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Local business development in a post-conflict environment

An analysis of competitive advantage and the role of investment

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Sarah Burns[1]
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Section 1.0: Introduction

Liberia, a country which has been plagued with civil wars and an epidemic, has struggled to regain any traction in its economy. Although it has been almost two decades since the civil war came to a close, the impacts of the conflict still profoundly influence the business environment. Although at some points of time the economy has received large boosts, particularly from large foreign direct investment deals entering the country, local business development has remained low. Many local businesses in Liberia remain trapped as micro or small sized businesses due to the numerous constraints they face. However, because there are many barriers for these businesses, it is a challenge to determine the constraints that have the most negative impact. For policy-making, it is important that the trying to mitigate the most binding constraints is prioritized.

However, there are a number of firms in Liberia who have been able to overcome these barriers and successfully and substantially grow. This means that these firms have a significant competitive advantage in the Liberian market compared to the majority of other businesses operating in the market. Understanding and exploring the resources that give this competitive advantage to these firms helps determine which policies should be prioritized to develop local businesses.

This paper uses mixed methods in order to determine the most critical resources that a business in Liberia requires to gain enough competitive advantage to truly develop. This paper first uses extensive fieldwork and interviews with numerous different stakeholders in the Liberian business environment to provide an overview of the numerous barriers to business growth. Over 30 different stakeholders have given on the record interviews and numerous others provided information off the record. Next, this paper uses a simple quantitative model, which shows evidence that the two main variables that impact

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business growth in Liberia is access to credit and employee training. It also finds that access to credit has a higher magnitude of impact if there is some foreign ownership in the business. Next, we use qualitative data and a classical competitive advantage framework to further analyse the resources that provide competitive advantage to business in Liberia. This framework reinforces the findings from the quantitative framework that access to finance and quality employees are the key resources to gain competitive advantage. We also find that trust and good relationships within the business community also contributes to a firm's competitive advantage.

In theory, private investment has the potential to act as a tool to help fill these three main contributors to business growth. They provide access to finance through either a debt and/or equity deal. Further, private investment often offers technical assistance, training and the transfer of skills, especially private investment that is either in the form of angel or venture capitalist investment. Further, if the investment is in the form of a fund, it also has the potential to create a community for the businesses within their portfolio. Thus, this paper analyses the impacts of using private investment as a tool for creating competitive advantage and local business development in a country like Liberia.

The rest of this paper is organized as the following: Section 2 provides an overview of the Liberian economy, both historically and currently; Section 3 delves into the most significant barriers to growth that business in Liberia face; Section 4 explains the quantitative model used to better explain business growth in Liberia; Section 5 uses a qualitative framework to explore how a business gains competitive advantage; Section 6 provides an overview of the different forms of private investment within the country and how they each contribute to economic growth; Section 7 provides a comparison with the investment environment and the impacts of private investment in the neighbouring country Sierra Leone as a comparison; and finally, Section 8 concludes.

Section 2.0: Liberia as a Case Study

The small West African country of Liberia is an example of a post-conflict country that has struggled to rebuild their economy. The country experienced two civil wars over 15 years, which came to close in 2003. The conflict killed over 250,000[2] people and many more

[2] 'Liberia Country Profile,' BBC News, January 2018. https://www.bbc.com/news/world-africa-13729504

were raped, forced to flee and displaced. The United Nations Mission in Liberia (UNMIL) was deployed in 2003 and concluded in 2018[3]. Since 2003, the country has remained relatively peaceful, while having a long peacekeeping mission in place. Liberia has remained one of the poorest countries in the world and capital scarce. Although the conflict has ended, the recent outbreak of the Ebola virus in 2014 to 2015 generated another large negative shock, which paused and further hindered post-conflict growth. Although, the country is within the twenty-year's after the conflict, it is still nearing the end of that, meaning that it may not be the best example for post-conflict. However, the setbacks caused from Ebola makes Liberia a good proxy for a country that is only five to ten years after a conflict has ended, which provides further insights into economic recovery.

Another key reason why Liberia makes a good case study is because it is one of the worst countries in the world to do business. Forbes[4] ranks Liberia as the 15th worst country in the world to do business in and in the 2019 World Bank's 'Doing Business' rankings[5], Liberia was placed in the bottom tenth percentile. These rankings evidently show that there are numerous flaws to the private sector in Liberia. The presence of some of the many flaws, barriers and hindrances to the business growth, that a post-conflict country could experience, is likely to be present in Liberia. Thus, Liberia is an optimal case study for exploring firm growth and foreign capital's influence on the local economy in a post-conflict country.

Section 2.1: Liberian Economic History

In the 1840's, Liberia was founded as Africa's first Republic and an independent state. It was founded by freed slaves from the United States and because of this, has been a country with an outward orientation and close links with the US. From 1944-1971 in Liberia, President Tubman began an aggressive open-door policy to stimulate the economy and attract foreign direct investment (FDI). However, this made the country highly reliant on the extractive sectors, particularly iron ore, rubber and timber. Although this helped boost the economy, by the 1980's, inequality had risen sharply creating substantial political tensions

[3] UNMIL Timeline, 2019. https://unmil.unmissions.org/timeline
[4] 'Best Countries for Business,' Forbes, 2018. https://www.forbes.com/best-countries-for-business/list/4/#tab:overall
[5] 'Doing Business,' World Bank, May 2018. http://www.doingbusiness.org/en/rankings?region=sub-saharan-africa

between tribes. The elite in power, who were primarily those with origins tracing to the American-Liberian founders, were perceived as being corrupt and running the nation for their own benefit. These issues lead to the first a coup d'état by Samuel Doe and the emergence of ethnic tensions. However, during this time, there was significant economic and infrastructure development, where the country had the highest GDP per capita in Africa. However, the ethnic tensions became so intense by the end of the 1980s, that full-scale civil war broke out. Within five years of Charles Taylor's invasion in 1989, the unemployment rate sky-rocketed to 75 percent. The country was suffering from extreme poverty levels as the economy came to a halt. There was almost no FDI flows and little private sector development during this time. The UN also placed embargos on Liberian timber and diamonds since the international community believed that Taylor was encouraging the war in Sierra Leone. After two civil wars and decades of instability, Taylor resigned and a ceasefire was agreed to by August 2003 (Nyemah, 2009).

In November 2005 when Ellen Johnson-Sirleaf was voted into office, she focused on rebranding Liberia away from "a nation in permanent violent turmoil" by again, opening Liberia's doors to FDI (Nyemah, 2009: 199). At the end of the war "international partners agreed (a) that Liberia's deficiencies in economic governance had been a key contributor to the fourteen-year civil war, and (b) that continued inattention to the issue posed a long-term risk to the peace process and ongoing planned donor assistance" (Bridgman, 2009: 253). Thus, Johnson-Sirleaf primarily focused on economic recovery for the country and in many ways, the changes she implemented were quite successful. The country implemented the Government Economic Management Assistance Program (GEMAP), which was supported by the World Bank. This program focused on the following six mandates: securing tax revenues, improving budgeting and expenditure management, improving concession grant procedures, controlling corruption, supporting key institutions of government, and building capacity (Bridgman, 2009: 254). They qualified for debt relief through the Heavily Indebted Poor Countries initiative (HIPC) by March 2008, which significantly helped their current accounts. In addition, FDI increased by 1.5 billion USD with Arcelor Mittal, 2 other mining firms, a logging firm, and a diamond and gold mining firm (Nyemah, 2009: 199). They also started a National Investment Commission whose main goal was to reduce the number of days to incorporate and register a business from 90 to 10 days (Nyemah, 2009: 204).

Bunte et al. (2018), conducted research specifically on natural resource FDI flows into Liberia and how it impacted local economic growth. The FDI policy by Ellen Johnson-Sirleaf was approached uniquely in Liberia because "in contrast to previous approaches – where host governments provided public goods to attract foreign investors – the Ellen Johnson-Sirleaf administration has required that foreign companies provide public goods" (Bunte et al., 2018: 5). The development was completed near the communities where the extraction was taking place, to ensure that it wasn't solely the business that benefited from the infrastructure. Common FDI strategies like liberalized FDI flows, designated export zones and imposing joint local ventures are "most relevant to countries with existing infrastructure and an entrepreneurial base ready to benefit from knowledge and technology transfer" (Bunte et al., 2018: 7). However, Liberia does not have the infrastructure or human capital for this yet, so the administration strategy involves getting private companies to build public infrastructure in the hopes that it will bring in more investments. As a proxy for economic growth, the authors used night-time light growth emissions in the local communities around the concessionary land. They find that "with respect to initial effect of FDI on economic outcomes, however, our results suggest that extractive sector FDI has improved local economic growth in Liberia" (Bunte et al., 2018: 6). They also discover that investments requiring higher public structure goods, like mining iron ore, saw larger economic growth than investments that require fewer public goods like forestry and agriculture. Lastly, they find that Chinese firms are better positioned than US firms to make investment deals and supply public goods in a timely manner.

However, Paczynska (2016), questions the success of FDI in Liberia because of the numerous negative social impacts it has bestowed on local communities. The FDI that flowed into Liberia after Johnson-Sirleaf's election, primarily into iron ore, forestry, rubber and palm oil, has been unsuccessful at bolstering tax revenues and improving employment. The country is still suffering from high poverty levels, exacerbated inequality and increased food insecurity. Thus, the trickle-down impact of these large investment flows has not occurred and living standards have not significantly improved in Liberia because of them. Since most land is government owned in Liberia, many local communities have been displaced because their land was sold to foreign investors. Further, this land is generally arable and is used for sustenance and small farmers. Even though Liberia is suffering from high food insecurity, "in 2013, over 53% of the country's total area was covered by concessionary agreements", which are areas that could be used for local food production (Paczynska, 2016: 305). Lastly, many of the large firms agree to hiring local Liberians and supply those communities with social services. However, many of these firms only hire local unskilled labour on temporary contracts with low salaries and no benefits. Further, the social services that are supposed to be provided by the company are either too slowly implemented or they are only available to the workers, which increases inequality within the community (Paczynska, 2016). In conclusion, although the influx of FDI into post-conflict Liberia helped to boost their economic growth, there is little evidence to suggest that the average Liberian has benefited from it.

Section 2.2: The Current Liberian Economy

The Liberian economy is currently one of the poorest in the world, ranking 4th last in GDP/capita at $456 USD[6]. However, they are rich in resources with water, good climate for agriculture, minerals and timber. Their main exports consist of iron ore, palm oil, rubber, timber, diamonds and gold. As noted above, these resources created substantial economic booms in the 1960's and 1970's. After the war, the economy failed to pick up to the level of production seen in the years prior to the war.

Liberia suffers from high levels of import dependency, especially for food products, creating an extremely negative net export environment. In 2017, the inflation rate was high at 12.8 percent as the Liberian dollar continues to depreciate, negatively impacting many Liberians ability to purchase much-needed goods like rice. To curb the high inflation rate, the prime bank lending rate is also high at approximately 15.2 percent and few Liberians use the formal financial system. Although the unemployment rate is quite low in Liberia, 70 percent of the workforce works in agriculture, even though it is only 36.1 percent of GDP[7].

The depreciation of the Liberian Dollar is currently one of the most substantial issues affecting Liberians. Since July 2017, the Liberian dollar has depreciated by 115 percent[8] and many show concern that Liberia could enter a hyperinflation situation. This drastic change steamed from both the change in leadership in the country and a scandal where millions of dollars went missing. This scandal, although still under investigation, is where 15.5 billion

[6] CIA World Factbook. https://www.cia.gov/library/publications/the-world-factbook/geos/li.html
[7] Ibid.
[8] XE. https://www.xe.com/currencyconverter/convert/?Amount=1&From=USD&To=LRD

Liberian dollars went missing and only 5 billion so far have been accounted for. Further, an additional 2 billion may have been printed on top of the 15.5, increasing the scandal. There was the mismanagement of a 25 million USD cash injection into the economy, where old Liberian dollars were not properly taken out of the market[9]. These actions have had a profound impact on the economy, the lives of citizens and businesses. The Central Bank has attempted to slow the depreciation of the dollar by "pumping money into the market. But that money's gone now. So, they need to recapitalize the central bank in terms of reserves, and they're trying to figure out ways to do that" (Government Consultant). Since Liberia is a dual currency system, using USD for the majority of large transactions, financial institutions have also been impacted heavily by the depreciation. Many loans could not be paid back because "these SMEs had USD commitments, but they were receiving their revenue in LD, so they weren't able to make their commitments. Banks' non-performing loans grew from 5% to 18% during that period" (Institutional Impact Investor). Thus, liquidity has become a major problem in the country and financial institutions have become more hesitant to provide loans.

In addition, the global commodity price shocks of 2015 reached Liberia. This primarily affected the iron ore mining industry, which accounts for a significant portion of large FDI deals within the country.

> *"Technically, Arcelor Mittal, maybe except Firestone, is the biggest company here. And the effect of them slowing down is huge on the Liberian population, you can see it everywhere. They employed 5,000 to 7,000 people and firing all these people between 1 or 2 sites, had a big impact. So them scaling down operations really hurt"* (SME Impact Investor).

Due to this crash in global prices, interest in new FDI deals were negligible and many companies considered exiting the market. The country has also been faced with devastating negative shocks to their economy including: the Ebola Crisis, a transition to a new national government and the UN mission leaving the country. These shocks will be further discussed in Section 3.3.

[9] 'Where are Liberia's missing million,' BBC News, June 2019. https://www.bbc.com/news/world-africa-48540699

Section 2.3.1: Firm Characteristics in Liberia

Using the World Bank Enterprise Survey[10] data in Liberia, there are some recent developments in the characteristics of local firms that should be discussed. This data has two sets of data[11]; one set of interviews that were conducted in 2009 and the next set in 2017. In total, 301 firms were surveyed, where of those, 148 are manufacturing, 23 are in retail services and 130 are in other types of services. Figure 1A and 1B show the size of firms that were surveyed by full-time employees in 2009 and 2017 respectively. These figures determine that the majority of firms are small with less than ten full-time employees. However, between 2009 and 2017, there is a shift from the under 10 employee category to the medium size firm, which is between 20 to 30 full-time employees. This means that over the past eight years, firms in Liberia are growing and maturing.

Figure 1A: Full-Time Employees in 2009

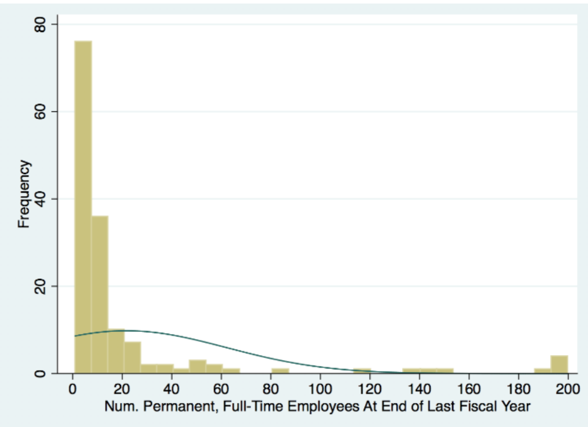
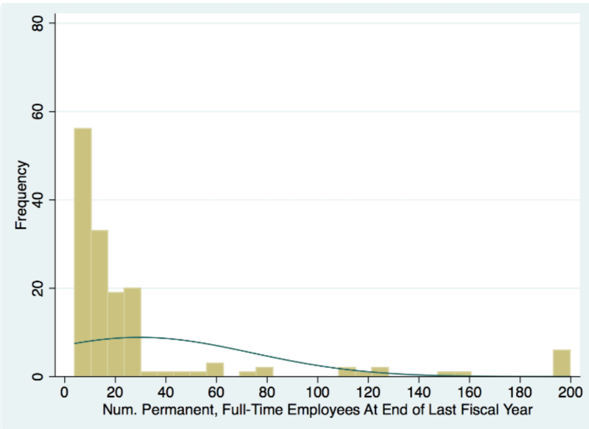


Figure 1B: Full-Time Employees in 2017



However, available financing for firms has remained somewhat similar over the past eight years, which is shown in Figure 2. Financing from banks has remained at merely 8 percent for Liberian firms and has remained one of the biggest challenges for their growth. Eighty percent of firms in 2009 used their own internal funds for capital growth, while 74 percent did in 2017. The largest change between 2009 and 2017 is that nine percent more firms are receiving their funding through other sources, like money-lenders, family and friends. This does imply that there is a gap in the available funding needed for small firms to grow into medium size enterprises and beyond. This is further explored through the rest of this paper.

[10] World Enterprise Surveys. http://www.enterprisesurveys.org

[11] It is crucial to note that this is not panel data because the same firms were not resurveyed in 2017.

Foreign ownership is also a growing trend in Liberia, which can be seen in Figure 3. Although on average, Liberians are keeping control of companies as domestic ownership has remained over fifty percent, average foreign ownership has increased by 12 percent since 2009. Further, government ownership remains insignificant and below 2 percent. In addition, 24 percent of firms are part of a larger firm as a subsidiary and only 29 percent of firms have some female ownership.

