, Bombardier recently expressed interest in partnering with the Nigerian Ministry of Aviation to establish a repair, maintenance and overhaul facility in Nigeria.[xiv]

The Canadian government's support for investment in ECOWAS states includes trade and investment facilitation services provided by various Canadian government agencies including EDC and the Trade Commissioners' Offices. In addition, the Canadian government has attempted to support the burgeoning investments in the ECOWAS region by increasing the number of bilateral Foreign Investment Promotion and Protection Agreements (FIPAs) being negotiated and concluded amongst ECOWAS states. To date, the Canadian government has concluded FIPA negotiations with Mali and Senegal. Moreover, FIPA negotiations are ongoing with Benin, Burkina Faso, Cote d'Ivoire, and Ghana.[xv] Table 3 lists the status of FIPA negotiations with African countries.

Table 3. Canadian Bilateral Investment Agreements with African Countries

Country	Region	Investment Agreement Type	Date
Egypt		FIPA in force	Nov. 1997
South Africa		Trade and Investment Cooperation Agreement	Sep. 1998
Madagascar		FIPA negotiations concluded	Aug. 2008
Mali	ECOWAS	FIPA negotiations concluded	Oct. 2011
Senegal	ECOWAS	FIPA negotiations concluded	Sep. 2012
Tanzania		FIPA negotiations concluded	Sep. 2012
Cameroon		FIPA negotiations concluded	Nov. 2012
Benin	ECOWAS	Ongoing FIPA negotiations	
Burkina Faso	ECOWAS	Ongoing FIPA negotiations	
Cote d'Ivoire	ECOWAS	Ongoing FIPA negotiations	
Ghana	ECOWAS	Ongoing FIPA negotiations	
Tunisia		Ongoing FIPA negotiations	
Zambia		Ongoing FIPA negotiations	

Source: http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/index.aspx?lang=eng&view=d Accessed 6 December 2012

However, Canada's trade and investment relations with ECOWAS states lacks a regional focus and could be better served by supporting the ECOWAS Commission and the connection of Canadian firms with commercial actors in the region. An increased engagement by the Canadian government with the ECOWAS Commission would not only provide Canadian businesses with a larger and more diversified regional market, but also provide the Canadian government with a useful platform to institute reverse trade missions and conferences that can connect Canadian firms with commercial actors in the region.

Conclusion

ECOWAS countries are becoming a more important trade and investment destination for Canada in Africa. Recent trends show that trade and investment relations between Canada and ECOWAS states are increasing at rates faster than the sub-Saharan African and African averages. Nigeria and Ghana remain top destinations in ECOWAS for Canadian exports, while Nigeria and Cote d'Ivoire remain the top ECOWAS countries of origin for Canadian imports. On the investment side, mining entities remain the prominent Canadian investors.

The Canadian government has attempted to facilitate trade and investment in key ECOWAS states a number of agencies, bilateral agreements, and high profile government visits. However, Canada's trade and investment relations with ECOWAS states lack a regional focus. The ECOWAS Commission can provide the Canadian government with a useful platform to institute reverse trade missions and conferences that connect Canadian firms with commercial actors in the region.

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[i] *See the ECOWAS website <http://www.comm.ecowas.int/sec/index.php?id=about_a&lang=en>*
[ii] *Data sourced from the World Bank's Word Development Indicators (WDI) on October 2012.*
[iii] *Ghana, Nigeria, Liberia, and Guinea have well-developed mining sectors that contribute significantly to each country's national economy.*
[iv] *Industry Canada's online trade data http://www.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/Home*
[v] *Data runs on Industry Canada's online trade data – by country and date.*
[vi] *Ibid.*
[vii] *Ibid.*
[viii] *Ibid.*
[ix] *Data limitations preclude a detailed assessment of Canada's foreign direct investment in ECOWAS countries.*
[x] *South Africa ranked as the top destination in Africa for Canadian direct investment.*
[xi] *Converted to US$ from C$ using average exchange rates for 2008 and 2009 from the Bank of Canada. http://www.bankofcanada.ca/rates/exchange/exchange-rates-in-pdf/*
[xii] *See Manitoba Hydro's Website.*
[xiii] *See SNC Lavalin's Website.*
[xiv] *See Sade Williams's news article Bombardier to Establish Aircraft Maintenance in Nigeria on Business Day, 17 August 2012. http://www.businessday-online.com/NG/index.php/advertising/43001-bombardier-to-establish-aircraft-maintenance-in-nigeria*
[xv] *See Canada's Department of Foreign Affairs' website http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/index.aspx?lang=eng&view=d*

