

Liberian Financial Sector and Investment Review June, 2008

“A New Day”



**International Bank
(Liberia) Limited**

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Geography

Land Area	111,370 sq. km (69,202 sq m)
Forested Area	43,000 sq. km (26,719 sq m)
Atlantic Coastline	579 km (360 m)
Country Borders	Guinea: 563 km (350 m) Cote D'Ivoire: 716 km (447 m) Sierra Leone: 306 km (190 m)

Socio-Economics

Population	3.49 m
Life Expectancy	47 years
Adult Literacy	64%*
HIV Prevalence	5.2%*
Access to Sanitation	25%*
Access to Education	40%*
Poverty Rate	76%*

*Based on Currently Available Data

Macroeconomics

GDP	US\$ 818 m
Per Capita GDP	US\$ 210
Unemployment	82%
Public Debt	US\$ 4.2 b
Debt % of GDP	509.4%
Main Exports	Rubber, Iron Ore, Timber, Minerals,
Main Imports	Petroleum, Food, Machinery
Inflation	9.5%

Politics

Type of Government	Multi-Party Democracy
Type of State	Unitary Republic
Type of Legislature	Bi-Cameral
Executive	Ellen Johnson Sirleaf
Elected	November, 2005
Term	6 Years
Type of Media	Free
Status	Post Conflict

Significant Achievements

- Agreement with Creditors on Debt Forgiveness
- Landmark Visits from Foreign Dignitaries and International Business Leaders
- Forestry Concessions Opened
- Significant Private Sector Investment Activity
 - Arcelor Mittal
 - Buchanan Renewable Energies
 - Libya Africa Investment Portfolio (Rice Production)
- Refugee Return
- Release of the Preliminary National Census Report
- Review of the Judiciary
- Drafting of New Investment Code
- Drafting of New Banking Regulations
- Moving Forward with Accession to Extractive Industries Transparency Initiative

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THE POLITICAL SITUATION

The political situation in Liberia continues to improve under the Ellen Johnson Sirleaf government. Since her inauguration in January, 2006, the President has enjoyed widespread domestic and international support, despite depending upon a fragile coalition in the Liberian legislature to maintain momentum for her reform package. Opposition parties are fractured and largely unable to present a formidable challenge to her Unity Party's legislative agenda. This however, does not prevent the opposition from slowing down reforms which may threaten certain vested interests through tedious debates over minor legislative technicalities.

The President has effectively used her reputation as a well respected politician possessing strong academic and professional qualifications to overcome most obstacles. Her experience includes stints with international banks, development organizations, and fund managers, all of which have been important factors in establishing her domestic and international credibility. In recognition of her achievements, she was presented with the United States Presidential Medal of Freedom in November 2007 by President Bush, the highest civilian award presented by the US Government. Her passion for reform in Liberia, setting it on sustainable path of growth and stability, will continue to play a significant role in the country's recovery.

Security

The government has been successful in spreading its authority across the country, largely as a result of the President's delivering on most of her campaign promises. Winning the trust of the people has provided the administration with a small amount of breathing room to push forward some of the more critical reforms.

This operating space is threatened to a degree by the current food shortages that are plaguing the developing world. Due to an underdeveloped agricultural sector following the civil war, Liberia still imports the majority of its staple foodstuff, namely rice, which is reaching the highest prices in recorded history. With these prices, the majority of citizens are finding it difficult to maintain proper levels of nutrition. A continued food crisis does not bode well for any developing country, but in a post-conflict setting such as Liberia, these circumstances can be even more strenuous for those trying to maintain order within a fledgling state apparatus.

Even as the government is enjoying a measure of legitimacy for the first time in years, it still faces security threats from armed groups and former fighters in the region. An alleged coup attempt was foiled last year, demonstrating that not everyone is satisfied with the new power arrangement, which has left former allies of Charles Taylor and other rebel factions in the lurch. The return of refugees continues to be facilitated by UN programs, and has been largely successful. There have been no prominent challenges to Ellen Johnson Sirleaf's government, but the currents of conflict are still running through the country, although in a manner which is much less aggressive and dangerous than just a year ago. The continued trial of Charles Taylor at the Hague by the International Criminal Court is also increasing the national sentiment to break with the country's violent past and enter a new age of peace and security.

