Contribution of Informal Businesses to Private Sector Development: A Case Study of the Central Region of Liberia

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EXECUTIVE SUMMARY

Following the years of the civil war, the socio-economic situation of Liberians became deplorable, while formal sector economic activities went through a period of decline and are still far below the pre-war status. The strife, decline in economic activities and lack of large-scale investments gave rise in the role of the informal businesses (IBs) in the private sector. Informal businesses are assuming an important role in the reconstruction of the country.

This research aims at determining the extent and relevance of the contribution of IBs to the basic social services of the population and Private Sector Development (PSD) in the Central Region of Liberia (CRL). It also points out factors influencing the growth and contribution of IBs to private sector development in post-conflict Liberia.

The study aims to strengthen the capacity of IBs through cooperatives and sensitisation of the Government of Liberia (GOL) and development partners for support. The research was mainly based on primary data and interviews with 1,823 targeted businesses in the CRL.

The majority of IBs were established due to the hardship created by the war. In addition, most of the businesses were established out of necessity, as they were the only means of income. There was a situation of limited access to microcredit loans to establish and sustain IBs.

According to the research findings, 98 percent of IBs were willing to officially register and pay taxes only if they had access to loans to expand and sustain their businesses. The research revealed a strong correlation between the war and the establishment of IBs. The seed-money for investment and the profit level were very low, implying that most of the IBs in the CRL are subsistence.

The study shows that owners of grassroots businesses have high loan repayment rates. The research found that grassroots business owners provided more adequate health, education, food and housing for their households than heads of households engaged in other subsistence activities such as farming.
It showed that IBs ensured access to goods and services in remote towns and villages. Hence, the building of the institutional, financial and human capacity of IBs is the appropriate remedy to the sustainability and advancement of a mid-level business entrepreneurship in Liberia.

INTRODUCTION

At independence in 1847, Liberia became the first internationally recognized independent country in Africa. But after many years of poor governance, political and economic exclusion, and growth without development, political militancy grew to a peak, and eventually led to the 1980 military coup and the ensuing 14-year civil war.

Prior to the war, the average per capita income was USD 750 and the annual GDP growth rate was 5.7 percent (GOL, 1975). The estimated per capita GDP in 2007 was USD 500.

As a consequence of the civil war, the current socio-economic situation of Liberians is deplorable due to the fact that formal sector businesses and employment levels are far below their pre-war levels.

With these economic difficulties, IBs are actively participating in economic activities to provide basic incomes for people and their families. Therefore, the increased growth of grassroots business has implications for post-conflict private sector development.

While the role of IBs in social and economic development has become prominent after the war, the extent to which they are contributing to improvements in the country has not been adequately researched.

In this context, the main objective of this study is to profile the extent to which IBs are contributing to social and economic development in post-conflict Liberia. Specifically, we strive to determine the main sources of funding, profit level, money saving strategies, loan re-payment ability for IBs, the managerial skills and the registration level of IBs. We also try to determine how grassroots business owners meet health, education, food security and housing needs of their families.

RESEARCH METHODOLOGY

This research is based on quantitative data gathered from questionnaires and qualitative data gathered from key informant interviews and focus groups. The Central Region of Liberia (CRL), comprising the counties of Bong and Margibi, were selected as the sampling frame and geographic focus of the research because it was the most representative region of the country that could be studied given limited resources and logistical constraints (i.e. access to motorways for data collection).

A total of 1,823 questionnaires were administered. A convenience sampling method was used to select the 1,823 grassroots business owners operating in the markets and towns of the two counties in the Central Region. However, efforts were made to ensure the proportional allocation of sample size among the two counties (based on 2007 population data) without any systematic bias in terms of gender or sector of business activity.

Key informant interviews and focus groups were conducted to gather qualitative data that could provide greater context and explanations for the quantitative findings. The qualitative data collection focused on youth groups, civil society groups, local community leaders and legislators and other decision makers from the region. The quantitative data were processed through the Statistical Package for Social Sciences (SPSS), while the qualitative were recorded with written notes and coded.
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in the informal economic sector that mostly used traditional herbalist, spiritualist or self-diagnosis and self-treatment methods to solve their health problems.

This percentage attending modern health facilities is higher than that of the 2000 and 2007 Liberia Demographic and Health Surveys reports (UNFPA/GOL, 2000 and 2007); and the 2008 National Population and Housing Census (GOL/LISGIS, 2008). The average amount paid per visit to health facility for the entire CRL was USD 10.10, while 21 percent paid between USD 8.33–USD 10.00 per visit (Fig 2).