Ghana's Recent Robust Economic Performance

Ghana has enjoyed robust economic growth over the past seven years. During this period, Ghana's real gross domestic product (GDP) grew at an annual average of 7.7%, the second fastest growth rate in West Africa and greater than the sub-Saharan African average of 5% (see Figures 1 and 2).[i] In 2011, Ghana's 14.4% GDP growth rate was the fastest in Africa.[ii]

In addition, Ghana has been one of Africa's top recipients of foreign investment. In 2010, the country received $2.5 billion of foreign direct investment, or 7.9% of GDP (see Figures 3 and4).[iii] As a result, Ghana was the third highest recipient of foreign direct investment in sub-Saharan Africa after Mauritius and Nigeria.

Figure 1. Ghana and SSA GDP growth 2005-11

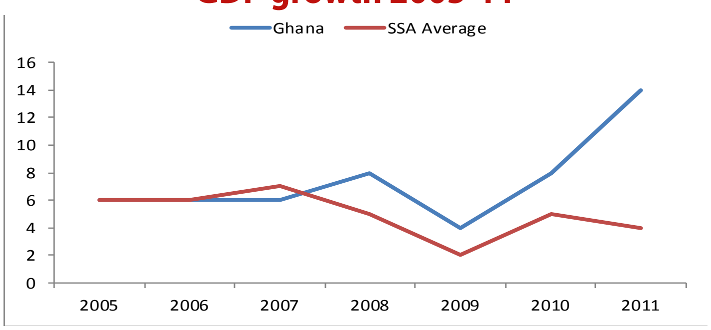


Figure 3. Ghana, Foreign Direct Investment, 2005-10, US$ Millions

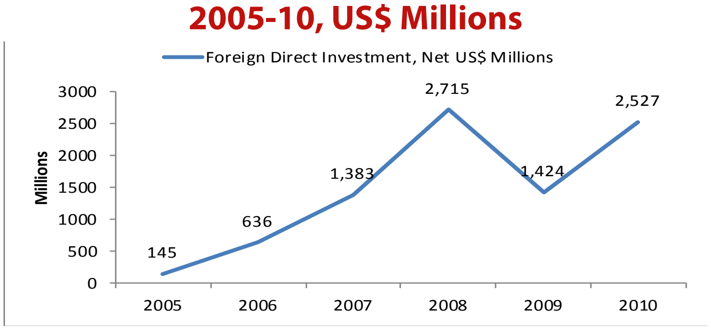


Figure 2. Average Economic Growth Rates, West African States, 2005-2011

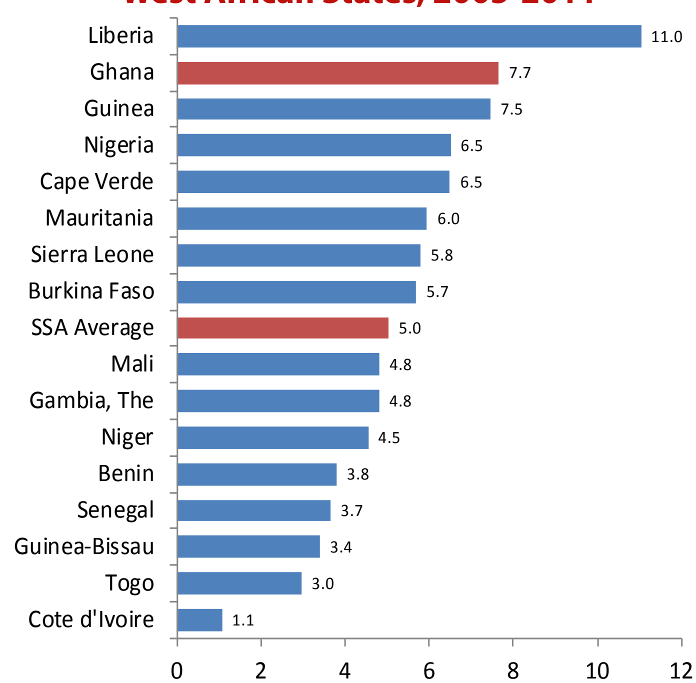
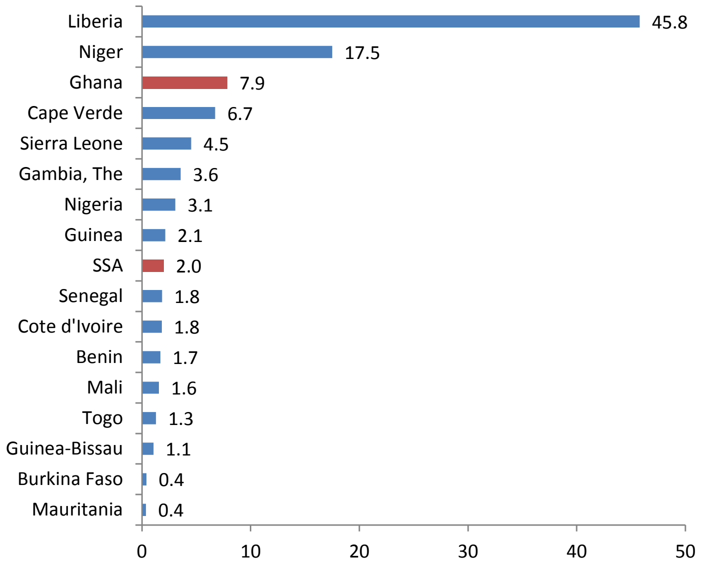