Figure 2: Finance for Liberian Firms

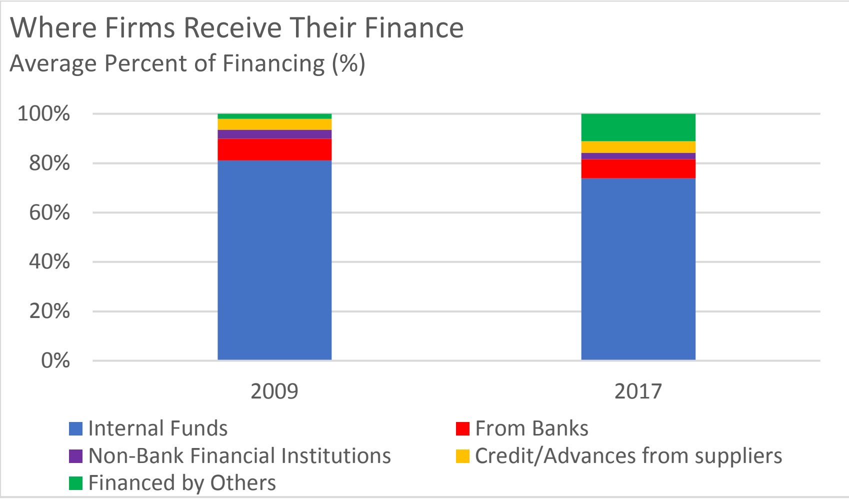
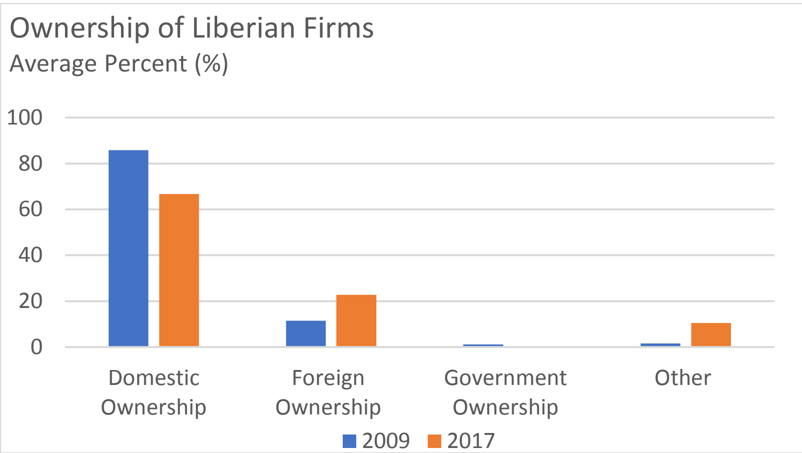


Figure 3: Types of Firm Ownership in Liberia



Firms in Liberia currently struggle with security, infrastructure and corruption. Tax rates, tax administration, business licensing and corruption remain a minor obstacle for firms. However, political instability on average, creates no obstacles for firms, which is further proven through the peaceful government transition in late 2017. However, since this data is now two years old, there is evidence of this changing within 2019. On average 12 percent of sales are lost by each firm due to theft, robbery, vandalism or arsenal. Lastly, in 2017, a firm experienced on average 11 power outages per month, which has worsened since 2009. Thus, these firms still face obstacles due to government policy and infrastructure, which is discussed in detail in Section 3.0.

The World Bank survey gives a snapshot of the current business environment in Liberia. Firms are growing from small to medium size enterprises but are unable to receive capital through formal institutions and are relying on their own profits or family and friends. There is still a substantial portion of domestic ownership in firms, but foreign ownership is on an upwards trend. Lastly, political instability is no longer a major concern for business, but infrastructure and structural barriers remain.

As mentioned above, foreign ownership in firms in Liberia has been growing since 2009. An aspect of this, although not captured in the World Bank Enterprise Survey is the large foreign direct investment concessions. In Liberia, the concessions are often for the extraction of iron ore, palm oil and rubber. However, these deals have proven difficult to execute for the multi-national corporations. The other aspect of the foreign ownership in Liberia are investments made by Lebanese, Indian and Chinese businesses, which is common across West Africa. Many of these companies are family-owned and the owners have resided in the country for generations. Typically, these businesses tend to be in the hospitality, construction and importing sectors. However, there are some of these businesses that work in forestry, extraction, palm oil and finance. The foreign component of the private sector will be further discussed in Section 4.5 and Section 6.0.

Section 2.3.2: The Typical Liberian Entrepreneur

The last overview of the current Liberian economy that must be discussed is the characteristics of a typical Liberian entrepreneur. Due to the lack of development in the private sector, businesses in Liberia often remain micro-sized and entrepreneurs have little motivation to grow their businesses. This means that most businesses are “mom-and-pop shops” and provide the same goods or services as many other businesses nearby. The World Bank states that in 2014, 90 percent of non-agricultural employment is in the informal sector[12]. Entrepreneurs typically do not want to formalize due to the unreliable bureaucratic process of doing so and to avoid taxes.

[12] World Bank Data. https://data.worldbank.org/indicator/SL.ISV.IFRM.ZS?locations=LR

However, there is a small group of Liberian entrepreneurs who are bringing new and innovative business ideas to the country. They are also trying everything they can to grow and expand their business throughout Liberia and internationally. The owners of small to medium sized operational businesses in Liberia were interviewed for this project to better understand the constraints to growth and how they gain competitive advantage in such a difficult market. These owners all operate functional businesses and are attempting to finance growth. In this sample of entrepreneurs, approximately 65 percent grew up in the United States and have now returned to Liberia. These entrepreneurs in Liberia are called "re-pats" because they grew up outside of the country. The re-pats were primarily refugees fleeing the civil wars when they were children. A few of the entrepreneurs stated that their families were a part of the 'elite' that were targeted during the war, forcing them to leave.

> *"My family is part of the American Liberian that was settled here. There was a group of people who felt disenfranchised and that settled people were the elitist, so they wanted some kind of a change. When the revolution happened, my adopted family was that elitist group of people, some of our families got killed. My father was killed during the war. So, our only option was, well we fled" (Accessories Company Owner).*

This also means, that these entrepreneurs on average are quite young, in their late twenties and early thirties. A hundred percent of this category of entrepreneurs completed some of their education outside of Liberia.

One can argue that these owners are a good proxy for the transfer of skills and knowledge that occurs in foreign direct investment. This is because they received their knowledge and training outside of the country. One of the entrepreneurs notes that the Civil War "impacts everything, who they are, why they are here, what their story is, everything. I mean the fact that I wasn't raised here is a result of the war. The fact that I got education elsewhere and not here. I wouldn't be running this business if I hadn't" (Fashion Company Owner). It's not only a difference in educational background that is helpful but some of these entrepreneurs have also worked for companies in the United States or the European Union. For example, one owner mentioned that "I worked with a few tech companies in the States but I decided to come back for my Dad. So I came back and worked as a consultant for UNICEF, government, and NGOs" (Tech Start-Up Owner). The educational and work experiences that these business owners had outside of Liberia are crucial influences on their capabilities in starting a business.

It is crucial to understand why Liberian 're-pats' make the decision to return to their country and start a business, especially when the economy is sluggish and poses many challenges for them. All the businesses interviewed mention that they made this difficult decision because they saw a social need for their business. For example, an agri-business owner wants to tackle the issue of the high cost of food for the average family and said, "I decided to start this business to help, especially getting the cassava to reduce the cost of importing rice and make Liberians know that Cassava is a healthy and local product" (Cassava Processor). Some state that they wanted to contribute to the rebuilding process after the war. For example, "Since I'm a Liberian and was born here after I lived in the US for many years, hearing about the war and the devastation, I came here for vacation, and there was just so much need, especially the women that I encountered had little or no training" (Accessories Company Owner). This gives evidence that not all the entrepreneurs interviewed entered the Liberian market purely for profit purposes but for social reasons as well.

However, some owners do make it clear that they believe there is a substantial untapped market in both Liberia and West Africa.

> *"If not [Liberia] than in the region at least because this is where all the new consumers will be in the future. The western world is pretty much saturated, so you need to really work to get the consumers so the cost per costumer goes down. India, Asia are tapped so Africa is going to be the next place. And I know that foreign companies will come in to take those opportunities unless Africans step up to take it" (Tech Start-Up Owner).*

There is strong evidence for market growth in these areas and these entrepreneurs would like to be at the forefront of business development in the area.

Section 3.0: The Challenges of Doing Business in Liberia

Before one can analyse how a business in Liberia can gain competitive advantage in the market and effectively grow, I must present an overview of the challenges present with the local business environment. Although many of these issues do impact foreign businesses as well, which is further discussed in Section 6.0, the issues explained in this section tend to be exceptionally constraining for local SME growth. This includes barriers like access to finance, inadequate infrastructure, negative shocks to the economy, government regulations, corruption, and a lack of skilled labour. This section delves into depth for each of these growth constraints.

Section 3.1: Access to Finance

Access to finance, especially locally, is a commonly cited issue for businesses in Liberia. If a business requires long-term capital to help them expand either production or distribution, the owner struggles to find any individual or institution to finance them. This means that for most businesses, it is common to use internal funds generated through the business and/or using their own or their family's savings. However, domestic saving levels are low across the country as only 35.7 percent have an account with any sort of financial institution, which is 7 percent lower than the Sub-Saharan African average[13]. SuSu's, community saving programs, are more frequently used and many Liberians feel safer and more comfortable using these types of accounts. However, these informal methods do not give people the records and membership required to access official loans. Due to the high cost of living generated through imported goods and the depreciating dollar, it is also challenging for the typical Liberian family to save any of their income. Further, a great deal of savings was destroyed and/or lost during the war. Not only were savings depleted during the war in order to survive but many investments were completely destroyed.

> For example, on owner stated that during the war, "*while we were in Sierra Leone, [my Father's] home which he took 10 years building was destroyed. They put a bomb, they shot a rocket through it and blew it up. His office was burnt to the ground. When we came back in 1991, he rebuilt the office and that was destroyed again in a subsequent battle that happened in the city capital. So he lost investments multiple times" (Tech Start-Up Owner).*

This low savings as consequences from the war and the poor macroeconomic environment, makes it even more difficult for Liberians to start and grow a business.

In addition, many owners struggle to secure an effective loan to help grow their businesses. This is because credit is expensive and has strict pay back terms. The typical loan for a Liberian entrepreneur from a bank is around 18 to 28 percent depending on the sector. The collateral for these loans is also substantial, like property or the business itself, even for

[13] World Bank Data. https://data.worldbank.org/indicator/SL.ISV.IFRM.ZS?locations=LR

small loans. Lastly, most loans have short payback periods of around six to eighteen months. In summary, “the banks, if they do give you the money, the turning over period is very short, 6 months to 1 year, the interest rate is very high, you start paying off as soon as you get the loan, you don’t get an adjustment period” (Fruit-Processor). In other markets, this type of loan would be used primarily for trading, when you need capital for a deal, and you receive returns quickly. However, these terms for a loan are restrictive and nearly impossible to use for long-term business development and growth. For example, a cocoa producer requires three years in order to plant, grow and harvest their trees in order to have a final product. A loan that is expensive and needs to be paid back within one year is not a feasible option for a cocoa farmer. Further, in the past year, the banks have become stricter with their loans due to the falling exchange rate. Thus, businesses that are “usually getting loans given on the basis of 2 things: the business is generating revenue in USD to repay the loan, and the collateral availability from the business to repay the loan if needed” (International Impact Investor). This is because the banks lost a significant amount of money by providing loans in USD, but the businesses generate income in the Liberian dollar and were unable to payback their obligations.

Another form of investment for local businesses is through equity. However, given the poor business climate, there is a lack of opportunity for businesses to find any equity deals. There are currently four active investment funds in the country and they often require a large ticket price of over one million USD for a deal. For the average SME, this ticket price significantly overvalues their business and they are unable to disperse the capital in an effective manner. Entrepreneurs are also hesitant to receive capital from investors “because they know what happens in this country, you know, and people have good intentions…and big dreams and they get all these money injections and then they cannot deliver” (Accessories Business Owner). A more detailed explanation of the main reasons why investors do not enter the Liberian market is covered in detail in Section 6.4.

Lastly, a large portion of business financing in the Liberian market is through aid organization. These agreements can be either equity, loans, or most frequently, grants that are often given to agricultural businesses from any part of the value-chain. However, business grants that are provided by aid organizations decreases incentives for market growth and business development. For example, “when a program comes in to support farmers, they buy from the importers and give it to the farmers for free, which cuts out the whole agri-dealer. Then the farmers don't buy from them because they just expect to get things for free from donors" (Business-Oriented NGO). When an aid organization is providing a loan to a business, there can be some inconsistencies with timeframes. Due to bureaucracy and procedures, aid organizations work on a slower timeframe than the business itself. There is an example below with a company that received financing through LADA.

> *"It's causing an enormous challenge for us as a business because they are a funding program, time is not an issue for them because they are getting paid, the program continues so time is not really a pressing factor for them as an aid partner, just in what they are doing as an aid partner"* (Tech Start-Up Owner).

In this scenario, it took almost two years for a deal to fully process and the capital to be released to the business. This was harmful for them because they had made plans to receive that capital from LADA much earlier and invested further in the business themselves accordingly. When their investment was already made, they had to wait and lose significant amounts of money for LADA to hold up their end of the deal. Thus, receiving funding through aid organizations has not been the most effective way to receive financing for businesses in Liberia.

Section 3.2: Inadequate Infrastructure

Another significant barrier for business growth is inadequate infrastructure ubiquitous in the country. This is because a large portion of both public and private infrastructure was destroyed throughout the wars and has not been fully rebuilt. The two most commonly cited issues with infrastructure is the lack of quality road and electrical grids. Less than 5 percent of roads are paved[14], which makes transporting goods across the country timely and costly. In addition, only two percent of Liberians have access to an electricity[15], which means that most businesses are forced to use fuel generators for production and operations. This also adds a significant amount to business costs, which

[14] 'Addressing infrastructure constraints to inclusive growth in Liberia', African Development Bank Group, 19 July 2017, available at: https://www.afdb.org/en/blogs/measuring-the-pulse-of-economic-transformation-in-west- africa/post/addressing-infrastructure-constraints-to-inclusive-growth-in-liberia-17200/

[15] Liberia Power Africa Fact Sheet', USAID, September 2016, available at: https://www.usaid.gov/powerafrica/liberia

increases the good's sales price. For example, one company said that "we have to use fuel generators and that rings our overhead very high. So, for something that we want to sell at a minimum amount, we have to sell it more expensive because of the running costs" (Fruit-Processor). Since there are so few paved roads, the rainy season washes out many of them, so they are impassable, making it impossible to transport goods to certain regions of the country. Thus, if an NGO would like to do work in a rural community, "sometimes you'll be going to do extension services and the road is flooded and at your chest level so you cannot cross" (Agriculture International NGO). Even when certain infrastructure is set up in the country, like water and internet, most of it is inconsistent. Since "the infrastructure here is unstable, that creates a challenge for growth because scaling up requires stable internet, stable power, stable water, stable all these things. With that limit, because we try scaling up the power goes out, this affects you in a serious way" (Tech Start-Up Owner).

Further, a large portion of business activity in Liberia occurs in the capital city, Monrovia. However, over half of the population of the country lives in the city. This is because during the war, many people fled into the city looking for safety and opportunity. However, the infrastructure of the city was not built for such a large population because as one owner stated, "Monrovia was built for maybe like 300,000 people. There was only like 250,000 here when I was a kid. Now we have like 2.5 million people here now and there has been no major infrastructure built to accommodate all these people" (Tech Start-Up Owner). The little infrastructure that is in place in Monrovia is overworked because of the overflow of residents. The inadequate infrastructure increases the cost of doing business in Liberia and decreases a business's competitive advantage in the region.

Section 3.3: Negative Shocks to the Economy

Although the war ended in 2003, the economy has struggled to gain positive momentum. This lack of private sector development was partially caused by three significant economic shocks that the country suffered.

The first devastating shock was the Ebola crisis in 2014 to 2015, which caused over 4,810 deaths[16] across the country. It also heavily impacted its neighbouring countries, Sierra Leone and Guinea. The crisis had a profound impact on the business environment in these

[16] '2014-2016 Ebola Outbreak in West Africa,' Centre for Disease Control, March 2019: https://www.cdc.gov/vhf/ebola/history/2014-2016-outbreak/index.html

countries. Most businesses were forced to shut down for at least a year's time and few workers continued to do their jobs. One business stated that, "the entire country was panicked. So, because of that, there was nothing going on. Businesses were closed. I was staying home. We practically didn't do anything during that entire period. It really set our businesses back" (Fruit-Processor). This was particularly seen with workers in the field, which meant that food production, although desperately needed during this time, came to a halt. An agri-business said that it was almost impossible to get any supplies from farmers because "people stopped working and people were not even buying from the farmers then, so they stopped planting during that time because of Ebola time" (Cassava Processor). In a country where food production is already highly dependent on imports, having almost zero production meant that food prices sky rocketed. These prices have remained high and have not returned to the pre-Ebola equilibrium.

In some cases, businesses were forced to shut because of the quarantine rules that were put in place during that time. A delivery business mentioned that, "if one of our boys got the disease than we would have spread it all over Monrovia. Because of the quarantine – if one of our guys caught it then our office would be shut down, every restaurant that we go to would be shut down, every compound we go to would be quarantined" (Tech Start Up). In many cases, it became much too risky to do business. However, it was not only local businesses impacted. A large portion of foreigners and foreign businesses were forced to leave the country, and many have not returned. The Ebola crisis provided good motivation for companies, who were already struggling, to shut down operations and move to another part of the world.