The situation requires the continued presence of the United Nations Mission in Liberia (UNMIL) force, consisting largely of military personnel from Pakistan, Bangladesh, Nigeria, and Ethiopia. Currently, UNMIL is drawing down from 14,141 troops in early April of this year to 11,691 troops by the end of September. This still leaves a large contingent of peace-keeping forces to support stability, while

reflecting the progress made by the Armed Forces of Liberia (AFL) to demonstrate its own capabilities. The Barclay Training Center and Camp has graduated the majority of the 1,124 recruits that make up the current Liberian army. The United States has contributed most of the resources, along with China, Germany, Nigeria, and Benin, for training and capacity building for the AFL, with an end goal of maintaining a standing army of 2,000 soldiers by the end of 2008.

Governance

The President and her administration are committed to creating a culture of good governance, a difficult task following years of wholesale corruption characterized by cronyism and nepotism. The Johnson Sirleaf government has implemented numerous measures in order to make adherence to best governance practices the standard operating procedure, rather than an option for bureaucrats. Signing onto such programs as the Extractive Industries Transparency Initiative (EITI), the Johnson Sirleaf government recognizes that its greatest natural threats are also the most significant ones to its quality of governance. This measure is not unique for the administration. Immediately following its inauguration, the government revisited the concessionary deals signed during the interim Charles Gyude Bryant led government. Renegotiating these deals in a transparent manner has improved the public's trust in the efficacy of the regime. The government has also implemented the Liberian Governance and Economic Management Assistance Program (GEMAP), which has allowed the international community's expertise to guide the development of the various government agencies into stewards of government revenue by ensuring proper collection, management, and expenditure. As the Liberian government continues to develop, it is becoming increasingly less dependant on

GEMAP, looking to achieve stand alone legitimacy in the near future.

Extractive Industries Transparency Initiative

Is a coalition of governments that have committed to ensuring their resource driven economies adhere to a global standard of environmental standards, sustainable practices, and social equity for those working in or affected by the extractive industries. Liberia has signed on as a candidate and is moving rapidly through the validation process. The EITI is meant help countries in avoiding the 'resource curse', and Liberia is committed to this goal in order to attain a sustainable future for its people and economy.

A point of key interest for many investors and international agencies is the credibility of the government and the officials they deal with. Liberia has instituted the Code of Conduct for Public Officials and extensive anti-corruption legislation, and has created the Anti-Corruption Agency to monitor its own bureaucrats. These institutions are creating a critical mass that will hopefully give Liberia a reputation for transparency and reliability. The international community has responded to these measures by instituting debt-relief from the IMF, World Bank, and African Development Bank, while placing Liberia in the Heavily Indebted Poor Countries program. Also important to its financial well-being, Liberia is no longer on the U.S. Treasury's Office of Foreign Assets Control (OFAC) list, which has allowed the Liberian financial sector to fully engage with international financial institutions, spurring further growth in the Liberian economy.

Outright corruption and other opaque practices have certainly not been entirely eliminated from the Liberian government. Allegations of corruption, and their vehement denials, fly back and forth in the Liberian press and legislative sessions, demonstrating the vigor of Liberia's nascent democracy. Both politicians and journalists

are still experiencing some growing pains as they adapt themselves to the new framework of constitutional rule. Although this situation can make it hard to determine the true merit of claims, or the extent to which corruption exists, it is at least encouraging that the media is allowed to criticize its leaders, a situation contrary to the previous political era of despotism. The eyes of Liberia, and the world, are upon the political representatives and journalists to see if they live up to their public responsibilities.



H.E. Ellen Johnson Sirleaf at the United Nations

International Relations

President Ellen Johnson Sirleaf has built an impressive global resumé. Since inauguration, her government has set out on an international public relations blitz, with her as the center-piece. This campaign to partner with international and regional donors, numerous multilateral agencies, and foreign investors has yielded significant results for the country. Some have even complained that the President is away too often from her home, but each trip abroad by her, or her ministers, has resulted in increased growth capacity for the Liberian nation.