Figure 4. FDI/GDP, West African States, 2010



This article will explain Ghana's recent economic growth and investment trajectory, and highlight outstanding bottlenecks that constrain its sustained broad-based economic growth. In addition, key risks to Ghana's broad-based growth trajectory will be outlined. Thereafter, a brief conclusion will summarize the article's key points.

Explaining the growth and investment trajectory

Ghana's recent growth has hinged on strong performance in export-oriented agriculture, mining and quarrying, construction, and financial services.[iv] Growth in these sub-sectors has been buoyed by the following factors:

• Political stability and institutional accountability – Ghana's maturing democracy has provided a level of political stability and institutional accountability in a region that has been marked by the conflict in Cote d'Ivoire, a coup in Mali, and religious strife in Nigeria. This level of political stability and institutional accountability is reflected in Ghana's strong performance in a variety of governance indicators, including the World Bank's Worldwide Governance Indicators.

• Sustained increase in prices and production of gold and cocoa – Over the past decade, Ghana's domestic economy has enjoyed a significant boost from a sustained increase in the prices and production of its two most important exports, gold and cocoa. This economic boost has resulted in an increase in national income and government revenues.

• Discovery of major off-shore oil field in 2007 (Jubilee Field) – The discovery of the Jubilee Field in mid-2007, a world-class oil field with recoverable reserves of 490 million barrels and significant upside potential,[v] has significantly increased activities in Ghana's mining and quarrying, construction and finance subsectors. As a result, over the period 2007 to 2011, Ghana's industry and service sectors grew at an annual average rate of 14.7% and 7.4% respectively.[vi]

• Relatively good performance in infrastructure – Ghana's performance in terms of access to roads and electricity is good by regional standards. On a national average level, for example, Ghana performs well in terms of access to electricity, paved road density, and quality of its road network.[vii]

Outstanding bottlenecks and key risks to investment and economic growth in Ghana

In spite of Ghana's recent robust growth, a variety of competitiveness issues constrain investment and broad-based economic development. These issues relate to the following: access to finance, quality of electricity supply, labor force work ethic, and levels of business sophistication.

• Poor access to finance – Access to finance has consistently been rated by the World Economic Forum's Global Competitiveness Reports as the most problematic factor for doing business in Ghana.[viii] In its most recent report, Ghana ranked 125 out of 144 countries, behind peer nations such as Kenya, Zambia and Nigeria.[ix] The World Bank's Enterprise Survey confirms this finding, as access to finance was ranked second to electricity as a firm's biggest obstacle to doing business in Ghana.[x]

• Poor quality of electricity supply – As a result of a rapid increase in demand for electricity, an aging transmission and distribution network, and risks of low rainfall, electricity supply in Ghana is problematic.[xi] In the most recent Global Competitiveness Report, Ghana ranked 116 out of 144 countries in the quality of electricity supply.[xii] Moreover, in the World Bank's 2007 Enterprise

Survey 49% of firms surveyed identified this as the biggest obstacle to doing business in Ghana.[xiii]