> *"This effected the economy, not just us, a lot of business left or shut down. A lot of investors pulled out, like Exxon, major companies pulled out of the country. They were already experiencing challenges and Ebola was the final straw for many and the business environment was already challenging, and this was really devastating for it" (*Tech Start-Up Owner).

The aftermath of the Ebola Crisis was also difficult on owners and employees. Some entrepreneurs and employees lost loved ones and/or were traumatized and reminded of the war. One entrepreneur moved the location of her business within Liberia because the event had been so emotionally difficult for her. She stated that, "I had to leave my environment because the Ebola was so strong their almost every neighbour was dead, and I was so traumatized, and that place became so ostracized like so that's the reason I relocated my business" (Agri-Processor). Many companies were unable to restart after the crisis. This was occasionally because processing equipment had been sitting unused for over a year and could not be fixed. The consequences of Ebola were immense for the entire country and are still being felt in the current economy.

Although there was a large influx of aid that poured into the country during and after the Ebola crisis, little of those projects were focused on rebuilding the private sector. This is because "the international community threw money at Liberia, but a lot of it was in very focused bookmarked places, and the devastating impact on the business community and local banks was kind of ignored" (Family Office Fund). These bookmarked places would include health and humanitarian relief projects primarily, which is logical in an epidemic scenario. However, it has meant that long-term private sector development has not been a primary focus for a large portion of the aid money entering Liberia. However, there have been some aid projects, like the European Union's two million euros project that is focusing heavily on creating value-added chains in the agricultural sector, which are starting to move in this direction.

The second major shock to the Liberian markets were the national elections in 2017 and the transition to the new government that followed. Leading up to the election, people were uncertain about whether there may be violence or unrest because it was the first change of power since the end of the war. Many citizens saved up their money during this time, just in case violence started up again. This uncertainty was also difficult for foreign businesses and investors as they were unsure how a change in the government may impact their businesses. The first election was held on October 10th, 2017 and then a second was held with just the top two parties as neither won a majority, which is categorized as a run-off. The run-off was held on December 26th, 2017 and George Weah was officially the winner. Once the results were final, President Sirleaf peacefully stepped down and President Weah was sworn in on January 22nd, 2018. Once this peaceful transition occurred, which was an immense step-forward for the country, businesses became very optimistic about their prospects. This can be taken away in some of my earliest interviews in Liberia in March 2018. This is because the new administration is focused on domestic growth and development, primarily through the pro-poor agenda.

> *"The pro-poor agenda is focused on creating jobs and elevate people from poverty into the middle class. And we do that through industrialization, through factories, reducing the cost of electricity because 35 cents per kilowatt will kill any business, so we need to connect to the West Africa power line, we build more roads, we put a lot of money into creating market linkages. Because without those, whatever we create, whatever we produce, it's not going to get where it's supposed to. Right now, there's places where you have 100 metric tons of cocoa going to waste, which is sad"* (Commerce Government Worker).

This agenda, focusing on domestic private sector development offered a lot of hope for the typical Liberian entrepreneur.

However, a year after the new government was sworn in, this optimism has faded as few promises have been brought to fruition and many business processes have slowed down. Further, the systems have changed for these processes and the government has been unclear of its priorities. One of the first issues that have been caused from this transition is that government workers have been demotivated by salary cuts and in some cases, not receiving their pay. These salary cuts are at the new Minister's discretion and "The cuts are actually in the allowances, which is 90% of the total pay of ministry employees. Some of them were cut by 50, 75, or 80%, so there's a lot of confusion and demotivation" (Government Consultant). These salary cuts have been because Ministers have inflated the payroll to bring in more people they want to work with. With more employees, "now all these people are getting paid an allowance, because otherwise you make political enemies. So you hire them. But in the end, they're going to run out of money, they don't have enough money to pay that payroll" (Government Consultant). Many of the Ministries now have too many people working for them and this has led to inefficiencies and large expenses.

Further, the management style and processes of the old government have been completely changed. A lot of people from the previous government were gutted because they were perceived as being too close to President Sirleaf. This same logic was used for the processes and procedures that were in place for the government. Instead of the new administration building off the previous system, they have decided to start from scratch. This means that there is a lot of confusion and mistakes that are made. The attitude of the government has also shifted. One government consultant who worked with both the old and new administration said the following:

> *"Ma Ellen is a fierce leader, and also technically versed, she understands issues very quickly, and she's a workaholic. Now you have a new president, who in his mentality is still a football star, and surrounds himself with very young people. There's a lot less seriousness coming from the president, and a lot more fun partying people around him"* (Government Consultant).

This may have a negative impact on how the international community perceives the country and the government is not always taken seriously. This change in attitude, personnel and "domestic-focused" policy changes have made foreign businesses extremely wary about entering the market. Further, foreign businesses already in the country have mentioned that they are trying to move to Nigeria or Sierra Leone due to these changes.

The change in personnel within the government mentioned above, means that many employees in decision-making positions have changed. Thus, the new government has little experience and knowledge about how to complete their tasks. As one government employee states, "the previous government was young and educated and very much knew what they were doing. The current, I understand that it is politics but most of the appointees are misplaced. They don't have any idea on what they are doing" (Entrepreneurship Government Worker). This means that it is taking businesses weeks or months to complete procedures for trade, taxes, licenses, and approvals, which should merely take days. This is also occurring within the government and "something that should have only taken 1-2 days was taking weeks because it would keep going back and forth because it would be wrong. It was taking so much time to get things done but it's getting better" (Entrepreneurship Government Worker). As the new government continues to learn and develop, these mistakes may be mitigated. However, a portion of the population is starting to become unhappy with the running of the current government and peaceful protests were held in Monrovia in June 2019.

Once the peaceful transition to the new government occurred the UN Mission in Liberia's mandate was finished after twenty years of operation. This created the third and final economic shock in Liberia that I discuss in this section. Although UNMIL did not work closely with the private sector directly, the amount of spending by the mission was substantial for the country. In 2004 to 2005, in the first years of UNMIL, the budget for the mission was $760 million, while the Government of Liberia's budget was a mere $61 million[17]. The mission had developed a false economy in the country and a housing bubble, especially in Monrovia. This phenomenon has been analyzed by Beber et al. (2016) as they determine that UN Missions themselves can reshape an economy. One of the biggest influences of the UN's presence in the country was the large inflow of US dollars and local spending. When the UN left the country, the government's reserves dropped substantially causing issues in the currency and prices. This spending and influx of USD was a large portion of keeping the macroeconomic environment in check. Thus, "the UN was a provider of jobs, cash, liquidity, that combined to the price environment collapsing in the last couple of years really put the market in a difficult spot" (International Impact Fund). However, once the UN left, the stability they brought to the economy also disappeared. These macroeconomic challenges that the country face in the wake of the UN's departure is discussed in Section 4.2. Further, the employees, both foreign and local, and the institution itself were spending at local businesses increasing the market size.

> *"The private sector was really relying on non-sustainable business, that came in from the high influx of donors, the UN was here, every aid organization was here, so you saw high rent prices, which meant high revenues for those who were in the real estate business, those who were importing goods, who were trading since there was a lot of USDs on the market. So now that the UN and other aid organizations pulled out you really see the market size decrease"* (Institutional Impact Investor).

There has not been any influx of capital or resources that is relatively close to the magnitude required to offset the economic impacts of the UN exiting. Lastly, when UNMIL was operational in Liberia, their programs rarely targeted private sector development. Thus, even though the UN was distorting the local market, few of their strategies focused on developing a sustainable economy. A foreign embassy program director said that even though, "they were the biggest institution supporting this country for so long, there was so little interest in the private sector… But I think in peacekeeping operations it's very important to think about these private actors, and how they contribute to peace, or they take away from peace" (Foreign Embassy). In conclusion, the UN Mission ending, which was supposed to be a positive event for the country, was instead, a significant negative shock for

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[17] 'How the UN silenced Liberia's Press,' Foreign Policy. August 2016. https://foreignpolicy.com/2016/08/08/how-the-u-n-silenced-liberias-press/

the local economy. Further, because the UN did little work on developing the private sector, the economy has been unable to sustain itself fully.

Section 3.4: Limited Market Size

Further, the size of the country itself is a challenge for businesses. Liberia is a small domestic market of approximately 4.7 million people, where just over 50 percent of the population lives below the national poverty line and thus, with a small purchasing power[18]. Thus, growing a business in Liberia is difficult because you have a limited number of consumers that you can reach and, in many cases, a business cannot make proper use of economies of scale, making them inefficient. Many Liberian companies aim to expand their demand by exporting to neighbouring countries, the United States and/or Europe. However, navigating that process is difficult and expensive. The lack of product regulations from the government means that numerous products are not accepted by other countries. In addition, the taxes and fees[19] associated with exporting are high for companies and in many cases, the process of shipping a product to a foreign customer is slow. This can frustrate customers because the "market size here is already small and then for us to get it out there in other markets, you are just not getting a dress shipped and delivered to you tomorrow" (Fashion Company Owner).

The largest consumer in Liberia is the government and the second are generally aid organizations and/or international institutions. Liberian business owners believe that the largest consumers should focus on buying their goods and services locally, instead of importing them. For example, "I think that encouraging the Liberian government and the international NGOs to buy products made in Liberia is key. Like we do a lot of conference bags, like the computer bags, I mean if the product is here, we need to get them to, instead [of] going to China, to buy from here" (Accessories Company Owner). Thus, without the support of the largest spenders in the country, local businesses struggle to survive due to a lack of domestic demand.

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[18] World Bank Data. https://data.worldbank.org/indicator/SI.POV.NAHC?locations=LR

[19] This often includes bribes to officials throughout the process

Section 3.5: Government Regulations and Corruption

The government regulation and law structures in place are inconsistent for businesses. For many business owners, it is difficult to manoeuvre efficiently through the processes to receive the proper documentation. However, the Ministry of Commerce has created an electronic system for business registration which has sped up this process substantially. You can now register a business within ten business days. Now, the most common issues are related to situations when numerous government entities are included in the process. For example, if a business would like to start importing, they require a permit through the Ministry of Commerce. In the application for this permit, they must show that they are up to date on their corporate taxes. However, the Liberian Revenue Authority can sometimes take months to deliver the receipts for tax payments, which slows down the process. This happens frequently and "there is a need for clarity in rules and regulations, and how they're consistently applied. So sometimes you go to the Freeport, and someone is telling you something, and then you go the LRA, and someone tells you something else" (Foreign Embassy). In order to bring in more business, support local entrepreneurs and make the country business-friendly, these inconsistencies between government entities need to be reduced.

> *"[Liberia] needs to become a place where people know how to get a license to do A, B and C, how much it's going to cost and how long it's going to take to get approved. They need to know how long it's going to take to clear customs, and how much it's going to cost – that it's not going to take 3 weeks and you have to pay so many bribes to get it through" (Entrepreneurship-Oriented NGO).*

Further, a lack of regulations and quality control in Liberia means that there is little demand for exports into other countries. For example, agri-businesses are unable to find foreign customers because "people are very concerned of food hygiene, even though the food is good here in Liberia" (Business-Oriented NGO). Liberia did enter the WTO in 2016 and are now in the process of ratifying the Trade Facilitation Agreement. The Government is also focusing on the National Standards Act and in 2018 the Government adopted 69 standards from ECOWAS. However, for the standards, many products need to be sent to a lab in Ghana, which is both timely and costly (Commerce Government Worker).

Although the Central Bank has set regulations for the commercial banks, the lack of enforcement explained above, creates some issues within the financial system. For example, if someone defaults on their loan and the bank is to collect collateral, there is no enforcement of this process. Therefore, "if a person hasn't paid for a year or 6 months and you want to confiscate whatever collateral, you have to go through the normal court process. And with the cost of that alone is huge" (Institutional Impact Investor). Another investor who invests into the financial sector noted that there is "a lack of clear regulatory framework for the financial system" (Small Impact Investor). These issues present within the financial framework of the country directly influences the access of finance for businesses, which is further discussed in Section 5.2.

Another policy that the Government of Liberia is committed to passing is the Special Economic Zone, which allows for more advantageous taxes and processes for industrialization in specific geographic areas. The first zone is planned to be around Freeport. Although this policy has the potential to better the business environment, it is stuck in a long and confusing bureaucratic process. The issue is that the special economic zone is that "there's a lot of politicians in the cabinet who want to be involved like National Investment Committee, Commerce, etc. and the president is not very clear on who should do it, and it doesn't seem very grounded in one unit within the government. It's also held up by the fact that there is no money to create a distinct authority for this" (Government Consultant). This is evidence of some of the inconsistencies and lack of experience in policy implementation that is constraining economic growth.

Disputes over laws and an underdeveloped legal system also hinders business development throughout the country. The most commonly cited problem for businesses has been land disputes. During the war, a large portion of land was left behind by the owners who were displaced by the violence. In some cases, the deeds to those lands got lost or confused once the wars ended because it was such a long-period of time. On some plots of land, there were many families living on them who eventually end up buying the land from the government. However, it was not the governments land to sell. This means there were multiple owners of the same piece of land, which needs to be taken to court. Further, "if you have land that is already owned, and you have someone squat and live there then you have no government support to remove that person. Going through the court system can be a little bit shaky. It can take ten years before a decision is made" (Tech Start-Up Owner). This has also been a major issue for the large concession deals, which has caused social tensions between the communities and the companies.

"All the land in rural areas was viewed as being the governments lands but they were actually already deeded to communities. The first problem is that the rural area inhabitants were not consulted and the investors didn't do their due diligence on those communities. Then they would sign contracts and the investor would then face tensions from these communities" (Investment Government Worker).

However, this issue is a priority for the current government and the Land Rights Act was passed in September 2018. This Act strongly protects the communities land rights by allowing communities to have private ownership of their customary lands and that deeds can be verbal. It also ensures that women and minorities have equal rights to own and claim land[20].

Finally, it is crucial to discuss how widespread corruption in the Liberian economy hinders business development. Liberia ranks 120th out of 180 countries on the Corruption Perception Index in 2018, which has improved slightly from 2017. However, prior to the election, there was a significant push by President Sirleaf to fight corruption, which is seen in the 2016 rankings where Liberia was 90th, significantly lower than the present ranking[21]. This means that overall, the perceptions of corruption were exacerbated under the new administration. Due to the slow and backed-up legal system in the country, corruption is often quietly tolerated by businesses to ensure that they can survive and continue to operate. An example of a local food processor that experienced corruption is the following:

"I had an incident, where the government had some money for small businesses and when I applied, they were supposed to give me $14,000 dollars. You won't believe that the deputy minister and the bank, where they put the money, took $8,000 dollars out of the fourteen… And I had to pay back the $14,000 with interest. So, I had to pay it all back, even though I didn't get all of it" (Fruit-Processor).

Corruption has become embedded in the systems throughout the country and because there is no enforcement of the rules, people are not in any way punished when they are corrupt. This lack of enforcement is "also a result of the war. Because I think it was a lawless place for a long time, things went unregulated for a long time and that is hard to change" (Institutional Impact Investor). Thus, the corruption became a normal and consistent

[20] 'The Lands Right Act Victory in Liberia means the work has Just begun,' Thomas Reuters Foundation, October 2018. http://news.trust.org/item/20181023161353-j601g/

[21] Transparency International. https://www.transparency.org/country/LBR

occurrence, which businesses deal with regularly. The institutions themselves are "not accountable enough to make sure people do what they have to do, or that people are punished for not doing the right thing" (Foreign Embassy). This has created a culture of tolerance for corruption within the country.

Section 3.6: Lack of Skilled Labour

One of the most common barriers to business growth that Liberian entrepreneurs mentioned, is the low human capital present in the country. Due to the civil wars, most of the education system was not operational for almost twenty years, causing a massive education gap. Not only was education infrastructure destroyed but "the teachers fled, there was no one to educate them, so there is a gap in time without any education" (Fashion Company Owner*)*. Illiteracy remains relatively high in the country, especially in rural areas[22]. Further detail into the origins of the human capital gap is discussed in Section 5.3. Currently, teachers often go unpaid or underpaid and the curriculum is underdeveloped because there has been a lack of funding by the Government of Liberia. Thus, the quality and consistency of the education system has not yet fully recovered from war times. This means that finding skilled labour for positions in middle management is a difficult task for business owners.

The low human capital also poses a threat to a business's supply-chain. This is especially true for agri-businesses who rely on local farmers for their inputs [who] change their prices frequently. This means that "the farmers are not reliable. Today they give you a price, tomorrow they increase it. Because they realize there is a demand for a particular produce, they hike it up, up to 100 percent" (Agri-Processor). However, due to their lack of business education, these suppliers end up generating poor business relationships with the agri-processors and the entire sector suffers. Lastly, some entrepreneurs attempt to bring in technology to help boost productivity of their workers. However, this is not often successful because the skill level of the workers is still too low for the technology to be effective. For example, a fishery tried to implement a sonar fish detecting system and "the first time I tried to use a fish finder device, they didn't want to use it, they called it white people witchcraft. There's a lot of technologies or fishing techniques out there they could use and

[22] Education NGO worker, Monrovia, March 2018.

don’t know about or don’t know how to use” (Local Fishing Company). Therefore, businesses struggle to grow because they often cannot find middle managers, rely on suppliers and use technology to boost the worker’s productivity.