A long list of dignitaries has also visited this West African nation. UN Secretary-General Ban Ki-Moon, German Chancellor Angela Merkel, Chinese President Hu Jintao, US Congressional delegations, Queen Noor of Jordan, World Bank President Robert Zoellick, Lakshmi Mittal, and George Soros are just some of the many high level persons

who have taken the time to express their support for the future of Liberia.

Capping off a series of international relations milestones, U.S. President George W. Bush visited Monrovia in February of this year. This visit was met by the Liberian people as an affirmation of their country's development to this point. The international community, and perhaps most importantly, international business, also took the visit as a sign of encouragement and confidence in dealing with Liberia. There was also speculation of an announcement for locating at least a segment of AFRICOM (the US military's Africa Command Center, currently based in Europe) in Liberia, but the process for this decision is still ongoing. Regardless, the visit by a sitting American President is an impressive victory for Ellen Johnson Sirleaf's government.

THE ECONOMIC SITUATION

The civil war was devastating to the Liberian national economy. Nominal GDP shrank from US\$ 1.1bn in 1989 to just US\$ 548mn in 2005. The violence led to social and economic upheaval as the human and physical capital of the country was decimated. GDP/capita fell from US\$ 548 in 1989 to US\$ 168 in 2005, reflecting not only a stagnant economy, but the fleeing of the most educated and successful of Liberians to neighboring African countries, Europe, and the United States. As this diaspora continues to return, the pool of human capital and its accompanying economic resources will help to rebuild the Liberian economy.

As should be apparent from a cursory glance at these statistics, the Liberian economy is on the upswing. The improving situations in the areas of debt obligations, exports and imports, nominal GDP, GDP growth, and fiscal responsibility all point to an emerging economy with long-term momentum.

Key Economic Indicators

Indicator (US\$ M)	2004	2005	2006	2007	2008E	2009F	2010F	2011F
GDP	497	548	698	732	818	917	1,083	1,268
Per Capita GDP	153	168	185	193	210	224	252	282
Real GDP Growth	2.6	5.3	7.8	9.5	9.6	10.3	14.8	12.3
Population	3.24	3.28	3.4	3.45	3.49	3.57	3.65	3.74
Inflation (%)	16.6	7.4	7.5	11.7	9.5	8.5	7.5	7.0
Broad Money Growth (%)	49.3	35.7	34.4	40.1	23.2	20.4	25.0	23.3
Lending Rate (%)	17.53	15.13	15.5	15.17	15.8	16.2	15.9	15.8
Deposit Rate (%)	4.23	3.03	3.45	3.49	3.5	3.6	3.5	3.4
Exports	104	131	158	227	333	498	760	1,027
Imports	268	273	467	488	844	984	1094	1,246
Trade Balance	-164	-142	-309	-261	-511	-486	-335	-219
Current Account Balance	-134	-40	-50	-257	-536	-589	-455	-283
Foreign Reserves	18.7	25.4	86.5	85.1	91.6	119.8	147.5	170.7
Import Cover (months)	0.3	0.4	1.0	1.5	1.0	1.1	1.2	1.2
External Debt	3,735	3,659	3,370	4,480	4,168	4,158	135	26.5
Debt % of GDP	752	668	535	611.9	509.4	453.6	12.5	2.1
Exchange Rate LD/USD	54.9	57.1	59	60	64	68	69	68

*Statistics from multiple sources including the Liberia Census, Ministry of Finance, Central Bank of Liberia, IFC, and World Bank

Expected 2008 GDP growth at 9.5% would often be viewed as ‘over-heated’, but in this post-conflict context, Liberia is simply catching up to its former economic status. Reconstruction efforts related to the areas of infrastructure, resource extraction, energy generation and distribution, and real-estate development are just the first drivers of the new Liberian economy. The extent of Liberia’s natural resources, geographically strategic location, and a drive to increase value-added industries, will keep the economy moving in the right direction for some time, even with the current slow-down in the United States and Europe affecting many emerging markets.