**RESULTS AND CONCLUSIONS**

**Contribution of Informal Businesses to Post-Conflict Private Sector Development**

This section points out the contribution of IBs to Private Sector Development (PSD), and basic social services of the population. It was found that 67 percent of the respondents provided basic social services for their households from IBs, which signifies their importance in the informal sector.

**i) Contribution to Health Services:**

About 98 percent of the grassroots business owners provide funds for their household members to attend modern health facilities during illness as follows: 60.4 percent visited clinics while 37.8 percent attended hospitals.

It was realised that 0.5 percent visited herbalists for their health needs while 1.3 percent addressed their health needs through spiritualism, self-diagnosis and self-treatment.

The types of health facilities attended by families of grassroots business owners were 98.2 percent modern as compared with ordinary households.

**ii) Contribution to Education**

It was found that 83 percent of grassroots business had dependents currently in school. Moreover, nine out of ten grassroots business owners supported their dependents and 40 percent of external family members’ education through income from their business.
The efforts of the IBs to support the education of the population does not only increase literacy but also accelerates the process of socio-economic development at all levels of society.

iii) Contribution to housing and community development

The contribution of IBs to the housing needs of their households and extended family members is critical to the improvement of the social and economic situation in Liberia. The research indicated that 94 percent of grassroots business owners supported the housing needs of households. The research revealed that 62 percent of grassroots business owners contributed to local community development activities with income earned from their businesses.

Factors Influencing Contribution of Informal Businesses to Post-Conflict Private Sector Development

IBs are found to be important coping mechanisms in the short term and sustainable mechanisms for post-conflict economic rejuvenation in the medium to long term. This section examines factors that determine the contribution of grassroots or informal businesses to private sector development in Liberia. The factors are as follows:

i) Entrepreneurship of necessity

The major factor influencing the establishment of IBs is the means to survive. Eighty-three percent of respondents engaged in grassroots business activity out of necessity in order to generate some income for survival.

This entrepreneurship of necessity was also associated with the hardship created by the 14-year old war. The war is largely to blame for the current 25 percent of spousal unemployment and nine percent mortality.

The deplorable social and economic conditions created by the 14-year civil conflict reduced formal sector businesses or employment levels far below the pre-war status.

ii) Low Start-up Capital:

The report found that 37 percent of grassroots business owners who established their businesses between 2004 and 2008 did so with USD 25 or less. About 60 percent of the businesses that started during this period invested less than USD 50 as start up capital for their businesses. The low seed money for IBs influenced their contribution to the economy.

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iii) Profit Level

The profit making nature of grassroots business also influenced their establishment as well as the growth in the number of such enterprises. The findings indicate that 17 percent of grassroots business owners engaged in the small-scale market activity to pursue a profit-making opportunity. Eighty-nine percent of grassroots business owners said they ventured into the informal market because of its profitable nature.

The lack of sustainable sources of funding is one key factor that negatively undercuts the growth of IBs beyond subsistence level. Sixty-eight percent of respondents established their businesses with personal capital. Of the remaining thirty-two percent that took loans from various sources, only three percent received bank loans.

The low level of bank loans to IBs could also be attributed to the high risk associated with lending money to small businesses without collateral.

iv) Business establishment period

Interviews and focus group discussions revealed that 62 percent of all micro businesses were established between 2002 and 2007. The trend of grassroots business establishment suggested a positive relationship between the war and the rapid growth of IBs.

A Ministry of Commerce and Industry (MCI) report revealed that of the 4,886 informal businesses that registered from 1987-2007 (GOL, 2007), 40 percent did so from 2004-2007. Similarly, the loan data from the National Investment Commission (GOL, 2008), the Central Bank of Liberia (GOL, 2008), and the Liberia Bank for Development and Investment (LBDI, 2008) also demonstrated a positive
correlation between loans and the time periods that they were given.

v) Non-taxable status of IBs
Although the payment of taxes is a key element in the formalisation of the informal sector of any economy, most IBs are not taxed by government. The tax-free incentive for most grassroots is a major factor that influenced the multiplicity of IBs.

vi) Self-ownership of IBs
The study showed that 99.8 percent of persons in IBs owned and managed their businesses. The self-ownership among IBs after the war is a key factor influencing the population to develop capacity for small-scale private sector economic investment and growth.

vii) High loans repayment rate
The study noted that 99 percent of business owners were willing to repay loans in order to ensure continued growth of their businesses. The five-year (2004-2008) loan data shows that 30 percent of the IBs received loans, with 75 percent repaying on time while the rest did so after the stipulated payment period.

viii) Social and demographic status
The average grassroots business owner is a young adult (36 years), while more than half are women. Also, 46 percent were female heads of households. 34 percent of grassroots business owners had no education.