Section 4.0: Contributions to Growth – A Quantitative Model

It is challenging to find quality and large datasets from firms in Liberia, especially in the form of panel data because many firms do not survive long enough to be resurveyed. As seen in Section 2.3.1, the World Bank conducted enterprise surveys of 151 firms in 2009 and 2017. However, these are different firms in the two different years and cannot be used as panel data, limiting modelling possibilities. However, the data in 2017 can provide us with a general sense of what factors may contribute to business growth in a business environment like Liberia’s. This section uses simplistic modelling, an ordinary least squares (OLS) regression, to provide some information about relationships between business resources and growth. Due to the fact that the data is limited, and the model is unable to instrument for endogeneity, Section 5.0 then uses qualitative data to further research these factors contributing to growth and competitive advantage to provide further evidence for the relationships found in these quantitative results.

Section 4.1: Methodology

In Section 3.0, a discussion on a number of the barriers to conducting business in Liberia are explained. This model attempts to determine the significance of the relationships between these different obstacles that businesses face on their growth. However, a large portion of the data on business obstacles that was collected in the World Enterprise Survey is subjective and rated on a scale. To control for some of this subjectivity, this model does not use any of the direct questions and instead, uses proxies when they are available. From the section above, the regression that would be ideal for exploring these barriers is the following:

$$(1)\ Growth = Constant + Access\_Finance + Human\_Capital + Infrastructure + Regulations \\ + Corruption + Foreign\_Ownership + Market\_Size + Controls + e$$

Equation (1) shows an ordinary least squares regression where we include the main obstacles for businesses and some controls. However, the data is limited, and we first need to determine what proxies for the variables in Equation (1) could be used in this model.

The most difficult variable to proxy for this regression is business growth as the dependent variable. One of the first issues is that this data is not panel data, which means to include a growth variable, the only possibility is to use a self-reported variable from three years ago, which has a high probability of containing measurement errors and bias. The second problem is that this self-reported data from three years ago is late 2014, which was the beginning of the Ebola crisis. Since this is self-reported data, it is difficult to determine whether the data the respondent is providing is from their memory of before or during the Ebola crisis. As explained above, the Ebola Crisis forced many businesses to shut down and to stop operating. When analysing the annual sales variables from 2017 and from three years prior in Table 1 (below), it is clear that the sales has an extremely high variance and changes drastically over the three years. The average sales growth between the three years is reported at over 714 percent. The large standard deviation is most likely caused by the fact that many companies slowed their production and operations in 2014 and they would be reporting that slowdown from Ebola. Therefore, sales growth over three years is not an optimal variable to use for business growth because it was so heavily impacted by a substantial and devastating shock to the country.

From interviews with business owners, it was common for them to mention that they did their best to try and keep their employees throughout the Ebola Crisis. For example, one investor stated that "since the companies were experiencing cash flow problems and might not have been able to make payroll, we provided some extra capital. So, the staffs didn't feel it as much since they got paid throughout" (SME Impact Investor). One company mentioned that even though they weren't producing anything, her employees worked as volunteers together. She said that "we closed down operations for almost a year but the women didn't want to just stay at home so we just raised a few dollars and went into the communities that we worked in and helped where we could" (Accessories Company Owner). Thus, unlike sales, employment may not have been as negatively impacted during Ebola as sales were. This is because even though the employees may not have been getting fully paid due to cash flow problems, many companies were still engaged with their employees and kept them for as long as they could. This is especially the case because the employment level three years prior is self-reported and the owner may recall, even if they were not paying them their full salaries, a more accurate number. Further, because employment was not impacted as easily as sales were, using employment growth, instead of sales growth, helps to partially control for the Ebola crisis in this regression.

The first independent variable included in the regression is whether or not the company has access to finance. There are two forms of credit that the World Enterprise Survey asks for. The first is whether credit is used to purchase fixed assets and the second is whether credit is used for working capital. The number that is recorded for these two data points is the percentage of fixed assets or working capital that is purchased through credit. Since using credit for fixed assets and working capital is highly correlated, the proxy is created by taking the average of the two percentages. A dummy variable is then created to determine whether that company has access to credit for at least 5 percent of overall spending, which is merely the average of fixed assets and working capital.

The second independent variable of interest in this regression is a proxy for the quality of the workers that firms have access to. The first variable considered for this proxy from the dataset was the percent of workers that have at least a high school education. However, when this variable is plotted with employment business growth, it is evident that there is actually a slight negative relationship between the two, which is shown in Appendix A, Graph A.1. This is logical because an employer would most likely pay a worker with a high school education more than one without. Since, the proxy for business growth is the change in employment at the firm over three years, having a higher percentage of high school educated workers would be more expensive and you could not hire as many of them as quickly as you could if you hired low-skilled workers. This causes the negative correlation between the two variables because employment growth is slower if you're hiring more expensive labour. Thus, high school education may not be the best proxy for the quality of workers in this model. The variable that proxies for the worker quality that is not heavily influenced by the independent variable is whether the employees undergo training. This is a dummy variable which determines whether the permanent employees were a part of some training within the past year. This training helps to educate and make the workers more productive for the company. However, it is important to note that there is no way to determine the quality of the employee training that is undertaken.

It is also crucial to note that the three main variables of interest – employment growth, training and access to credit – are endogenous and should be instrumented for. However, there is no adequate data at this time through the world enterprise survey or other sources that would allow for the use of instruments and the consequences of this on the model is further discussed in Section 4.4.

The other proxies for the obstacles to business growth are less difficult to extract from the World Enterprise Survey data. To look at the impacts of inadequate infrastructure, the firms have provided the average number of power outages they experience per month. To include the poor regulations a firm must navigate through, a variable for the percent of time a manager spends working on issues dealing with regulations. There is also a variable created that determines the frequency that a business faces corruption. This variable was created by asking the question whether an informal gift was requested for different processes. These processes include getting: an electrical connection, water connection, exports cleared, imports cleared, and a construction related permit. These have been added together to create an index of how often the firm has to navigate through corruption from zero to four, where zero means the company never faces corruption and four means the company is asked for informal gifts almost always. There is also a dummy variable for if the firm is an exporter, which proxies for the small market size as some businesses expand their consumer size by entering other markets. Lastly, a dummy variable is generated for whether or not the firm has any foreign ownership. This is a variable that is further discussed in Section's 6.0 and 7.0, where this paper will focus more on the role of investment in Liberia. The dummy variable created is whether a firm is purely domestic with no foreign ownership whatsoever (variable equal to one) or not (equal to zero). Thus, there is an updated version of Equation (1), which is the following:

$$\begin{aligned}(2)\ Employment\_Growth &\\ = Constant + Credit\_dummy + Training\_dummy + Powerout + TimeRegulation &\\ + Corruption\_Index + Pure\_Domestic\_Dummy + Export\_Dummy + Controls + e&\end{aligned}$$

There are two controls that are included in Equation (2). The first is to control for the sector of the firm. Since this is a small dataset, the sectors have been split into two groups: manufacturing and services. There is a dummy variable included, which equals one if the company is in services, meaning the manufacturers will be included in the constant. The second control is for the region within Liberia the business is located in. The data has businesses within three regions: Montserrado, Margibi and Nimba. Montserrado is where Monrovia, the capital, is located and where a large portion of business within the country is conducted. Further, there are only 31 firms surveyed in Margibi and 14 surveyed in Nimba.

Thus, I created a dummy variable where when the firm is in Montserrado it equals one and thus, the other two regions are grouped in with the constant. This not only controls for the region but also controls for businesses that are within an urban setting.

As an extension of Equation (2), I also run a model that includes an interaction of the purely domestic dummy variable with the access to credit dummy variable. When added to the equation, this provides an idea of how having both access to credit and some foreign ownership influences business growth. This is to help provide some evidence on whether investment merely solves the lack of access to finance or whether having foreign ownership value-adds to the growth. It helps to answer whether the companies grow more effectively when they simply receive access to finance or whether partners with foreigners help to make that capital more effective. This final equation below includes this interaction.

$$(3)\ Employment\_Growth = Constant + Credit\_dummy + Credit\_Domestic\_Interaction + Training\_dummy + Powerout + TimeRegulation + Corruption\_Index + Pure\_Domestic\_Dummy + Export\_Dummy + Controls + e$$

As mentioned above, this methodology is not the ideal model as it does not control for endogeneity and does not include true panel data. However, it does provide some information on the relationships between these obstacles and firm characteristics and their growth in one of the most challenging business environments.

Section 4.2: Preliminary Data Analysis

Before delving into the results of these preliminary regressions, it is first important to take a closer look at the data itself. As mentioned above, the data from the World Enterprise Survey includes 151 firms who were surveyed in mid to late 2017. Half of these firms are in the services sector and the other half in manufacturing. Within the services sector, the most common type of firm is wholesale and retail. For manufacturing firms, garments and food are the two most commonly produced goods. Further, two thirds of the firms surveyed are located within Montserrado, which is either within or nearby Monrovia. Table 1 provides a more in-depth overview of the variables of interest stated above. Within this table, it is important to make note that extreme outliers for employment growth have been removed from this sample. There are five firms who experienced an employment growth above 200 percent that distort the data. These outliers are shown in a boxplot graph in Appendix A, Graph A.2.

Table 1: Summary Statistics

		Mean	Std. Dev	Min	Max
Business Growth	Sales Today	128756.50	175835.20	1800	1400000
	Sales 3 Years Ago	66415.89	97505.46	0	770000
	Sales Growth	714.38	3924.72	-84	43566.66
	Employment now	29.56	48.35	4	300
	Employment 3 Years Ago	20.77	35.72	2	250
	Employment Growth	56.09	43.98	-30.76923	200
Access to Finance	Percent of Fixed Assets Financed through Credit	5.50	17.30	0	100
	Percent of Working Capital Financed through Credit	14.11	25.98	0	100
	Access to Credit?	0.32	0.47	0	1
Quality of Workers	High School Educated Employees	36.88	39.57	0	100
	Formal Training in Past Year?	0.27	0.45	0	1
Other Obstacles	Percent of Time Manager works on Regulations	6.86	13.24	0	90
	Number of Power outs/month	8.54	62.49	0	730
	Percent of Foreign Ownership	22.30	39.46	0	100
	Any Exports?	0.06	0.23	0	1
	Frequency of Corruption	0.65	0.89	0	4

Table 1 shows that the average annual sales for the surveyed firms is $128,756.50 USD, ranging from a minimum of $1,800 USD to a maximum of $1.4 million USD. Using the self-reported data from 3 years prior, annual sales growth, on average, was 714.4 percent. This is a significant increase in growth and shows the distortion that the Ebola crisis may have on this data. Average employment growth from 2014 to 2017 still suggests high levels of growth for these companies but not to the same extreme. Average employment growth over the three years is approximately 56 percent, with a few companies shrinking showing negative growth and the maximum employment growth in our sample at 200 percent[23]. The average number of employees in 2017 is approximately 30, compared to 21 in 2014. This means that the average firm in this sample is categorized as medium sized. However,

[23] This is because, as mentioned above, the extreme outliers were removed from the dataset as those four firms distorted results. The boxplot showing the outliers is in Appendix A, Graph A.2.

approximately 60 percent of the sample are small firms, 30 percent medium firms and 10 percent large firms.

Table 1 shows that approximately 30 percent of firms have some access to finance for either their working capital and/or fixed assets. However, the average for the percent of payments with credit is still low. On average, a company only uses credit for 5.5 percent of their fixed assets purchases. Further, a company uses credit for 14 percent of their working capital. This access to credit is not just through banks, but also includes credit companies may receive through non-bank entities as well as their suppliers and/or customers. The general relationship between access to credit and employment growth is shown below.

Figure 4A: Employment Growth and Access to Credit for Fixed Assets

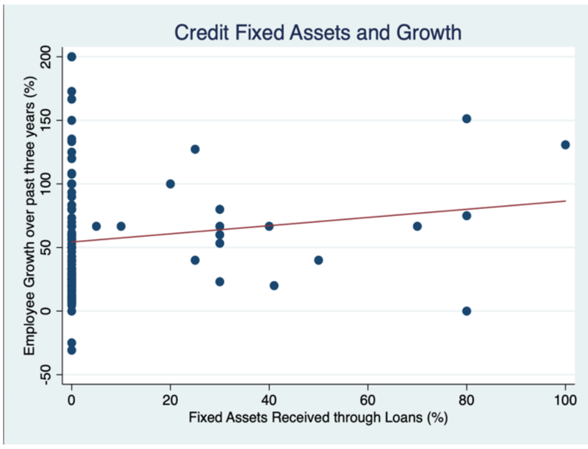
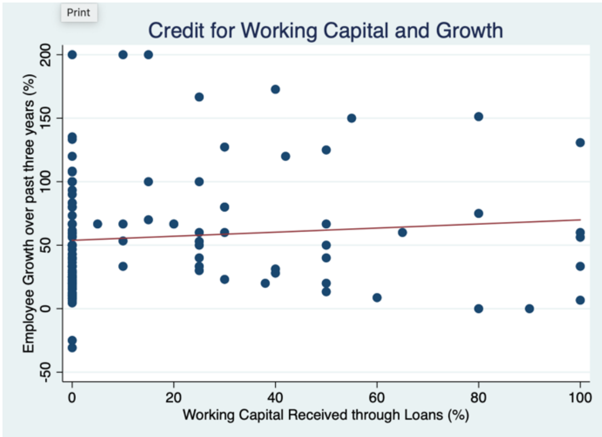


Figure 4B: Employment Growth and Access to Credit for Working Capital



These two graphs show a positive relationship between the percent of credit a company uses for expenditure and their employee growth over three years. This positive relationship is stronger for companies using more credit for purchasing fixed assets compared to working capital. This is most likely because companies that are forced to use credit for a large portion of their working capital because they are not generating enough revenue from cash flow. This suggests that the company is struggling to survive. Further, a company that is investing in fixed assets often signals that there is a demand for more product, which leads to further business growth.

Only a portion of the firms within the survey, 27 percent, conducted training with their full-time employees within the past year. However, those 38 firms who did conduct training, on average grew 10 percent more over three years than firms who did not. This can be seen in Appendix A, Graph A.3.

Table 1 shows that the average number of power outages that a firm has in Liberia is nine per month. However, there are a significant portion of firms that do not usually have power outages, while one firm states they have over 700. This may be because a large portion of firms in Liberia are forced to use generators for consistent electricity, while others use public infrastructure (LEC), which have daily outages. Therefore, this data may be somewhat inconsistent because of the two different power sources. Figure 5 displays the relationship between employee growth of a firm and the average number of power outages they experience per month. The relationship is slightly negative but most likely insignificant to growth. Due to the inconsistencies of this data and no clear significant relationship, the variable for power outages is excluded from the regression in Section 4.3.

Figure 5: Employment Growth and Power Outages

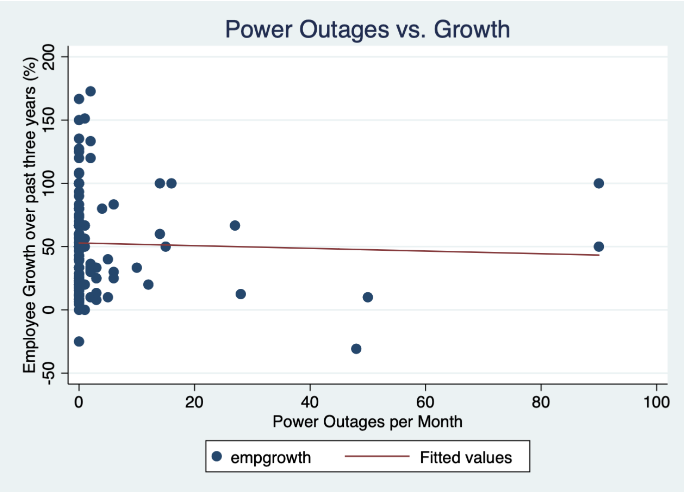


Table 1 shows that on average, only six percent of firms in the sample are exporting any of their products. This means that few firms are able to expand their consumer base and resolve the barrier of a small market. Table 1 also shows that on average, a firm is 22.6 percent foreign owned in Liberia. However, 104 of the firms in the sample are only domestic owned. This means that the firms who do have foreign ownership, tend to have a large stake in the company. Five of the companies have a 50 percent foreign ownership and 25 companies have 100 percent foreign ownership. Thus, almost all of the companies with foreign ownership have equal or a controlling stake in the company.