Fiscal Policy Outlook

Revenue flowing into the government’s coffers is experiencing significant growth, primarily due to the administration’s commitment to good governance and

accountability. The adoption of the Poverty Reduction Strategy Paper (PRS), along with the aforementioned GEMAP is closing the holes in the collection of taxes. As government bureaucrats, and correspondingly, private enterprises, begin recognizing the benefits of the rule of law, the Ministry of Finance (MoF) is better able to enforce its tax regime. This development is but an example of how Liberia is turning the corner towards fiscally responsibility.

This fiscal responsibility has engendered trust from the multi-lateral lending institutions, which have placed Liberia on the IMF’s Highly Indebted Poor Countries (HIPC) list, further eliminating the debt burden that was accumulated under the regimes of the past. The PRS also led to the IMF providing a Poverty Reduction and Growth Facility that provided the necessary budgetary support to increase revenue collection capacity and improve donor support initiatives.

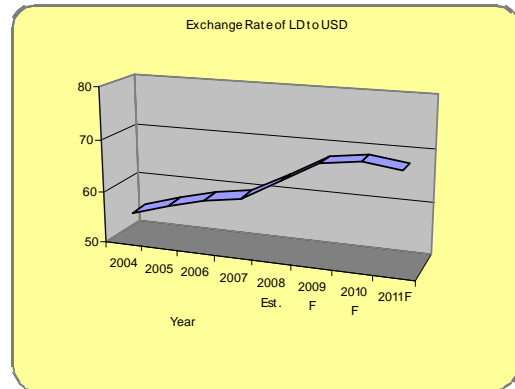
Government led reconstruction spending that is financed by debt, traditional donors, foundations, and the private sector, will continue to rise as public revenues increase, and the limitations on government held debt continue to subside. Responsible fiscal management has been the key for getting Liberia to this point, and the international community has applauded the efforts while keeping a close eye on its progress. Few people expected that Liberia would move so quickly in this area, but this will only have the effect of raising future expectations. Any step backwards would be viewed as a blow to the government's credibility, a situation that the Johnson Sirleaf government is very keen to avoid.

Monetary Policy and Exchange Rate Outlook

Liberia is officially a dual currency economy, utilizing both the Liberian Dollar and the US Dollar. An estimated 60% of transactions are carried out with the US Dollar, representing almost all of the large-ticket items, making it the de-facto currency for business. This limits the monetary decisions of the Central Bank of Liberia (CBL), as it can do little to influence currency movements in supply and inflation. As the US Dollar becomes weaker against the Euro, British Pound, and other major currencies, trade with suppliers outside the US further exacerbates the current account deficit as imports driven by reconstruction continue to boom. In response to this, de-dollarization is being explored as an option in order to allow the CBL to robustly influence the Liberian monetary situation. The positive and negative effects of this step are still being weighed, but it does not seem that this option will be taken in the near future, if at all.

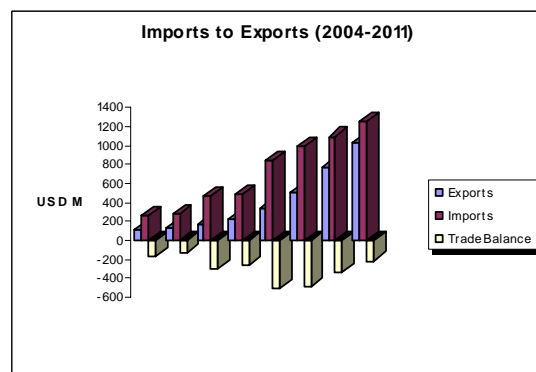
As the US Dollar has continued to fall against the other major currencies, the Liberian Dollar has experienced stability in its USD exchange rate. As most currency

exchanges are between the LD and the USD, LD depreciation has been muted to a degree.



Export Sector Outlook

The emergence of China and India as economic powers which require large amounts of inputs to sustain economic growth and production has had an immense upward effect on global commodity prices. Liberia, which was, and will soon be again, a large exporter of iron ore, rubber, timber, diamonds, gold, and other assorted minerals, and possibly crude oil, has attracted large amounts of investment, thereby capitalizing on the current trend in commodity prices.



As long as industrialized economies continue to demand vast amounts of resources, supplying countries will be able to command high prices. This trend looks set to continue for the mid to long-term future, and will guarantee Liberia increased earnings through its exports.