•Poor work ethic in national labor force – In the most recent Global Competitiveness Report, 11% of executives surveyed in Ghana identified poor work ethic in the national labor force as the most problematic factor for doing business.[xiv] This rating compares very poorly with peer comparator countries such as Nigeria, Kenya and Zambia, where 1.7%, 3.3%, and 6.1% of respondents respectively identified poor work ethic in the national labor force as the greatest obstacle to doing business.[xv]

• Levels of business sophistication – The level of business sophistication in Ghana is problematic, particularly in comparison to countries such as Nigeria, Kenya and Zambia.[xvi] In particular, Ghana performed poorly in the extent of marketing, state of cluster development, production process sophistication, and local supplier quality.[xvii]

Ghana's positive economic trajectory, particularly as it relates to broad-based economic growth, remains vulnerable to the following key risks:

• Risk of high inflation: Although Ghana managed to bring down inflation to single digits in 2010, there is a long tradition of the government running larger than expected budget deficits.[xviii] This fiscal slippage is accentuated by the significant incentives for incumbent governments to run budget deficits during election periods.[xix]

• Risk of increased interest rates: The Ghanaian government's ambitious efforts to invest in physical infrastructure and human resources have resulted in resource gaps, which the government is now sourcing from non-concessional sources. Without effective controls on these external, non-concessional forms of financing, however, there is a risk of increasing interest rates in Ghana, which could crowd out the private sector.

• Risk of crowding out of non-oil sectors – The significant upside potential of Ghana's oil and gas sector provides a risk that Ghana will develop into an oil economy, where both agriculture and manufacturing are crowded out.

Conclusion

Ghana's recent economic performance has been marked by robust economic growth and significant levels of foreign direct investment. This positive economic performance is explained by Ghana's political stability and institutional accountability, the sustained increases in prices and production of gold and cocoa, developments in the oil and gas sector, and Ghana's relatively good infrastructure.

In spite of Ghana's robust economic growth, the nation's economy remains constrained by competitiveness issues related to access to finance, quality of electricity supply, labor force work ethic, and levels of business sophistication. Moreover, broad-based economic growth remains vulnerable to the risk of high inflation, increases in interest rates, and the crowding out of non-oil sectors.

Sources

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End Notes

[i] Economic data sourced from the World Bank's World Development Indicators (WDI) database.

[ii] The International Monetary Fund (IMF) projects that Ghana's economic growth rates in 2012 and 2013 would be 8.2% and 7.8% respectively.

[iii] See the World Bank's WDI database.

[iv] See Table 2.1 on page 7 in Ghana Shared Growth and Development Strategy

[v] See Jubilee Field Upside Potential on Tullow Oil Ghana's website http://www.tullowoil.com/ghana/index.asp?pageid=31

[vi] World Bank's WDI

[vii] See Foster, Vivian and Pushak, Nataliya. Ghana's Infrastructure – A Continental Perspective. World Bank, Washington, D.C. March 2011.

[viii] See World Economic Forum Global Competitiveness Reports 2007/8 to 2012/3.

[ix] Ibid., 2012/13.

[x] See World Bank's 2007 Ghana Enterprise Survey.

[xi] See Foster, Vivian and Pushak, Nataliya. 2011.

[xii] See World Economic Forum's Global Competitiveness Report 2012-13.

[xiii] World Bank's Enterprise Surveys 2007 – Ghana

[xiv] See World Economic Forum's Global Competitiveness Report 2012-13.

[xv] Ibid.

[xvi] In the World Economic Forum's 2012-13 report Ghana ranked 102 out of 144 countries in business sophistication. This was lower than peer countries such as Nigeria, Kenya, and Zambia, which ranked 66th, 67th, and 75th, respectively.

[xvii] Ibid.

[xviii] See page 5 of IMF Country Report No. 12/201.

[xix] Ibid.