The last two variables in Table 1 analyse government regulation and corruption. The average percent of time that a manager from a Liberian company spends on navigating regulation is seven percent. However, some companies spend no time, while others can spend up to 90 percent of their time navigating the regulations. Figure 6 shows that there is a positive relationship between employment growth and the amount of time that is spent working on regulations. At first, one might think that this is a backwards finding. This is because one is inclined to believe that spending less time on regulation and instead, on other productive activities, would lead to higher growth, creating a negative relationship. However, in Liberia's context, this positive relationship is logical because the regulations are confusing and inconsistent. This means that spending more time understanding and navigating them means that you may go through necessary processes much quicker than other businesses. Further, Table 1 shows that businesses on average sometimes deal with corruption. Figure 7 shows that there is not a clear relationship between the frequency of corruption that a company faces and their employment growth. However, it is important to note that there may be some measurement error for this index because companies may not be inclined to say if they have bribed officials in the past. This basic data analysis provides an idea of what some of the factors for economic growth may be in Liberia. However, the next section uses the regression explained in Section 4.1 to determine if any of the relationships are significant.

Figure 6: Employment Growth and Time Navigating Regulations

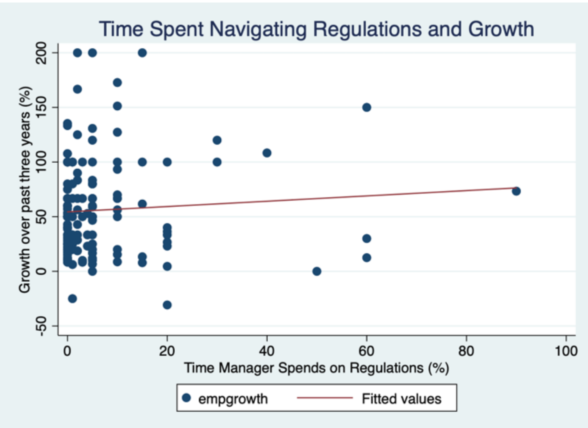
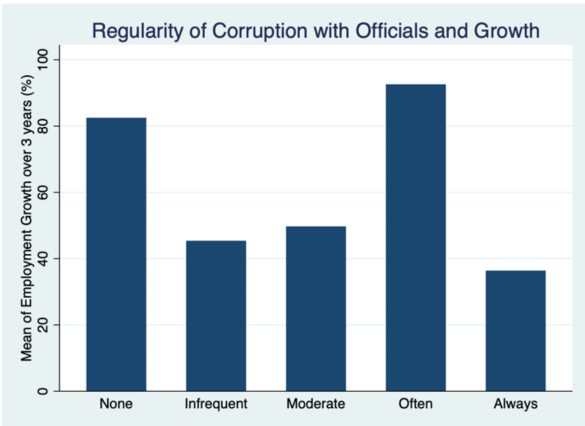


Figure 7: Employment Growth and Frequency of Corruption



Section 4.3: Results

Table 2 presents the results from the three models with an increasing number of independent variables included. Regression (1) shows a model which merely includes the access to credit dummy, the training dummy and the controls. Regression (2) includes all of the obstacles to business proxies except for the number of power outages. This is because the variable showed little relationship with employment growth in the preliminary data analysis and this was confirmed in prior regressions ran that showed it had a highly insignificant correlation with employment growth. The final model, Regression (3), includes all of the proxies and the interaction term between the access to credit dummy and the pure domestic ownership dummy. The results shown in Table 2 suggest that the variables with significant correlations with employment growth are access to credit, employee training and the interaction term.

Regression (1), which is the most parsimonious model, shows that access to credit has a significant and positive correlation with employment growth at the 5 percent significance level. This coefficient suggests that when a company in Liberia has access to credit for more than five percent of its fixed assets and/or working capital expenditures, employment growth over three years is 16.1 percent higher than companies that do not have access. Employment training held within the past year also has positive and significant coefficient, suggesting that holding training in a firm in Liberia, boosts employment growth over three years by 14.7 percent. The control for the service sector is insignificant, meaning that there is no difference in growth between service and manufacturing firms. Lastly, the control for the Montserrado is significant at the one percent level and is negative. This suggests that the firms in the capital city grow slower than the ones outside of it. However, this may be skewed because two thirds of the sample are from this area and this may actually just be a part of the higher than average constant. Lastly, it is important to note that the sample size has been reduced to 141 firms in the regression. This is because the high outliers have been removed and in addition, a few firms did not provide data for some of the variables, forcing them to be dropped from the model. Although the F-statistic for Regression (1) is significant at the one percent level, the R-square is still quite low, suggesting that there is significant omitted variable bias.

Regression (2) adds more variables for the obstacles of doing business in Liberia. However, only access to credit and the Montserrado control have significant correlations with employment growth. Both the employee training dummy variable and the management time spent on regulation variable are significant just above the 10 percent level, suggesting there may be a relationship with employment growth. The F-statistic is lower for Regression (2) and suggests that the addition of the other obstacles did not add much explaining power for business growth in Liberia.

Regression (3) possess a bit more explaining power, with a higher R-squared at 0.18. The access to credit dummy has a positive and significant coefficient at the one percent level. However, Regression (3) presents that the access to credit and purely domestic interaction term has a significant but negative correlation with employment growth. The purely domestic dummy variable is not significant, meaning that having some foreign

Table 2: OLS Results

Variables	**(1)**	**(2)**	**(3)**
Access to credit	16.1102** (7.65848)	18.94793** (7.79347)	45.97485*** (14.3746)
Training	14.71501* (8.34751)	12.80777 (8.41831)	14.68353* (8.337959)
Montserrado	-25.49508*** (8.08097)	-24.31589*** (8.35078)	-24.20774*** (8.33796)
Service Sector	0.538362 (7.16618)	-0.9829865 (7.26141)	1.38748 (7.23415)
Time spent on Regulation		0.3978386 (0.273073)	0.4477978* (0.27002)
Fully Domestic-Owned		2.757724 (8.25782)	16.48051 (10.2117)
Frequency of Corruption		-6.590437 (4.18141)	-8.188848* (4.18246)
Exporter		-8.327868 (4.18141)	-7.416169 (15.3977)
Access to Credit*Domestic-Owned			-37.99103** (17.0806)
Constant	64.42264*** (7.59387)	64.0092*** (10.1252)	52.18564*** (11.305)
R-Squared	0.1107	0.1448	0.1759
Adj. R-Squared	0.0846	0.093	0.1193
F-Statistic	4.23	2.79	3.11
Prob > F	0.0029	0.0069	0.002
Number of Obs	141	141	141

ownership in the company only impacts growth, if they also have access to finance. These two significant coefficients suggest that if a firm has access to credit and has some foreign ownership, then this boosts employment growth over three years by 46 percent. However, if the company is fully domestically owned, then access to credit only boosts employment growth by 8 percent over three years. This suggests that a firm having some foreign ownership is providing skills, management and other intangible resources, which produces more effectiveness to growth from the credit they have access to. Thus, this model shows that it is possible that foreign investment into SME's may significantly help boost growth in Liberian companies if they also have access to credit.

The dummy variable for employee training remains at the same magnitude and significance level as Regression (1). This suggests that employee training has a positive impact on business growth in Liberia. Further, the Montserrado dummy variable also remains approximately the same as Regression (1). However, Regression (3) does include two other obstacles that show significance at the 10 percent level. The first is the time a manager spends navigating government regulation. This coefficient shows that a one percent increase in the time spent on regulation increases employment growth by 0.45 percent. This correlation implies that businesses who are spending more time understanding the inconsistencies of the regulation in Liberia, experience higher growth. This is most likely because with the knowledge of the procedures and systems, they are able more quickly get approval for numerous different government permits, programs, status and etc. that could help with business expansion. The other variable in Regression (3) that is significant at the 10 percent level is the frequency of corruption. This negative coefficient suggests that if a business is asked to contribute informal gifts to authorities often, then growth is slower than businesses who are not asked for bribed. Regression (3) shows that having access to a larger market by being an exporter does not have any significant correlation with employment growth in Liberian firms. However, it is important to note that only 6 percent of firms in this sample are exporters, which may be too small of a subsample to generate any true significance.

Thus, this simple model provides some evidence that business growth in Liberia is heavily influenced by access to credit and, even more so, if there is some foreign ownership of the company. It also suggests that employee training, better understanding and navigating government regulations, and less frequent roadblocks from corruption, also positively contribute to growth. This model than implies that firms in Liberia possess a competitive advantage in the market if they have access to finance, which is even greater if they have foreign ownership, better trained employees, and managers who are focused on navigating through complicated regulations and corruption.

Section 4.4: Challenges with this Model

As noted in Section 4.1, there are numerous challenges to this model that due to data limitations cannot be solved. The first is that the variables access to credit and employee training are endogenous. Factors like family connections, the management quality of the firm, distance to the nearest bank branch, and others, are variables that would directly impact a firm's ability to gain access to credit and/or employee training. These could be instruments that would only impact a firm's growth through these two endogenous variables. Further, it is evident that these three variables impact each other. For example, higher business growth increases the likelihood of receiving credit, which they could then use to perform employment training. Further, if you have higher employment growth in a company, you may have higher employee training as firms often have to conduct training with new employees. Thus, a better methodology for this data is to use a two stage least squares, where access to credit and employee training are instrumented for in the first stage. However, at this current time, there is no data that include any of these possible instruments. Further, a more ideal model would be to run a structural vector autoregressive model if there was panel data available with data collected for numerous years within each panel. Due to these issues, it is important to note that these results presented above represent possible correlations between obstacles and business growth and not causation.

In addition, the low R-squared value of 0.17, shows that there is still a substantial amount of omitted variable bias within this model. This means that there are many other variables that contribute to business growth in Liberia that have not been included. However, due to the lack of data available, it is challenging to find further variables that have further explanatory power. Further, the business environment in Liberia is unstable and complex, which means that a significant portion of the variables contributing to omitted variable bias are unquantifiable and thus, cannot be included.

Therefore, it is clear that there are numerous issues with this quantitative model and that the results should be observed with caution. Due to these limitations, this paper delves deeper into the issue of determining competitive advantage in the Liberian market by using qualitative research. This research will further support some of the findings from this quantitative model providing more evidence that resources like access to finance and quality employees is a significant factor for competitive advantage in a market like Liberia.

Section 5.0: Competitive Advantage and Growth in the Post-Conflict Setting

The quantitative model described above provides a sense of what characteristics of a firm may help growth in such a harsh business environment. However, in both Section 3.0 and 4.0, we have discussed the overwhelming challenges that businesses must overcome to grow and prosper. Since there are so many barriers to economic growth in this type of environment, it is difficult to prioritize policies. This is a common phenomenon in post-conflict economies because there are numerous issues that need to be considered and they often, impact one another. These constraints in the economy are complex, interlinked and often, systematic. However, this does not mean that we cannot determine the priorities for Liberia's economy. There are businesses in Liberia that are successful and profitable who have overcome these external barriers. Thus, it is crucial that we analyze the resources at the firm level to understand why some businesses succeed and others fail in a market like Liberia. These companies are filling gaps in the market to gain competitive advantage and because of this, can survive in such a harsh environment. Identifying these gaps in the market will better aid the prioritisation of policies and market failures. By using qualitative data and interviews with local businesses, we are able to determine some of the key factors that give them a competitive advantage to overcome these growth constraints.

There have been primarily two types of firms that are often able to survive and successfully grow in Liberia: foreign-alien and re-pat owned SMEs. Liberia has a population of Lebanese, Indian and Chinese business owners, who in many cases have been living in the country for many years. Since Liberia does not allow non-Africans to become citizens of their country, they are categorized as foreign-alien. The re-pats, who are discussed above in Section 2.3.2, are Liberians who have lived outside of Liberia, usually the United States, and have returned. These businesses, although they still struggle and find doing business in Liberia challenging, tend to survive and grow more often than other businesses in the country[24]. Using the Resource-Based View to determine competitive advantage, this section will explore the primary reasons why this is the case. It finds that the three main resources that generate a competitive advantage in Liberia are: access to finance, access to skilled labour and positive relationships within the business community.

[24] It is very important to note that it is entirely possible for Liberian businesses to prosper, it is generally just more difficult for them to overcome some of these obstacles

Section 5.1: The Resource-Based View Model

A framework called the Resource-Based View, which is used for determining competitive advantage between firms, is applied throughout Section 5.0. Thus, this section will explain the framework itself and how it relates to post-conflict markets.

In the 1980's, there was a newly developed method of analysing the success of firms. Most formal economic tools look at firm-strategy through the product and market side. However, the Resource-Based View (RBV) takes the approach of focusing on the internal resources of the firm for determining key differences between firms. This is how we can explain differences in firm performances that exist within the same industry where they face similar external opportunities and threats. These firms have the same external forces on them, for example, market structure, policies, and availability of resources. In Liberia, this would be challenges like poor government regulation, inadequate infrastructure, corruption, a limited market size and recent economic shocks that all Liberian businesses have been subjected to. Thus, it is the internal resources of the firms, not the external factors that gives a firm competitive advantage. As Wernerfelt (1984) explains, there are two forms of resources within the firm. The first are tangible resources, which are physical and resources like cash, labour, machinery, etc. The second and what many researchers believe are the most important resources to a firm, are intangible. These are resources that the company owns but are not physical like their reputation, judgement, training, networks, intellectual property, etc. A crucial intangible resource to firms is their *capabilities* which Rothaermel (2016) describes as the "the organizational and managerial skills necessary to orchestrate a diverse set of resources and to deploy them strategically" (Rothaermel, 2016:137). Since tangible resources are available within the free market to all firms, "competitive advantage is more likely to spring from intangible rather than tangible resources" (Rothaermel, 2016: 141). Thus, the RBV primarily focuses on determining the intangible resources within firms that make them succeed over their competitors. As Barney (1991) explains, "a firm is said to have a *sustained competitive advantage* when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy" (Barney, 1991: 102).

There are two main assumptions in the RBV model. The first is that the firms within an industry or a group "may be heterogeneous in respect to the strategic resources they control" (Barney, 1991: 101). The second is that internal resources are not perfectly mobile, and they cannot move from firm to firm. This would be the case, for example, that a specialized employee, which brings competitive advantage to a firm, will not move easily from one firm to the next. Rothaermel (2016) further explains the importance of resources to defining differences between firms using the VRIO framework. This framework explains that a resource that can "create sustained competitive advantage is valuable, rare, costly to imitate and organized to capture value" (Rothaermel, 2016: 141). It is important to note that capabilities can only continue to generate competitive advantage if the firm constantly hones, refines and upgrades those capabilities as the external environment changes. This means that there is a great deal of investment and time that takes place to build up a stock of intangible resources. Lastly, Rothaermel (2016) defines activities as the "actions that enable firms to add incremental value at each step by transforming inputs into goods and services" (Rothaermel, 2016: 156) and these themselves are the use of the internal resources. Primary activities add value directly by transforming inputs into outputs, while support activities add value indirectly to the firm. Examples of these type of indirect actions are research and design, information systems, human resources, accounting, firm infrastructure and policies. Support activities give firms the opportunity to gain competitive advantage.

However, the RBV has been used as a tool primarily in explaining firms in developed markets. Lee & Temesgen (2009) take the RBV view to make comparisons between firm performance in developed and developing countries. They find that "one of the most fundamental differences between the firms in the advanced and developing economies is that for the latter, the resources are not easily available either within the firm itself or from other neighbouring firms, whereas diverse resources are available within the firm or from other firms in the former" (Lee & Temesgen, 2009: 2). Firms in a developed economy, where resources are widely available, need to optimize their resources to gain competitive advantage. In a developing context, competitive advantage is not gained by most effectively utilizing existing resources but constantly gaining access to critically lacking resources and then attempt to improve that resources availability in the future. Thus, competitive advantage in developing countries may not be generated through intangible resources but simply through tangible.

Private investing funds occasionally contribute to both tangible and intangible resources. The investors help to buy machinery and equipment, procure land, guarantee loans and give physical cash. However, they also provide technical assistance to the firms, like management strategy, expertise training, accounting and financial records, networks within the country and to the world. They focus on both aspects of internal resources to help firms gain competitive advantage in difficult business environments. This is why this paper also analyses the role of this type of investment and is further analysed in Section 6.3 and Section 7.0 by discussing some investments in Sierra Leone.

Section 5.2: A Unique Idea

As explained in Section 2.3.2, there is a lack of innovative ideas for businesses in Liberia, as many businesses provide the exact same goods or services. For example, there are "a million tailors, but no one goes to the next step, to do something different…so there is not a lot of creativity" (Culture NGO Worker). One of the first necessities and assumptions for the RBV, is that businesses have a unique idea. Barney (1991) stated that "a firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy". In the developed world, this is a valid assumption and the first step to make. However, in a post-conflict state, many businesses do not take this first step due to the makeup of the market.

When a business is doing well in Liberia, because "people are not developing creative skills, everyone is trying to make the same thing. The trend here is that if one person is doing something profitable, then everyone follows that same trend" (Accessories Company Owner). Although copycat businesses are popular in all countries, the majority of businesses in Liberia are these. However, the "lack of creativity is because they are business owners out of necessity and not inspiration" (Culture NGO Worker). This means that because there are so few jobs available in the Liberian market, it becomes a necessity to become an entrepreneur in order to generate an income. The first step to finding a business with a competitive advantage is with entrepreneurs who are not entrepreneurs out of necessity but out of choice. Further, there needs to be an innovative idea that helps solve a problem within the community that is either ignored or the current solutions are underdeveloped. The most common firms that fit into this category are the foreign-alien and re-pat owned firms. Although taken as an assumption in developed markets, this is the first critical step to gaining a competitive advantage in the Liberian market.