ix) Lack of daily sales records and apprenticeship training
It was discovered that 64 percent of business owners neither kept records of daily sales nor undertook apprenticeship training. This situation has negative implications for the growth and sustainability. Hence, developing their skills is relevant in ensuring a mid-level entrepreneurship.

x) Satisfaction with businesses
The majority of business owners were optimistic about informal business, which is a major factor that gives rise to the fast growth of IBs. The research shows that 84 percent of the overall respondents were satisfied with their businesses.

xi) Low gainful employment status
The research shows that of the 1,004 selected sample, only four percent were gainfully employed. Hence, the low level of gainful employment could be the influential factor that increased the activities of IBs in the CRL during and after the 14-year war.

xii) Business money saving status
The majority (83 percent) of businesses owners saved money or profit from their businesses, which reveals that they were making enormous contributions to the growth of the business environment in the region. The mean amount of money saved per month was USD 34.84.

xiii) Traditional money saving strategy
It revealed that 95 percent of people save money in their homes and in susu clubs, which are considered as traditional money saving strategies. Susu clubs were the most popular places of saving money because it served as sources of seed money for IBs.

xiv) Low seed money
The study shows that 37 percent of the respondents established their businesses with USD 25, while 22 percent did so with USD 25 to zero. The mean amount of seed money was USD 60.25. The data also shows that the average amount accrued during business transaction was USD 115.08. There was a positive correlation (r=0.8190) between seed-money (start-up capital / funds) and profit level of IBs.

The registration data from the Ministry of Commerce and Industry of the GOL (GOL, 2007) revealed an upward trend in the registration of businesses in Liberia after the 1990 civil war. Of the 4,886 businesses registered, 40 percent did so from 2004-2007. Also local government and community leaders confirmed that IBs in post-war Liberia were greater than before.

POLICY IMPLICATIONS

i) Minimum basic training, technical skills and education
There is also no organizational framework or cooperatives to build the financial and human

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1 The outbreak of the 14-year war, which started in December 1989, is commonly referred to in Liberia as the “1990 war.”
The Government of Liberia (GOL) needs to institutionalize the Loan for Rural Poor Women Initiative of the Ministry of Gender and Development to bridge the inadequate seed money gap.

The timeliness of loan repayment from commercial banks (ECO-Bank and LBDI) was also high. The high loan payment rates show that IBs are reliable, and could be a catalyst in resuscitating Liberia’s post-conflict development paradigm and private sector development (PSD).

The record keeping level of informal businesses is low. It was found that nearly all of the informal businesses were not registered and saved money in Susu Clubs. Hence, their administrative capacity and banking opportunities need to be improved.

ii) Contribution to basic social services and PSD
It was revealed that 93 percent and 90 percent of financial contributions to community development and county development programmes respectively were sourced from IBs. In addition, 94 percent of house rent, 94 percent financial support to children’s education and 98 percent of the support to health services emanated from business income. This has positive implications for enhancing post-conflict social services and PSD in Liberia.

iii) Organization and formalization of IBs
There are no guidelines on the establishment of IBs. As a consequence, they are organized at will and are not taxed. The government is reluctant to enforce the formalization of these businesses because they serve as employment incentives. Formal sector unemployment was 78 percent in 2006 (GOL/UNDP, 2006), and was higher by 2009 since there were systematic downsizing and long service retirement exercises that affected young people that are far below retirement age\(^2\). Hence, interfering with the tax-free regime could have rebellious consequences on the emerging peaceful environment in Liberia.

The study revealed that most IBs operate out of necessity and have an average initial investment capital below USD 40.00. It was also estimated that 98 percent of the IBs were willing to formalize their businesses. With these prevailing circumstances, the economic impact of grassroot businesses will be felt more significantly if they are organized into cooperatives and provided loans and grants. This will also highlight the impact of informal businesses to PSD.

iv) Awareness Creation
This research profiles the contributions of grassroots businesses to basic social services, and concomittantly creates awareness on the importance of grassroots in Liberia’s post-war economic resuscitation and private sector investment.

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\(^2\) The International Labor Organization (ILO) recognized age of retirement, which is supported by Liberian Laws puts retirement age at 65.
POLICY RECOMMENDATIONS

In order to enhance the capacity of IBs, tailor-made training programmes should be established to address the poor business management, records keeping, and literacy and numeracy problems. Sustainable programmes and policies should also be designed to influence government and donor support to change the low business start-up capital and loan inadequacy regime that inhibits progress among IBs.

Further, the managerial capacity of Susu clubs should be developed in order to strengthen the managerial skills of informal business owners. In addition, commercial banks should provide loans to Susu clubs as a way of building the capacity of grassroots business owners. Also, commercial banks should be established in the capital cities of each of the 15 counties of Liberia. This will enhance the formalization and sustainability of IBs.

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