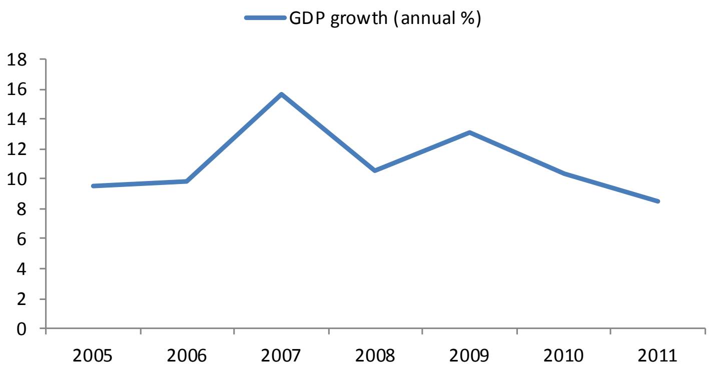
Liberia's Recent Stellar Economic Performance

Liberia has experienced stellar economic growth over the past seven years (see Figure 1). Between 2005 and 2011, Liberia's average real annual economic growth rate of 11% was the fastest in the ECOWAS region and more than double the sub-Saharan African average of 5%.[i] Moreover, the African Economic Outlook 2012 study on Liberia projects the country's real economic growth rates in 2012 and 2013 as a healthy 8.8% and 7.2% respectively.[ii]

In addition, Liberia has been a significant recipient of foreign investment. In 2010, for example, Liberia registered a net inflow of $452 million of foreign direct investment, or 45.8% of GDP (see Figure 2). These investments have been primarily in mining, but also include investments in the country's agriculture and forestry sectors. Table 1 provides a listing of the major foreign direct investment projects in Liberia over the period 2005 to 2010.

This article will explain Liberia's recent economic growth and investment trajectory and describe the outstanding bottlenecks and key risks to sustained economic growth and investment trajectory in Liberia. Thereafter, a brief conclusion will summarize the article's key points.

Figure 1. Liberia GDP growth 2005-11



Explaining the growth and investment trajectory

Figure 2. Liberia - Net inflows of FDI as % of GDP

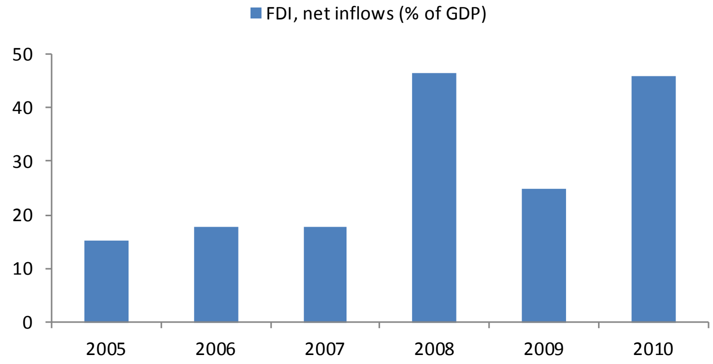


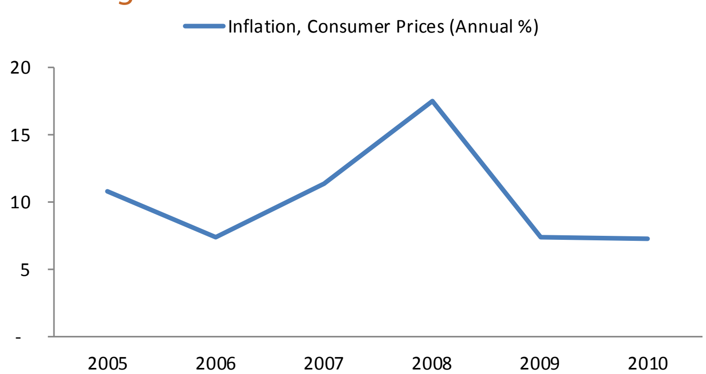
Table 1. Foreign Investments in Liberia over $100 million, 2005–2010

Mining and Petroleum	
China Union/Bong Mines MDA (iron)	$2.6 Billion
Elenito Minerals and Mining (iron)	$2.4 Billion
OAO Severstal (iron)	$2.0 Billion
BHP Billiton/Kitoma (iron)	$1.8 Billion
ArcelorMIttal (iron)	$1.6 Billion
African Aura (gold)	$150 Million
AmLib (gold)	$100 Million
Hydrocarbons (various)	$500 Million
Agriculture and Forestry	
Golden Veroleum/Southeast Plantations	$1.7 Billion
Sime Darby Gurthrie Plantation	$800 Million
Equatorial Palm Oil	$100 Million
Industries	
BRE/Vattenfall Wood Chip Export	$200 Million
BR Power 35MW Power Plants	$150 Million
Infrastructure	
APM Terminal	$100 Million

Underlying Liberia's recent growth and investment trajectory has been astute leadership that has prioritized macroeconomic stability, pursued policy clarity in the mining and investment codes, promoted foreign investment, while delicately renegotiating deals deemed "bad" that were signed by prior Liberian governments.[iii]