The increased revenue that is gained by these exports will not be sustained forever however, due to the cyclical nature in global commodity prices. Investment from these gains must be used to diversify Liberia's economy, such as the creation of value-added enterprises that will refine commodities before export, and guarantee higher earnings for Liberian companies. Focusing on these initiatives can help cushion a future down-turn in the commodity markets and guarantee a strong export sector for future generations of Liberian businesses. Relying solely on the current export markets for the future would be a serious mistake, as there is no way of predicting when commodity prices will return to normal levels.

Inflation Outlook

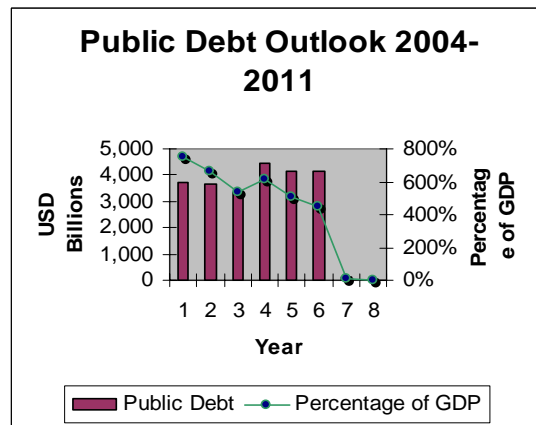
Inflation is holding steady at 9.5% according to the latest statistics released. This is due in some part to the decreasing value of the US Dollar, which places less pressure on LD prices in the domestic market. In a reconstruction economy with high growth rates, especially one dependent on export earnings, inflation will probably be maintained at these levels into the near future.



Keeping inflation in the single-digits in the medium term is viewed as a sustainable goal, and it appears that the Liberian economy will be able to achieve this standard.

Public Debt Outlook

Encouraged by fiscal responsibility and good governance measures, the international community led by the IMF, World Bank, and African Development Bank, has taken steps to alleviate the unsustainable debt burden held by the Liberian government. Total public debt is estimated at US\$ 4.8 billion, which accounts for over 500% of GDP. These liabilities are the legacy of past governments which took out loans in poor faith and passed on the burden to the Liberian people, who have little chance of ever repaying them. During the civil war, these debts were not even serviced, resulting in US\$ 842 million in arrears. The IMF announced in November of 2007 that these arrears would be relieved through the financing pledges from IMF member countries.



This step allows Liberia to take part in the HIPC Initiative which will allow the government to eventually eliminate around 85% of its outstanding debts and secure new financing for essential infrastructure projects and other development initiatives. The HIPC debt relief process will fast-track Liberia's ability to regain its economic status and disown its former pariah state reputation. The international community and the government of Liberia should be recognized for diligently working towards securing the financial success of a reborn Liberia, free from its historical debt constraints.

Direct Foreign Investment Outlook

Foreign investment in Liberia has been centered on the development of its natural resources. Arcelor Mittal alone has committed US\$ 1.5 billion of investment in return for an iron ore concession. Buchanan Renewable Energies has established itself as a leader in Liberia for the production of biomass by recycling unproductive rubber trees for power production. These projects require extensive investments in infrastructure, are accompanied by assistance in community development projects, and utilize environmentally sustainable processes. The Western Cluster iron ore concession is still being negotiated. With the lifting of the UN sanctions on timber and diamonds, the Liberian government is executing agreements for concessions that will result in millions, if not billions, of dollars worth of new investment into Liberia's infrastructure and capacity. Off-shore oil is another resource attracting FDI into the country. Trade delegations from the US, China, the EU, and other West African countries are constantly exploring new ways to take advantage of potential areas of investment.

The financial services industry is experiencing large inward FDI movement as commercial and investment banks view Liberia as a country with large growth opportunity. The first movers in this arena were a consortium of American, Ghanaian, and Gambian investors who purchased International Bank (Liberia) Limited in early 2007. This purchase was a positive signal to others in the industry, and it is expected that United Bank for Africa will begin operations in the country by the end of this year.