Section 5.3: Access to Tangible Assets

As noted above, in developed markets, access to tangible assets do not generate a competitive advantage for a business because these resources can be accessed by all. However, this is not the case in a post-conflict market and access to these resources is a crucial contributor to the growth and survival rate of a business. These market failures in post-conflict countries have been primarily caused by the fallouts from civil war and capital destruction. From qualitative interviews, it is clear that the two tangible assets that have a widely-varying level of accessibility for different types of firms in Liberia is finance and skilled labour.

Section 5.3.1: Access to Finance

As stated in Section 3.1, financing in Liberia is expensive and requires a quick repayment schedule, hindering business growth. There are also a limited number of investment funds that disperse capital in the country, meaning that most companies rely on capital from revenues and personal contributions. Foreign-alien owned firms tend to find access to capital from personal contributions and family funds, which means that "most businesses here use personal pre-financing, and that's what keeps most of these businesses going" (Foreign Importer 2). There are some of these foreign companies that have built years of positive relationships with Liberian banks, which means they are able to receive loans much easier than the average Liberian. A foreign-alien company noted how important these relationships and history is with the bank by stating that "I could walk into any bank in Lebanon or Liberia and get any loan I want because of trust that we have built" (Foreign Hospitality Owner). However, more recently, getting a loan domestically "is becoming hard. Sometimes we get the money from London, our head office" (Foreign Construction Company Manager). This means that even some of the best customers of the Liberian banks are not able to afford the financing within the country. However, when the loan is too challenging to get in Liberia, these companies have the option to receive loans from banks within their home countries. This is very rarely an opportunity that other businesses have access to.

Lastly, these firms also mentioned being able to receive credit from their external suppliers when cash flow is low. This helps specifically with trade financing and is typically cheaper than what local banks can offer.

> *"When we get a contract, we use our suppliers, they pre-finance with a minimum interest rate, instead of us going to the local banks. If the supplier charges you 5% on top of the cost, it's still better than going to the banks and get charged 18%. So, we either do that or we use our personal funds, use it to buy goods, and then once you get business you reimburse yourself" (Foreign Importer 2).*

This form of financing relying on a strong relationship with suppliers also takes time to build. The majority of foreign-alien owned interviews stated that they needed to work with a supplier for at least two years before they could agree on any credit deals. Since local businesses cannot find the basic finances to run and grow for two years, it is rare that they would have this opportunity. Thus, these three forms of financing – from personal/family funds, external banks and external suppliers – are not easily accessible to most Liberian firms, giving a competitive advantage to foreign-owned SMEs.

Further, the Liberian re-pat owned businesses are able to tap into similar resources. In many cases, they would have some savings from working in the country they grew up in and/or were educated in. These savings are the personal contributions used to help finance the business, especially at the beginning of the process. One business owner stated that in his work in the US "I always with the intention of starting an online business in West Africa and I was saving for it in the process" (Tech Start-Up Owner). Further, although to a much smaller extent, these businesses have access to some credit lines based from their home countries. The small loans given are usually to the individual themselves and not the actual business. One business uses small PayPal loans in order to finance some working capital (Fashion Company Owner). However, the re-pat owned companies still struggle with taking out domestic loans. For example, one company has tried to take out numerous loans where the bank "has seen over a million dollars in cash flow but we can't even get a $20,000 USD loan" (Tech Start-Up Owner). This shows that even though the re-pats have more options to access finances providing some competitive advantage for survival in the Liberia's harsh business environment, they lose some advantage to the foreign-aliened owned firms.

Thus, it is clear that the level of finance that is available to a firm, directly impacts the success of that firm in a market like Liberia. This provides further evidence of the results found in Section 4.0 from the quantitative model that access to credit positively impacts business growth. This is particularly true for companies with some foreign ownership, which is shown through the results of Regression (3) through the interaction term. This qualitative research shows that although the quantitative model possesses many challenges, its primary results may show some truth about competitive advantage in the Liberian market.

Section 5.3.2: Access to Skilled Labour

As discussed in Section 3.6, finding and retaining skilled labour is extremely challenging in Liberia. Numerous firms in their interviews mentioned a lack of skilled workers in the private sector to be ranked within their top three main barriers for their growth. The human capital gap originated from the civil wars where education was halted for decades. This means that basic skills like reading, writing and basic calculations can be difficult skills for an employer to find within the labour force.

However, it is not just the civil war that created the human capital gap in the private sector but also more recent trends and policies. Firstly, the smartest and the best-educated kids in the present workforce, are easily convinced to work for the government instead of the private sector. One employer stated that there is a "lack of a good pool of talent for employees because the smarter kids get pulled into politics quite early. If you are a smart kid in college, you…are going to work for government because it's the biggest employer or you might work at an NGO, so you know they have a lot more money to offer than us" (Tech Start Up Owner). Since the government and NGOs are able to pay more than most of the private sector in Liberia, the most talented workers work within those sectors. There is also a much higher perceived risk to working in the private sector than the not-for profit and government sectors. After the negative shocks, like the civil wars and the Ebola crisis, it is logical that workers are heavily risk averse.

One government worker mentioned that although he would like to be in the private sector, he is working for the government because he feels as if it is an obligation to serve his country through the public sector. He said that, "after all this research I went back to the States and got my MBA in project management. I came back to Liberia and started working at the Ministry of Commerce in April. I'm here to help develop the country, and give back, instead of just working for myself already" (Commerce Government Worker). This shows that even the brightest Liberians are not seeing enough potential returns for becoming an entrepreneur and feel a moral obligation to work for the government to better the country.

Additionally, entrepreneurship and creative thinking is not currently being taught in the secondary school curriculum, which means that few young Liberians are gaining experience in the type of thinking it requires to be within the private sector.

> *"Entrepreneurship and even business practices are just not being taught…In Ghana, part of the student body did entrepreneurship and business projects. They would have competitions where they would bring in local businesses and even investors – sometimes students would get jobs or grants out of it. This makes you think outside of the box. You would be able to identify a need in the community and then able to turn it into a business development. This kind of thing just doesn't happen here"* (Entrepreneurship Government Worker).

This means that graduating Liberians have not gained the necessary skills to enter the private sector. Further, due to their lack of exposure to business, they have little desire to do so.

However, foreign-alien owned SMEs and to some extent, re-pat owned businesses, have gained some competitive advantage through having a higher access to skilled labour than other Liberian firms. The owners of the foreign SMEs are educated outside of Liberia and many have completed degrees in business or management. Further, many of the owners have worked in the private sector in developed countries, where they have gained valuable experience. One owner says, "In business, you need to do the research, know what's happening in that market and then go for it. Here in Liberia, people get access to some cash and they just go for it and it's a problem…First, I worked with a business to learn good business practices and then I became an entrepreneur" (Foreign Hospitality Owner 2). This means that many of these owners have been exposed to different business learning environments and can apply those skills. This is similar for many of the re-pat owned businesses because their owners have mostly been educated in the US and they have gained experience working for businesses in that market. This provides these businesses with a significant advantage over Liberian businesses who have had little access to business education or experience. However, both these types of businesses still struggle to find middle management workers for their businesses due to the local human capital gap.

Foreign-owned SMEs tend to bring in more expat staff to fill this middle management gap than re-pat owners do. One owner mentions that the "the problem is it's not that we don't want to hire a Liberian, it's that we want to do things the right way for the business, so we need the right person. And I could not hire a manager who has no idea about sanitation and hygiene" so they are forced to hire expats (Foreign Hospitality Owner 2). Another foreign-owner adds that having the expat staff gives them a significant competitive advantage in the market because it gives them much finer quality and services. He says, "we're criticized a lot for having a lot of expats, but this expat resource from abroad does make us stand out. From the finishing of our products, from our customer service, from the details in our work, all that, I have to say cannot be done without expat staff" (Foreign Hospitality Owner 1). Possessing skilled and well-trained middle management provides a significant competitive advantage in the Liberian market for the foreign-owned firms.

The re-pat owned businesses do not often hire foreigners for their middle management, which means that a lot of those tasks end up needing to be completed themselves. One owner explains, "our job is hard… you need to tell them every time they come in to tie your hair, put on your apron, sanitize your hands, put on your hair cap, so our job is hard. That's why when I'm not there, they don't package. I need to be there to package" (Cassava Processor). The demand on them from the business is significant and often time-consuming. This constrains the growth of the business because the owners are only able to complete so many tasks. As the business grows, they must start using other employees to complete certain tasks and they cannot find the right people to do so. However, sometimes re-pats will hire consultants from outside of the country to help expand their business when they cannot. For example, a fishing company needed some technical expertise and hired consultants from outside of the country. He notes their crucial role in his business by stating that "in the fishery sector, anything related to cooling or cold chain, we don't have any real technical expertise here. The guy I have is from Mali, and if he wasn't here, I'd be in some serious trouble" (Local Fishing Company). This shows that although the re-pat businesses do gain significant competitive advantage from their own skills, education and experience, this is restricted to a certain business size. As the business grows, the entrepreneur needs to rely on others to fill those management roles and is increasingly unable to complete those roles themselves.

This qualitative analysis of the access that different types of firms have to skilled labour, provides further evidence of the importance of quality labour in competitive advantage and thus, business growth in Liberia. This analysis is in line with the findings from the quantitative model that estimated that holding employee training has a positive impact on growth. However, these variables are quite different in definition, they both show that the education and quality of employees is a significant contribution to competitive advantage in Liberia.

Section 5.5: Access to Intangible Assets

The two resources discussed above, access to finance and skilled labour, have been found as key contributors to a company gaining competitive advantage in the Liberian market. However, if companies are able to obtain both of these resources, then the RBV method states that intangible resources generate the differentiation between successful and unsuccessful businesses. This is quite uncommon in Liberia and the evidence suggests that tangible resources are by far the most important resources for these firms at this stage in the country's private sector development. However, a sense of trust, which is generated through communities, is a resource that was often mentioned in interviews with businesses in Liberia. The civil wars negatively influenced the trust within the Liberian community, which means it is often a resource that is lacking in Liberian owned businesses. As one worker states, "trust is a rare commodity in Liberia" and thus, if companies are able to form trustful communities, they gain an advantage in the market (Entrepreneurship Government Worker). This means that often, the foreign-owned businesses tend to have a greater access to this type of resource.

Section 5.5.1: Positive Relationships and Networks in the Business Community

Many of the interviews showed that there is a lack of community and coordination between Liberian businesses. Unlike the small foreign businesses that tend to show loyalty within their groups, which is further discussed in Section 6.3, Liberian businesses do not often have the same camaraderie. Speaking about the Lebanese community in Liberia, one business owner states that "this kind of dominant merchant group, there doesn't exist a parallel thing for Liberians" (Tech Start Up Owner). This lack of cooperation between Liberian businesses is believed to be a cultural consequence of the civil wars. The civil war has made “everyone considers it as a zero-sum game. If I don’t make it, then someone else will take money from me and it’s not like together we can make the pie bigger because the pie is fixed” (Government Consultant). This type of mentality stops businesses from looking at a ‘bigger’ picture and that supporting one another is beneficial in the long-run. It is also made difficult to plan for long-term and keep some of these relationships if the business owners circumstance changes and they require money quickly.

An example of this is through the co-op system in Liberia. The cooperatives were often founded on a community level, to support local farmers. These are particularly common for cocoa farmers who have a long growing period, up to three years, and require the support of others. Although the co-op has guaranteed buyers, they do not provide the funds until a bit later. Thus, “during the planting season, most farmers are in search of pre-finance to hire laborers, provide food and school fees for their kids and cooperatives cannot provide these things. In lieu of this, some farmers sell to middle buyers,” breaking from the cooperatives deal (Agri-Business Development NGO). Further, there are some cooperatives that do not even build any relationship with the farmers themselves. Generally, it is foreign NGOs that try to incorporate and help build these relationships between the co-ops and the farmers. This means that “most of our cooperatives still heavily rely on NGOs for free things and as such, they are not in the position to solve farmers’ problems” (Agri-Business Development NGO). The co-ops serve as a good example of how there have been attempts to bring together and form communities between businesses but that most have been unsuccessful.

This lack of cooperation is also seen between foreign agencies and local institutions. Some say that some international institutions and aid organizations tend to not work with the local entities for their projects. This has stopped or hurt some development projects across the country. A primary example has been the constant battle over electrical grids over the past decade. An investor who was at one-point part of this project questioned this logic.

> *“The World Bank and Millennium Challenge Corporation have been fighting for the control of the Liberian energy sector for the past 10 years and have never let the Liberians take control of it and use their funding as leverage. There’s a lot of false sense of ownership by international institutions. If the real goal is to build up this country, then why have this power battle?”* (Family Office Fund).

Thus, it is evident that the lack of cooperation between all entities within the market is stunting economic growth.

However, the foreign-owned SME's tend to have large, trustful networks within Liberia and the rest of West Africa. There is a culture of helping one another in these communities as one owner states that "by making friends, I mean making good relationship with people, other businesses, people in the government… It helps, because you are a part of a community, and Lebanese people tend to help each other" (Foreign Importer 1). Further, many of the foreign-owned firms are part of family businesses, which means there is often a substantial amount of cooperation between the numerous different businesses to support one another.

> *"So obviously being a family business helps, we're all working towards the same goal, and the good thing is that we don't work together, but we work for all of us combined, so there's never any conflict, because we all run our own separate business, but at the end of the day we report to each other"* (Foreign Hospitality Owner 1).

This sense of community, which is lacking in the Liberian business community, generates a competitive advantage for their businesses because they have access to more support and resources.

This sense of community and cooperation was not explicitly seen in the quantitative model in Section 4.0 through any variable, meaning it is likely within the error term. However, these types of positive relationships with banks, suppliers, consumers, and other businesses may be seen within the positive coefficient for the access to credit dummy because these relationships may help firms receive credit.

Section 6.0: The Role of Investment to Fill Capital Gaps

From both the quantitative and qualitative analysis conducted above, it is evident that the gaps within the private sector that need to be filled for an increase in growth is financial capital, human capital and stronger relationships within the business community. Foreign investment into Liberia offers a potential strategy to help fill a portion of all three of these gaps. This is because investment makes credit and/or equity deals with local firms providing them with much-needed financial capital that they are not able to access at local banks. Further, the influence from the foreign involvement helps to transfer skills and knowledge in many of the skills that are missing in the current Liberian middle management labour force. This includes techniques in accounting, management, operations, human resources, business strategy, marketing and etc. This factor is represented in the quantitative model in Section 4.0 through both the training variable and the interaction term, which shows the positive impact of foreign involvement for business growth. Lastly, many foreign investors can help building connections between local businesses through their supply chains and their portfolios.

However, there are a number of different types of foreign investors in Liberia: large multi-national corporations (MNCs), small foreign SMEs[25] and private individual investors[26] who are often focused on generating social impact. This section discusses each one of these different forms of foreign investment in Liberia, the barriers and challenges they face to invest in Liberia, and the impacts they have had on local private sector development.

Section 6.1: Foreign Direct Investment and Concessions

The section first provides on overview of the current academic literature on the impacts of foreign direct investment and concessions on private sector development. It then uses qualitative data collected in Liberia to better understand the barriers for FDI to enter Liberia. Lastly, it analyses the impacts of these FDI projects on the local business community and their development. This provides evidence that although FDI in Liberia has substantially increased economic growth in the country, this form of foreign investment has not been a tool that have filled these key gaps to help local business growth.

In theory, foreign direct investment from Multi-National Enterprises (MNEs) into developing countries is a potential source of capital, knowledge and technology transfer that can stimulate employment, diversification and economic growth (Chowdry & Mavrotas, 2006). To take just one example, Arnold et al. (2009) show that foreigners owning the majority of greenfield Indonesian plants leads to significant productivity improvements in those acquired firms. After three years, the new greenfield foreign owned firms outperform new domestic firms in productivity by 13.5%.

[25] These are the same types of businesses that were used in the RBV model in Section 5.0 and are often owned by Lebanese, Indian and Chinese families.
[26] This does include small investment funds, which raises funds using a number of different individuals and/or Development Finance Institutions.

Technology transfer is another one of the primary benefits of FDI flows going into a developing country. Developing countries have the potential to grow faster than developed states because they can learn to use existing technology, but this is dependent on the level of human capital and thus, the economy's ability to absorb such technologies. However, the relationship between FDI and transferring technology to the host-country is complex. Countries with low levels of education are less likely to absorb the new technologies. Post-conflict countries, which have "economies with weaker initial conditions are likely to experience smaller inflows of FDI, and those foreign firms that enter are likely to use simpler technologies that contribute only marginally to local learning and skill development" (Blomstrom & Kokko, 2002: 10). Thus, many post-conflict countries do not have the industry or the human capital to really absorb any of the benefits from technology transfer.

Section 2.1 provides some academic literature on FDI projects in Liberia that gives conflicting views of its impact on the local economy. Bunte et al. (2018) analyses the change in night-time light in communities with natural resource concessions to determine economic growth. They find while using this technique that there is significant economic growth in these areas. However, Paczynska (2016), explains the many different social issues that concessions have generated in Liberia that need to be taken into consideration. Thus, it is difficult to determine a concessions impact on local business development.