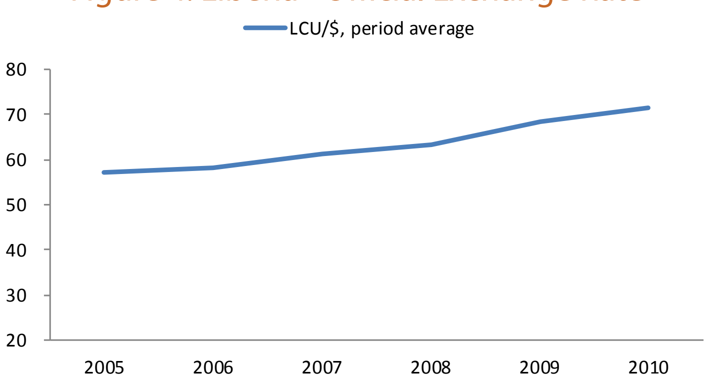
Under Ellen Johnson Sirleaf's leadership, the Liberian government has emphasized macroeconomic stability in spite of a challenging global environment that has included global food and oil prices spikes and a deterioration in Liberia's terms of trade. The Liberian government has ensured that consumer price inflation trended downwards to single digits between 2009 and 2011 (see Figure 3). Moreover, through its weekly foreign exchange program, the Liberian Central Bank has kept Liberia's official exchange rate relatively stable (see Figure 4). These government efforts to promote Liberia's macroeconomic stability were reinforced when in June 2010 under the HIPC initiative, Liberia received debt relief of $4.6 billion, which reduced its debt as a share of GDP from 191% in 2009 to 10.7% in 2011[iv] and improved the country's creditworthiness.

Figure 3. Liberia - Consumer Inflation



Source: WDI database, 10 December 2012

Figure 4. Liberia - Official Exchange Rate



Source: WDI database, 10 December 2012

With respect to policy clarity, the Liberian government has made efforts to clarify both its mining and investment policies. In 2010, for example, a new mineral policy and an investment incentive code came into effect in Liberia. The new mineral policy supplements Liberia's Mining and Minerals Law of 2000 by requiring mining companies to submit environmental and social impact assessments when seeking a mining license.[v] Meanwhile, the new investment code has standardized incentives on investments according to the investment size and the priority of the sector and/or region.

In addition, the Liberian government has taken specific measures to promote the business environment and foreign investment by announcing numerous reforms, enacting legislation in 2010 to modernize transactions, expand commercial activities and reduce the number of sectors restricted to foreign investors. As a result, Liberia's rankings in the World Bank's Doing Business Indicators, as well as the sub-category of business environment in the Mo Ibrahim Index of governance, have registered demonstrable improvements.

These efforts to promote foreign investment have been conducted while the government delicately reviewed and renegotiated mining agreements that had been signed by previous administrations and were deemed "bad". To this end, the Liberian government enlisted the support of external donors, particularly USAID, which has supported Liberia in ensuring that mining contracts accorded with international standards.

Key outstanding bottlenecks and key risks to economic growth and investment in Liberia

In spite of Liberia's economic rebound, lengthy civil strife has left the country with poor infrastructure, weak institutions and a relatively unskilled labor force. The state of these bottlenecks, and the outstanding political and economic risks, are outlined below.

1. Poor Infrastructure

With respect to infrastructure, the low levels of access to electricity, its high cost, and the very limited number of all-weather roads have hindered both economic growth and investment. In 2010 only 2.8% of Liberian households relied on the main grid for lighting.[vi] Moreover, getting electricity in Liberia took 465 days and cost an amount that was 3,529% of Liberia's income per capita, according to the World Bank's 2013 Doing Business in Liberia Report. In 2006,

only 7.4%[vii] of Liberia's roads were primary paved roads, while the majority were not all-weather and vulnerable to flooding during the rainy season.