Doing Business Survey

Liberia was included in the World Bank Doing Business Survey for the first time in 2007. Although it was an achievement to be included in the Survey, the results demonstrated that Liberia has much room

for improvement. In order to address these shortcomings, the President created the Business Reform Committee (BRC), which is chaired by the National Investment Commission Chair, Dr. Richard Tolbert. The BRC has the power to identify problem areas and implement changes as necessary. So far, 21 reforms have been put in place which will lower the cost and lessen the time necessary for private sector activities.

Liberia is increasing the ease of opening a business, beginning construction projects, importing and exporting goods, paying taxes, credit referencing, and contractual enforcement. These initiatives should improve the country's standing in the Doing Business Survey rankings, and increase the attractiveness of the country for investors.

BANKING SECTOR OVERVIEW

The economic meltdown during the civil war years significantly weakened the country's banks and financial sector, leaving financial institutions undercapitalized, holding large portfolios of non-performing loans, and with a reputation as clearinghouses for illicit money transfers. The fragile political situation also exposed the banking sectors to sudden and massive account withdrawals, forcing them to commit huge resources towards cash reserves in order for them to be able to meet customer demands. This dynamic affected the financial institutions in two ways. First, the sector was unable to invest customer deposits in higher earning instruments, and second, extending loan facilities in the country became extremely risky. The combined weight of these factors drove the banking sector into essentially a vault for customer's cash.

One result of these years of turmoil was the placing of Liberia on the OFAC list due to its involvement in illicit trafficking and money laundering, reflecting its position as

Liberian Bankers Association

With the hiring of a new Secretariat, Milton Weeks, the Liberian Bankers Association has strengthened its internal ties between Liberia's financial institutions, while at the same time becoming more proactive with its government relations. The LBA regularly meets with numerous government agencies to discuss regulations and laws that affect the operating environment of the banks. This advancement of the Liberian banks to give a strong voice to their needs and concerns is a laudatory achievement.

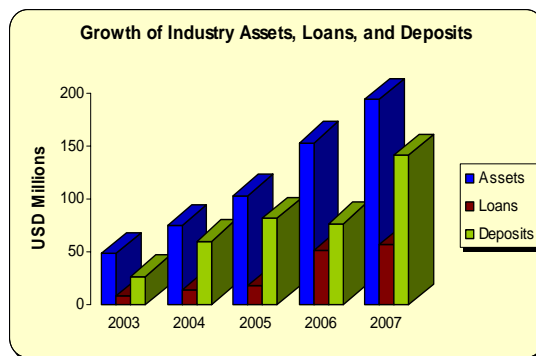
a regional hub. This classification continued even after the civil war had ended and Ellen Johnson Sirleaf had won the Presidency. Under an initiative supported by International Bank (Liberia) Limited, the US Treasury reviewed its OFAC classification, and subsequently removed Liberia from the country sanction list. With this development, companies were no longer restricted from operating and moving funds into and out of Liberia, a necessary precondition for foreign investment and the growth of the financial services sector. It should be noted that Charles Taylor's regime is still on the OFAC list, a point which can sometimes lead to confusion.

With a return to constitutional governance and the improved security situation, Liberia's financial sector is rapidly becoming a legitimate force for the economy again. Non-funded income is becoming less critical to the banks operating margins as they are now more easily able to extend credit, place deposits in higher-yield investments, and not be forced to keep large

(US\$ M)	2003	2004	2005	2006	2007
No. of Banks	3	3	5	5	5
Assets	48	75.2	103.4	153.6	194.71
Loans	8.24	13.88	17.66	51.17	56.88
Deposits	26.76	60.33	82.29	76.85	141.96
Revenues	6.3	9.84	13.56	18.63	22.1
Assets/GDP	11%	15%	20%	19%	23.8%

Industry Wide Statistics

amounts of cash on hand in defense of sudden runs on accounts. These developments will allow the banks to gain access to improved trade financing and extended credit facilities that will enable commercial business development. As the economy continues to recover from its previous disarray, the financial sector is well positioned to capitalize on the cash flows that are fueling reconstruction and investment in the various sectors of the economy.



By only recently rebounding from pariah status in global financial circles, Liberia's banking sector still has to prove on a daily basis that it is cured of its past ills. The Central Bank of Liberia is doing its utmost to regulate the industry in a manner that can demonstrably balance growth with over regulation. Negotiating the way forward for the financial regulatory environment is critical to the long-term recovery of the Liberian economy.