FDI into Liberia has dropped significantly since the Ebola crisis. There are a number of significant challenges that MNCs face in Liberia that is deterring MNCs from entering the country. The first reason is because it is expensive for the concessions to build all the necessary infrastructure to run their business. In most countries, a significant portion of the basic infrastructure needed to produce, like roads, electricity, water systems and railways, are already put in place by the government. However, this is not the case for Liberia and Firestone, a rubber company is a prime example of this. "Firestone is like its own country. It created all its own services, there's a school system, electricity, security, they repair their own roads, build their own houses, their own hospital" (Foreign Embassy). Providing the basic infrastructure and services required becomes extremely costly for the MNCs. However, this does benefit the local communities, particular when they provide education for the community.

In addition, there have been social issues that have occurred within the communities that concessions work in. This is generally in relation to land disputes, which was discussed in Section 3.5. Due to the poor relations between local communities and the concessions, products are often stolen from the company. The average amount of product stolen has been quoted as high as 40 percent. As a policy-maker states that “the concession needs to be protected by the community as they see it as a good source of livelihood. This is not necessarily the case. The concessionaries need to train these communities to grow with them and be a part of the economic activity, doing their own work” (Investment Government Worker). The concessions also need to ensure that they are training not only their employees but possibly other businesses in their area. For example, if there is a concession in cocoa, they should not only train their own employees but also the other cocoa farmers within the area so they can buy from the local farmers to add to their supply. This promotes local business development and the spread of knowledge beyond the confines of the concession. However, this is not occurring in Liberia as they rarely conduct training outside of their own employees.

Further, the concessions rarely conduct training that provides the education needed for low skilled workers to start performing higher-level skills. Thus, the transfer of knowledge that an employee at a concession could then use to begin their own firm in the local market is not occurring. This reinforces the concept explained above by Blomstrom & Kokko (2002) that little skill transfer is occurring in a post-conflict country like Liberia. However, concessions have the ability to help empower local communities, which was seen following the Ebola crisis by Sime Darby, a palm oil company. Sime Darby made deals with a few local businesses, which gave them enough leverage to secure loans from local banks. They worked on the projects with Sime Darby, gained a good reputation with banks and became independent firms[27]. However, this sort of story is still quite uncommon between local communities and large MNCs in Liberia.

The foreign companies currently in Liberia are also struggling with the transition to the new government. As discussed above, the government has been focused heavily on domestic businesses and because of this, have become relatively ‘anti-foreign’. A government consultant said that this has been evident for a few concessionaries “that are having trouble under the new government, because they’ve been bullied into not hiring as many foreigners, getting shut down … Then, there’s been little support to them to make

[27] Investment Government Worker, Monrovia, February 2019.

money" (Government Consultant). Not only is the new government struggling with keeping concessions in the country, they also do not have the knowledge required to attract new FDI deals. In comparison, "the previous administration was very focused on the quality of investment and the transparency of the process. There was a lot of due diligence required. The quality of the investors we saw in the previous government are just not there anymore" (Investment Government Worker). Therefore, the transition to the new government is not only impacting the local businesses, but also having a negative influence on the large foreign businesses in-country. This has changed the foreign direct investment climate in the country and made it more difficult for MNCs to enter the country.

In conclusion, FDI inflows into Liberia has significantly helped economic growth for the country since the end of the civil wars. A large portion of this contribution is through building much-needed public infrastructure that the government was unable to provide communities. However, they have scarcely contributed to the capital gaps that need to be filled for local business development in the country. Although concessions bring in large amounts of capital and provide jobs, this capital rarely transfers to filling the financial gaps for local businesses to promote their growth and development. It is possible that incomes from concessions may be used as loans to friends and family members to start their businesses, although no subject in interviews mentioned this. Further, FDI's training with employees is not the form of training that can often be transferred to the higher skills required for becoming an entrepreneur or filling the middle management gap present in most Liberian businesses. However, if a concession hires local firms as suppliers or services, there is evidence that suggests this helps with both providing financial capital for the company and transferring some skills when they are completing the tasks to the standards of the MNC. For MNCs that do enter Liberia, this strategy should be used more often to promote local business development.

Section 6.2: Foreign-Owned SMEs

The foreign-owned SMEs that this section discusses are the firms that are used in the RBV model in Section 5.0. As that section showed, these firms tend to have a competitive advantage in the Liberian market because they have better access to capital, access to middle management and relationships with other businesses. This is a form of foreign investment as the owners are not Liberian citizens; however, it is almost always greenfield investment as the owners tend to build their own companies from scratch. However, even with their competitive advantage, these firms are still struggling in the Liberian market and many owners have mentioned their desire to move their business to another country. These businesses still face harsh external factors, hindering their growth. This section explains that the foreign-owned SMEs contributes primarily to helping fill skill gaps in the labour force and in some cases, providing funding for new businesses.

There are a number of challenges that these businesses need to overcome in order to be successful in Liberia. The first, which is the same for all businesses in Liberia, is the lack of infrastructure and pro-business government policies. One owner complained that he needs to pay high taxes in Liberia but receives little public infrastructure here for his tax money.

> *"For anyone to be paying such high taxes they need to see return. In the States when the government takes 20-30% of my income, I have proper schools, the proper infrastructure. Here we don't have that. We don't even have electricity. They've been working on this hydro plant, and when you want to get a line to connect yourself, they tell you they don't have the transformer, they don't have the wires. We pay up to 25% taxes, and we don't see any progress"* (Foreign Importer 1).

Further, similar to the issues with concessions in Liberia, the new administration is heavily focused on domestic business development, while making it tougher for foreign businesses. Since the government change "there is this increased sense of nationalism when it comes to businesses…there is a kind of tendency against foreign businesses doing well. It's not institutionalized, but gradually you can see that feeling of giving more priorities to local businesses" (Foreign Embassy). However, the government defends its position in these policies by stating that the foreign companies already have a significant advantage in the market by having access to finance elsewhere. This means that the government needs to focus on the domestic companies that have no other options.

> *"We know that 96% of this economy is in the hands of foreigners, we don't want to be giving loans to foreigners who can already get them, from banks in countries they came from. Usually what they do is that they bring $10 million USD from their country, and leverage that in our banks for an additional $10 million, start their business and repay their original loan. So, the capital leaves Liberia"* (Commerce Government Worker).

Due to this political climate, Liberia has become a hostile environment for this form of foreign investment into the country.

Another issue for the foreign SMEs is that the government often has an expectation for them to use their business for social impact in the community. However, these companies are significantly smaller than large concessions who have the resources to rebuild public infrastructure and conduct social programs in communities. For example, one foreign importer said that "we're fighting with the Union, they want us to give them $25,000,000 LRD in loan, even though we already give loans to employees ... We are not a concession. We are a large taxpayer, but we are not a concession, and we have no social responsibility to do that." (Foreign Importer 1). These obligations from the government generally remove a portion of their competitive advantage and because of this, forces the foreign SMEs to exit the market.

Although there are several major issues that make it difficult to be these small business foreign investors, they partially contribute to local business development. One of the biggest influences they have is spending a large portion of their time training their workers. Although they do hire expats for the most skilled jobs, they still hire many Liberian workers and need to put them through intensive training. One restaurant business believes that "the attention to detail while working with employees here is very important. It's me showing you how to do things properly and to transfer that knowledge to the employees" (Foreign Hospitality Owner 2). A few of these owners mention the importance of training and how one must have patience and resilience in Liberia. The same owner mentioned the importance of leading by example and how that being on the ground consistently teaching employees proper techniques is key to their development. He believes that "you can't push too far forward; you need to bring the team with you. The manager needs to be in the middle of it all and lead by example" (Foreign Hospitality Owner 2). Some foreign owners have mentioned that some of their employees, after working for them, have been able to find even better jobs, now that they have some experience and quality training.

Although a rare occurrence, one foreign business owner actually provided capital to two of his employees to start their own business. As a business owner he had a service that needed to be provided and had no interest in doing it himself. So, he provided his employees, who he had trained already, the necessary capital, mentorship and support to start this business.

> *"I need someone to deliver my food because people want it to be delivered. I just don't want to have to deliver it myself. So, I loaned money to my manager, a non-Liberian, and a server, Liberian, to start [the company]. I know that they are struggling with cash flow already, but I will keep funding them because you need perseverance in this economy, and I believe in them"* (Foreign Hospitality Owner 1).

From the quote above about the labour unions, it is clear that this other foreign SME is also providing small loans to their employees, helping to fill some financial capital gaps. This not only shows that foreign businesses can creatively help fill some of the financial capital gaps but also reinforces the importance of trust and relationships in the business community. Since these two workers had worked with this foreign owner for a long time, had also gone through his extensive training and had gained his trust, they now work together on a new business and have been provided with the skills needed to do so. Although this type of scenario does not occur often, it shows the potential for how foreign businesses, who have more access to resources, can significantly support local economic development.

Section 6.3: Small Private and/or Impact Investors

Although there has been a growing trend of private investors entering African markets over the past two decades, this has not been experienced in Liberia. Investing with social purpose has become normalized and many investors would like to add 'impact' investments to their portfolio. These tend to be smaller deals than the FDI and concession investments and are typically focused on SMEs. Africa has been receiving significantly more attention by these private investors because it has become a 'sexy' market.

However, states that are further along in their private sector development, like Ghana, Nigeria and Kenya, are receiving the bulk of this attention because they are overall less risky than a market like Liberia's. For example, "if you are an outside investor and you hear Liberia: the population is less than 5 million people and you could easily invest in Accra [where] the population is 10 times as big and more stable, there's electricity, good education level, etc." (Tech Start-Up Owner). Even if an investor is focused on social impact, they still require financial returns, which means that the investment must be fairly secure. This is evident by the fact that more than half of all the foreign investment deployed in West Africa goes towards Ghana and Nigeria. However, West Africa, even with these two powerhouses, is not as popular of a market as East Africa. Between 2005 and 2015, there was $6.8 billion USD invested in West Africa, in comparison to $9.3 billion in East Africa, which is only half of West Africa's total GDP[28]. Thus, not only is Liberia an unpopular country to invest in within West Africa, the region as a whole is also less popular than other areas in Africa.

There has also been the rise of Development Finance Institutions (DFI), which solely focus on this type of investment. They have been the primary source of this non-MNC investment into Liberia and between 2005 and 2015 invested $90 million USD over 15 deals. However, for non-DFI investments, Liberia only received $0.6 million USD over two deals[29]. This is the one of the worst performances within the region. This evidently shows the unpopularity of Liberia as a market for private foreign investors. On the ground, there are approximately six of these types of investors in the market. Due to this, it is difficult to determine whether this type of investment in Liberia can provide the three main resources required to gain competitive advantage.

Many of the reasons that investors avoid Liberia as a country to do business in are the same as the constraints to business growth explained in Section 3.0. However, from the investor's point of view, there are five key additional reasons why they have little interest in entering the country.

Although Liberian businesses do not state that political instability is a concern for them, investors do. Since potential investors may not know the country well, they state that political instability and the possibility of violence is a central deterrent to investment. Further, with the constant negative shocks that have persisted throughout the past five years, investors have a challenging time generating economic forecasts and predictions. In particular, the election and new government "has been terrible in terms of uncertainty. Before, there was a 3-4 months period where people stopped spending. People didn't know if the new government would be okay, there was a big drop in small investment" (Government Consultant). Thus, without some confirmed and consistent stability, Liberia is too risky to enter in an investor's point of view.

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[28] 'The Landscape of Impact Investing in West Africa,' Global Impact Investing Network, December 2015. https://thegiin.org/assets/160620_GIIN_WestAfrica_full.pdf

[29] ibid

The negative shocks that Liberia has faced has not just generated uncertainty, but it has also painted a negative perception of the country. Many foreign investors have little knowledge about the Liberian market, culture and the potential within the country. However, the two facts that people outside of the region often know about the country is that it is war-torn and that it suffered from the Ebola crisis. This means that "for people outside of Liberia, they see Liberia as damaged, they don't see Liberia as a place to invest" (Tech Start Up). Even within the impact investment community, Liberia is still separated into a higher risk category. Most of the time investors, "see Liberia as a very poor country, with not a lot of opportunities, not a thriving entrepreneurial community, etc. It's still considered a post-conflict country, so it puts it in a different category for most investors" (Small Impact Investor). This means that only the most risk-loving investors enter the market. However, almost all of the private investors and funds in Liberia, which are under ten in total, have personal connections to the country. This means that even the most risk-loving investors don't enter the market, it is only those who have a personal connection with Liberia. This is most likely because the negative perceptions are too difficult to see past if an investor has no relationship with the country.

In addition, if an investor does decide to try and enter the Liberian market, it is challenging for them to source investment-ready companies. One of the reasons for this is that investors may only have a small amount of time on the ground and most information in Liberia is spread through 'word of mouth'. The other primary reason is that most companies who need capital are not yet ready for large-scale investment because they cannot absorb that amount of capital effectively. In many cases, Liberian companies do not have the basic paperwork and financials in order for standard due-diligence processes that an investment firm would require. One investor said that "most of the companies that operate here are not sophisticated, they have no records at all. Especially in the bracket we're looking at [SMEs], people have no accounting records, no corporate agreement templates, etc. So that gives us trouble when we need to do due-diligence" (SME Impact Investor). Due to the cost of sourcing deals and releasing capital, investors require deals that are larger in size and easier to manage. Since most Liberian companies are still in the beginning stages of development, they are not yet ready for this type of deal.

Unless it is an individual private investor, most of this form of investment is from a fund that manages a portfolio. Incentives for those managers, who receive fees from managing the portfolio, are very low. This is because, as stated above, the size of investment deals in Liberia are much smaller than the average deal in other parts of West Africa. Thus, since “the market size is very small, [as an investor] you spend a lot of time working on deals here because there are a number of issues that you have to address. And the deal size is small. So, people would rather spend that time and energy working on a deal in Nigeria for example, or Nairobi, on like a $100 million USD project” (Institutional Impact Investor). As mentioned above, sourcing deals is a challenge and even if they find a company, it’s difficult to make a deal. This is because “venture capital or private equity are still new to the country; most businesses are used to regular bank loans. There has been push back from the ones who aren’t honest, against our level of involvement. But for this to work we have to be there and take the risk together” (SME Impact Investor). The companies also require more technical assistance and monitoring than other areas, which is both expensive and time consuming. Dishonesty is reported as a major issue by investors, which further deters fund managers to enter the market. One manager stated that “there are investees whose only goal is to grab money and run. It’s tricky trying to determine who will be a good promoter and who won’t” (SME Impact Investor). Thus, to be a fund manager in Liberia, it takes ample time, energy, patience and resources, with less compensation than other areas. This decreases the incentives for fund managers to try and run their portfolios in Liberia drastically.

The final key reason why private investors are not coming to Liberia is because there is a lack of professional services available within the country. This has been caused by the educational gap in the country and has limited options when it comes to professional services. This includes services in accounting, consulting, lawyers, auditing and computer coders. It is risky to invest in a place that does not possess the tools required to help make the acquired business successful. Most companies and funds must outsource all of this work to other countries.

Due to the lack of funds and this type of angel and/or venture capitalist investment into the country, it is nearly impossible to determine the effectiveness of this method in Liberia. Thus, I use qualitative research from Sierra Leone, which has more of these types of funds on the ground and has similar characteristics to Liberia, to better understand if small-scale private investment does have the potential to fill these market gaps. This is discussed in the following section.

Section 7.0: A Comparison to the Sierra Leonean Investment Environment

Sierra Leone, a neighbouring country to the West, possesses similar characteristics to Liberia. Sierra Leone is a small country in West Africa of just over 7 million people and has experienced a turbulent history. Briefly, I explain some of the similarities between the two countries.

Sierra Leone, although colonized by the British, was another area where freed slaves from America returned. The freed slaves, called the Creole, became an elite in Sierra Leone and were favoured in the colonial era. The country became officially independent in 1961 and Sir Milton Margai was elected as the first Prime Minister. He was of Mende decent, which is one of the two larger ethnic groups in the country, the other one being the Temne. However, when Margai suddenly died, a coup d'état led by Siaka Stevens occurred. He changed the system so that Sierra Leone became a one-party state, and this lasted until 1991. However, by this time, a brutal civil war had broken out in the country, which was heavily influenced by the war in Liberia. Charles Taylor reportedly helped develop the Revolutionary United Front, which was led by Fodah Saybana Sankoh, and was spreading terror across the country. The death toll for the war is estimated at over 50,000 people and hundreds of thousands became refugees. The war came to an end in 2002 after Britain decided to intervene and a large UN peacekeeping mission (UNAMSL) was launched in 1999[30]. Sierra Leone's economy has been heavily focused on agriculture and diamond mining, which the country has struggled to manage properly. This shows that both Sierra Leone and Liberia were countries set up for freed slaves from the Americas, both countries had turbulent governments that led to devastating civil wars, and they both had substantial UN peacekeeping missions launched after the war (Ganson & Wennmann, 2016).

The current economy in Sierra Leone has suffered through a number of the same shocks as Liberia. The UN Mission in Sierra Leone, running operations as an integrated office from 2005, fulfilled its mandate and operations by 2008. Sierra Leone was also hit with the Ebola crisis in 2014, which halted the economy as most businesses closed. Like Liberia, Sierra Leone had a national election in 2017, which generated some uncertainty for the development of the country. Lastly, since the elections, the country has also dealt with a

[30] 'United Nations Mission in Sierra Leone,' Peace and Security Section, Department of Public Information. United Nations. 2009. https://peacekeeping.un.org/mission/past/unamsil/

significant depreciation of the Leone. Many of these shocks are similar to Liberia's which are discussed above.