2. Weak Institutions – Property Rights

Liberia's weak institutions, particularly those related to land, are significant impediments to economic growth and investment. The 2012 Country Commercial Guide for U.S. Companies, for example, underscores the divergence between statutory and traditional land tenure systems in Liberia and highlights some of the violent reactions of local communities when investors have tried to stake claims to their legally-binding agreements.[viii] Moreover, the same report highlights the weakness of Liberia's judicial system, noting that court judgments can be purchased and that foreign firms tend to be at a disadvantage.[ix]

A survey by the Human Rights Center of University of California's School of Law emphasizes the problem of land disputes in post-conflict Liberia. This survey indicates that among the Liberian population, the most common form of dispute after the civil war related to land, with one in four adults being involved in a land dispute during or after the conflict.[x] Moreover, the same survey indicates that these disputes were far less likely to be resolved than other controversies, with just 53% of farm land-grabbing cases solved compared to a large majority (83%) of non-land-related disputes.[xi]

3. Relatively Unskilled Labor Force

Liberia's labor force is described in the USG's 2012 Commercial Guide for U.S. Companies as predominantly illiterate and unskilled.[xii] A 2010 study by the International Labor Organization indicated that 37% of Liberia's population over 15 had never attended school and only 17% of this age-group had at least a 12th-grade education.[xiii] Moreover, agricultural and mining investors identify the requisite to employ skilled Liberian nationals in concession agreements as one of their biggest operational hindrances because of the lack of qualified labor.[xiv] [xv]

4. Political and Economic Risks

Under the leadership of Ellen Johnson Sirleaf, Liberia has managed to mitigate risks to political stability and renegotiate mining contracts so as to ensure that Liberia benefits from the higher commodity prices. The political tensions and poll violence, however, that marked her re-election to a second six-year term in 2011 underscore Liberia's political fragility and divided electorate, which continue to be risks to the nation's investment and growth trajectory. Moreover, the continuing high levels of youth unemployment, as well as the possible security vacuum left by the ongoing reduction in U.N. peacekeeping forces, are areas that require continuous monitoring.

In addition, Liberia's burgeoning concession investments, which are central to the government's plans for economic growth, are vulnerable to sustained downward movements in commodity prices, particularly those of iron ore and rubber, as well as operational disruptions as a result of the Liberian government's signing of overlapping concession agreements for different resources.

Conclusion

Liberia has witnessed strong investment and economic growth. This has rested on astute leadership that has prioritized macroeconomic stability, pursued policy clarity in the mining and investment codes, and promoted foreign investment, while delicately renegotiating old contracts now considered "bad". Moreover, the upswing in commodity prices – particularly those of iron ore and rubber – has contributed to Liberia's positive investment and economic growth trajectory.

Liberia's lengthy civil war has, however, resulted in a country that is characterized by poor infrastructure, weak institutions, and a relatively unskilled labor force. Moreover, both the country and investors remain vulnerable to sustained downward movements in commodity prices, as well as a possible security vacuum as the UNMIL reduces its presence in Liberia. These investment challenges and risk factors notwithstanding, Liberia is increasingly an attractive investment destination in West Africa.

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End Notes

[i] *World Development Indicators database sourced 14 October 2012. African Statistical Outlook 2012 – Liberia*

[ii] *Both ArcelorMittal and China Union's iron mining contracts were renegotiated. Comium, a Lebanese-owned telecommunication company, is facing pressure from the government to engage in contract renegotiations.*

[iii] *See "Liberia 2012" prepared by African Economic Outlook at www.africaneconomicoutlook.org*

[iv] *See "The Mineral Industry of Liberia" by Yadira Soto-Viruet in 2010 Minerals Yearbook – Liberia (Advanced Release) by the United States Geological Survey.*

[v] *See page 25 of IMF Country Report No. 12/45 "Liberia: Poverty Reduction Strategy Paper – Annual Progress" dated February 2012.*

[vi] *Number calculated from Table 11, page 26 of the IMF Report "Liberia: Poverty Reduction Strategy Paper – Annual Progress" dated February 2012.*

[vii] *See U.S. Country Commercial Guide 2012 for Liberia.*

[viii] *Ibid.*

[ix] *See "Talking Peace – A Population-based Survey on Attitudes About Security, Dispute Resolution, and Post-Conflict Reconstruction in Liberia" by Vinck, Patrick et al., 2010.*

[x] *Ibid.*

[xi] *See U.S. Country Commercial Guide 2012 for Liberia.*

[xii] *See "Report on the Liberia Labour Force Survey" by the Liberia Institute of Statistics and Geo-Information Services (LSGIS), February 2011.*

[xiii] *See U.S. Country Commercial Guide 2012 for Liberia.*

[xiv] *See Promoting Job Creation for Young People in Multinational Enterprises and their Supply Chains: Liberia by Yukiko Arai et al., 2010.*

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