However, even though the country has similar characteristics, there is a perception in Liberia that Sierra Leone's business environment is recovering and growing more than Liberia's. When interviewing stakeholders in the Liberian business environment, it was frequently stated that Sierra Leone was becoming the better place to conduct business.

> *"A year or two ago, when people would compare Liberia and Sierra Leone, everyone would say Liberia is going far, and Sierra Leone is still lagging behind. And in just ten months, we are the ones lagging behind. When you speak to the business people, Lebanese people down in Waterside, you see shops closing, and people will tell you they moved to Sierra Leone"* (SME Impact Investor Liberia).

Thus, many foreign businesses interviewed mentioned that they were considering moving their business to Sierra Leone and leave Liberia permanently. Due to this common perception, I conducted nine on the record interviews in Freetown with local business owners and foreign investors, to understand primarily whether these perceptions of the market were accurate. If they are, I then determine why Sierra Leone may have a better business environment at the present time.

Section 7.1: Why are More Private Investors Entering the Sierra Leone Market?

Overall, many of the challenges that businesses in Sierra Leone face are the same as in Liberia. This includes challenges like inadequate infrastructure, poor education and a lack of skilled labour, corruption, the depreciation of the Leone, the negative shock from the UN leaving, the negative perceptions caused after the Ebola crisis, and a general uneasiness of processes. However, there were three main differences that were clear between the two different markets, which this section explores.

Although business owners described the many challenges they faced operating a business and trying to find investment in the country, they all had a more optimistic view for business in Sierra Leone than the majority of business owners in Liberia have expressed. They expressed more optimism for the future of their business and the opportunities available to them. This seems to have stemmed primarily from an attitude seen from the new government, elected in 2017. The first has been that the new government has shown and expressed their desire for more foreign companies and investment to enter the country. An investor said that “the new government has opened its doors to foreign investors and has not necessarily been trying to help us but also hasn’t really gotten in our way for these new projects” (Small Impact Investor). This has been the opposite approach to the newly elected administration in Liberia, which has been focused almost entirely on domestic business development. The second is that the government has shown an awareness and has acknowledged pitfalls in current policies and processes for businesses in the country. Although there are still many challenges present, “they’ve at least identified where some of the issues lie. They for example recognize there is a challenge at the port, Ministry of Finance said quite clearly that the Environment Protection Agency was used too much as a revenue generating agency instead of an environment protection body. There is a recognition that the policy needs to be more fairly applied” (Tech Business Owner). The previous government also discussed these issues frequently but “they now also recognize that they have been talking about the same things year after year and are trying to make a change” (Tech Business Owner). Although there has yet to be many significant changes to those policies, the acknowledgement of problems and their eagerness to make changes has made business owners more hopeful for the future.

It is evident that conducting business in both countries is expensive due to the lack of infrastructure, corruption, challenging regulations and high taxes. However, the cost of doing business in Sierra Leone is overall cheaper than Liberia. This is caused by the following reasons: the Leone has not depreciated as significantly as the Liberian dollar, a smaller amount of resources is imported, and there is a smaller amount of corruption throughout the business process. One stakeholder noted that “the good thing in Liberia is that it’s dollarized, but at the same time it makes the cost of doing business much higher” (SME Investment Fund). In relative terms, there is also a few more business services available in Liberia as “Sierra Leone is a bit more dynamic, because there's a bit more companies operating here. In terms of the services we get there is a bit more competence and exposure here compared to Liberia” (SME Investment Fund). This means that fewer of these services need to be outsourced out of the country making it cheaper. Although there is still a large portion of goods imported, depreciation of the currency, and corruption in Sierra Leone, the fact that it is less in magnitude than Liberia helps the business environment substantially. Further, many companies noted that the larger population and consumer base in Sierra Leone, helps businesses hit economies of scale more easily. “Liberia is a smaller market so of course the revenues generated are much smaller than in Sierra Leone" (SME Investment Fund). Thus, overall the cost of doing business in Sierra Leone is cheaper at this present time.

Lastly, the new government of Sierra Leone has placed a higher emphasis on making processes more transparent and less corrupt than the new government of Liberia. Some businesses in Sierra Leone mentioned that this has actually made business a bit more challenging at the moment because they must learn new processes. "The new government has really come down on corruption, which I think in the long-term is good for our development. But, right now, it's actually slowed down some processes for businesses and made it a bit slower to get things done" (Business Incubator Manager). This sends a positive signal for foreign businesses and private investors that if they do enter the market, they will not have to cope with large amounts of corruption. As mentioned in Section 3.5, Liberia has struggled with corruption throughout the change in administration.

Section 7.2: Is this Investment Benefiting Local Business Development?

Although Sierra Leone has more investment funds and projects than Liberia, it is still a small market, especially compared to markets like Nigeria and Ghana. There are approximately eight funds with operations on the ground. Due to this, it is still difficult to determine how effective private investment, especially venture capitalist and/or angel investment-styled deals. Further, this is also a fairly new form of capital flows into Sierra Leone, which means that most of the investment funds have completed or are still in the middle of their first round in the country. The typical investment fund lifespan in a country like Sierra Leone is between five to ten years. Since most of the funds in Sierra Leone are in the middle of this first round or currently trying to exit companies, this provides further challenges to the analysis. However, there is some evidence that these types of investment deals provide resources to companies to fill their finance and skill gap. However, there have been some challenges with the deals also mentioned that future investors should take into account.

When asked what the major contribution of the investment deal is to the business, almost all of the companies spoke about the financial capital that they received. In a lot of cases, these firms were unable to receive loans and financing from local banks beforehand. Now, the firms have access to capital through the fund and further, having the fund as a partner will sometimes provide more positive signalling to local banks so they can receive additional loans. One company said that due to the difficulties of the finance market in Sierra Leone, “without our angel investor, we would not have survived, financially, throughout this process” (Agri-business and consultant). However, this agri-business also mentioned that due to the numerous shocks and unpredictability of the market, the only reason their investment deal has succeeded is because it is flexible. Therefore, they are of the opinion that “investment can work in an area like this, as long as its flexible. You will always need a bit more capital and a bit more help and the investor needs to adapt to the environment” (Agri-business and consultant). Managers of funds that are linked to large institutions or DFI’s have mentioned how difficult their strict mandate can be in markets like Liberia and Sierra Leone. For example, “after Ebola and a change in management, the companies needed some more capital, but we didn’t have the flexibility to provide more to them at that time and because we are attached to a large institution, we couldn’t change that”. (SME Investment Fund). These strict rules and procedures mean that the funds cannot easily adapt to widely varying and difficult markets. This means that a flexible and adapting investor is an optimal use of capital deployment in these markets.

The majority of these small-impact focused funds working in Sierra Leone provide a varying amount of resources for technical assistance with the firms they work with. One fund said that their technical assistance program “works on a needs basis. When the fund was initially set up there was the investment capital, and there was a TA facility of $1.2 million. Most companies apply for expertise in financial management, and also on the operational side, in marketing for example” (SME Investment Fund). This usually involves hiring consultants who specialize in the required area for the company. Another fund stated that they take a more hands-on approach to the technical assistance. The employee of the fund in Freetown claimed, “I have worked here within the company as the manager for the past six months to get this business set up. I am involved in every aspect of the business and work almost as an employee and not the investor” (Small Impact Investor). This type of experience is much more hands-on than a large portion of the other investment deals and is quite unique. However, the companies stated that only some of the technical assistance has been helpful to their growth. One company said, “we go through a lot of training. There are always more trainings to do. But I am not entirely sure if it’s that helpful to us” (Agri-business and Consultant). One business stakeholder expressed that instead of just training that these companies “require true partners in the business that are willing to work with them for long-periods of time, sharing their knowledge and not only do short term trainings” (Business Incubator Manager). This means that some companies do believe that having a partner, who is present and working within the firm may be more helpful than just having access to some training programs.

However, although there is some evidence that the investees benefit from more investor involvement, there are also numerous problems with this on the firms. One of the biggest issues with having the fund heavily involved in the company they are investing in is clashes in vision for the business. For example, one company said that there was constant disagreement throughout the deal because “they had a particular view in mind where they felt the business could go and where it could fit in with their existing businesses which is different from mine” (Tech Business Owner). This not only slowed down decision-making but also created a disjointed concept for the company itself. Business owners also do not like when an investment fund micro-manages the decisions for the company. Although this is an understandable technique for funds in this area to try and mitigate risk in these tremendously risky markets, it does strain the relationship immensely between the investor and the investee. For example, “there was quite a bit of micro management, they wanted to be involved in expenditures behind staff decisions for example. And it was difficult to push back, because they were also holding the purse strings but they also didn’t fully understand the market” (Tech Business Owner). This means that often, investors try to force ideas, processes or business techniques that work in the developed world or markets like Ghana and Nigeria. However, the Sierra Leonean market is substantially different than those markets and trust needs to be built that the local business owner understands their market well. For example, one advisor stated that “when an investment goes bad in places like Sierra Leone and Liberia, they blame it on the people and the market. But most of the time, it’s actually that the funds have just made bad investments and didn’t understand the issues well enough” (African Investment Advisor). Thus, there not only needs to be a clear, shared vision between the investee and investor, but also trust, knowledge and a broader understanding of the business environment.

Section 8: Conclusion

In conclusion, the first sections of this paper provided an in-depth examination of the business environment in Liberia and the numerous challenges business owners must face. These challenges include negative shocks, like the elections and the Ebola Crisis, poor roads and electricity access, an education gap, low access to finance and poor governance. These barriers heavily influence a firm's growth and survival. The companies that can overcome these barriers, particularly find much-needed tangible resources, are the ones in Liberia who gain competitive advantage. A simple quantitative model provides evidence that both access to credit and employee training are the most effective impacts on business growth in Liberia. This model also shows that foreign ownership helps to increase the effectiveness of access to credit on their growth. This is further demonstrated using qualitative data and the RBV framework to show that access to finance and high skilled labour are tangible resources that provides competitive advantage to businesses in the Liberian market. Further, this framework also shows the positive influence of trust and positive relationships in the business community on business growth. It is clear that the profound consequences of the civil war have made both the tangible resources, finance and quality employees, and intangible resources, trust and networks, difficult to acquire in the market. There is a possibility that private investment may be a tool that could be used to fill these substantial market gaps.

The second portion of this paper focuses on the role of private investment in filling the gaps discovered in the first aspect of the paper. This paper finds that there are numerous challenges to enter the market for the three main different type of investors: MNCs, small foreign business owners, and private/impact investment funds. The change of government and the shift of government priorities, a lack of incentives for managers, negative perceptions, difficulty sourcing deals, social tensions and high cost, are all common barriers for investment into the country. Due to some short-comings of the first two types of investors, the private and/or impact investment funds have the most potential to fill the two primary tangible resource gaps. However, using qualitative research in Sierra Leone, a country with similar characteristics and a few more of these types of funds with a mandate in the country, it is evident that there are still improvements in their effectiveness that need to be made. Although, they are able to fill some of the finance gaps, many are inflexible which is restrictive in these challenging markets. Further, finding the proper technical assistance and the proper level of involvement also heavily influences the success of the investment deal and the growth of the business. Now that some funds are starting to exit from their first investments in Sierra Leone, there will be a lot more information and lessons learnt for new investors when they enter. This is hopeful that the next round of capital deployed will be more effective on local economic growth.

This paper has merely provided an in-depth survey of business development in a post-conflict market and some of the methods that can be focused on to help rebuild these economies. More research needs to be conducted in these areas on the private sector, as little has been conducted prior. Better quality quantitative data at the firm level and on private investments in these areas need to be collected in order for more thorough and technical work to be completed in the future. Although there are numerous and substantial challenges in both the Liberian and Sierra Leonean market, there is a bountiful of opportunity for the private sector and nurturing that opportunity is key for their recoveries.

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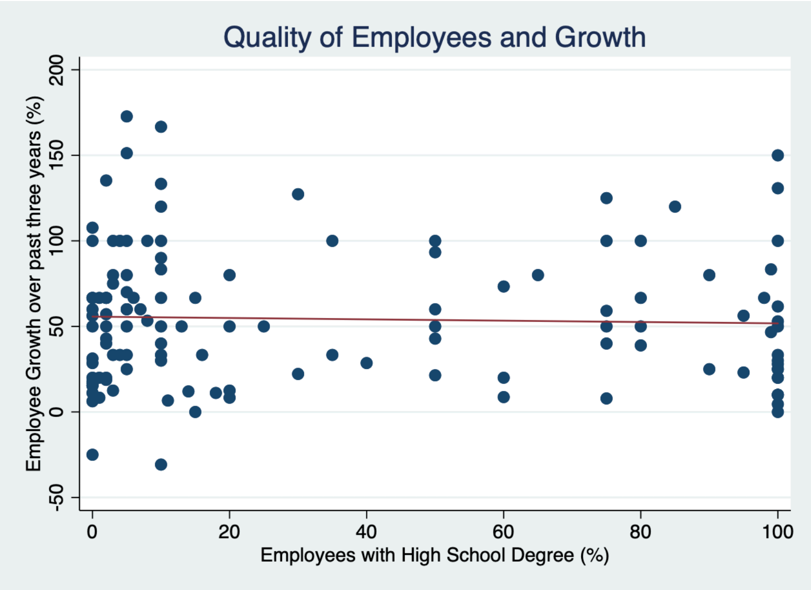
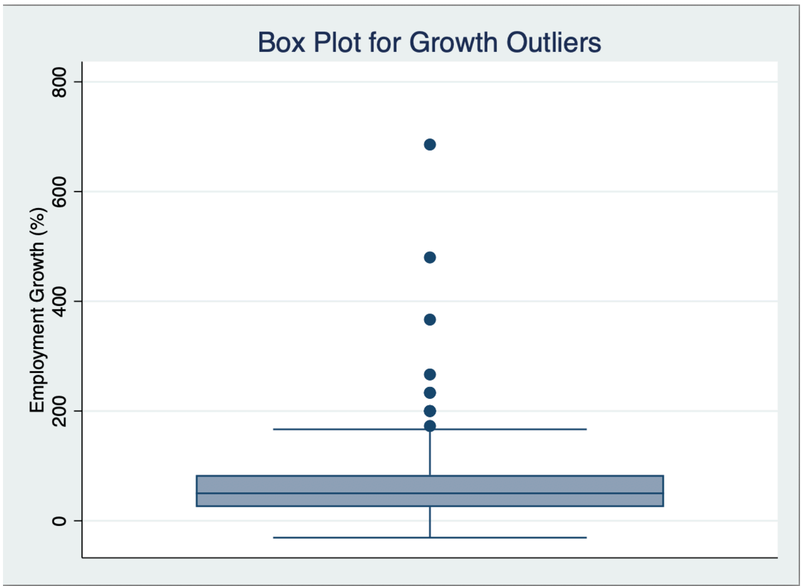
Appendix A

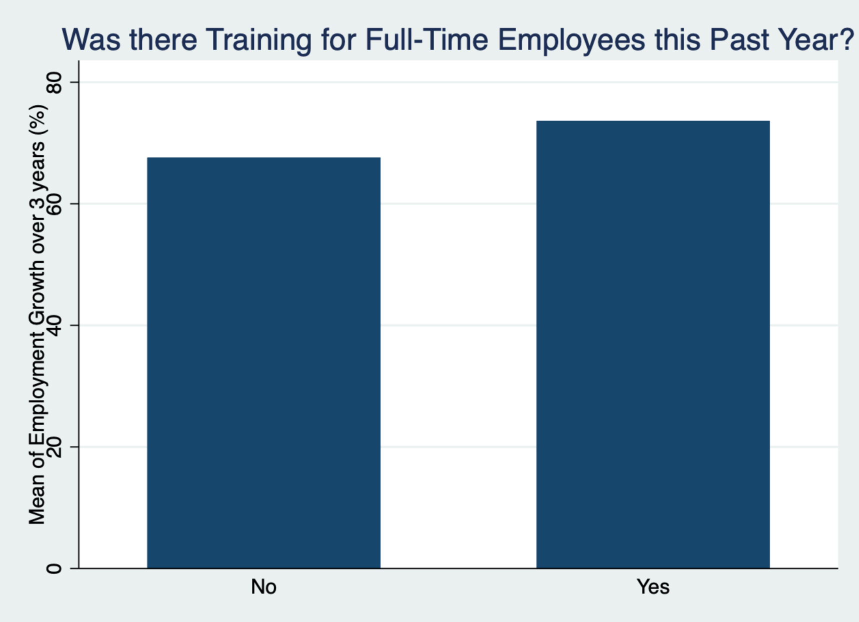
Graph A.1: Employee Growth vs. Employee High School Education (%)



Graph A.2: Employee Growth Outliers



Graph A.3: Employment Growth and Employee Training in the Past Year


Was there Training for Full-Time Employees this Past Year?
Mean of Employment Growth over 3 years (%)
0
20
40
60
80
No
Yes

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