Currently, there are five banks operating with full licenses in Liberia. They are International Bank (Liberia) Limited (IB), Liberian Bank for Development and Investment (LBDI), Ecobank, First International Bank (FIB), and Global Bank Liberia (GBL). The United Bank for Africa (UBA) has been granted a provisional license by the CBL to operate in Liberia, with full license expected in the near term. These banks are primarily owned by foreign investors or are subsidiaries of regional banking syndicates, except for LBDI with nearly 19% of its outstanding shares held by

the Liberian government. Two more banks are expected to enter the market in the near future. Nigeria's United Bank for Africa (UBA) has already begun investing in branch locations and customer relations. The increased level of competition has resulted in efforts to improve service and products, guaranteeing a more vibrant sector.

Financial Soundness of Banking Sector

Liberian banks have improved their loan portfolio and operational capacity since the end of the conflict in 2003. As the statistics demonstrate, they are increasing their liquidity ratios, reserve ratios, and equity

Industry Wide Indicators

(%)	2004	2005	2006	2007
Liquid Assets Ratio	40.0%	58.2%	54.5%	80.1%
Effective Reserves Ratio	n.a.	n.a.	21.0%	28.1%
Equity/Total Assets	13.9%	14.8%	12.4%	14.7%
Equity/Total Deposits	17.4%	19.7%	17.8%	23.2%
Loans/Deposits	23.0%	21.5%	46.7%	56.4%
Non-Interest Income/Revenues	82.1%	80.3%	78.2%	72.6%

capital, while decreasing their non-performing loan portfolio and reliance on non-interest income. A marked decrease in net income in some banks over the past two years can be mostly attributed to provisioning for non-performing loans. These provisions make for an unattractive income statement in the present, but are helping the industry clean its balance sheets of unwieldy loans that had not been performing for some time. Essentially, the corrections of the past two years allow the banks to shed their past operational missteps of the years during and immediately after the conflict.

Non-Performing/Performing Loan Ratio (%)

	2003	2004	2005	2006	2007
IB	36	35	25	40.4	32.8
LBDI	27.7	14.6	15.2	29.2	5.3*
Ecobank	61.7	6.2	36.3	33.1	15.3
FIB	n.a.	n.a.	4	n.a.	n.a.
GBL	n.a.	n.a.	n.a.	n.a.	n.a.

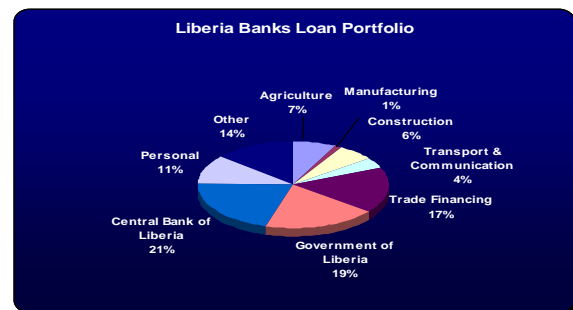
*not including obligation of the GoL currently being negotiated

The three largest banks, Ecobank, LBDI, and IB, have achieved significant results in cleaning their balance sheets of their non-performing loans. This is reflected in the ratios of their provisions to non-performing loans, which shows that they are actively tackling the problem.

Provisions/Non-Performing Loans Ratio (%)

	2003	2004	2005	2006	2007
IB	133.1	192.8	0.0	84.1	102.1
LBDI	7.6	129.4	11.8	120.6	224
Ecobank	5.7	80.3	23.6	48.5	79.7
FIB	n.a.	n.a.	n.a.	n.a.	n.a.
GBL	n.a.	n.a.	n.a.	n.a.	n.a.
Average	49	168	27	84	126

A large portion of the banks' loan portfolios is accounted for by loans to the Government of Liberia, but as the economy continues to expand, this ratio is decreasing.



Commercial loans for construction, trade financing, infrastructure, SMEs and agriculture are increasing annually. The need for commercial financing is growing rapidly as FDI amounts increase rapidly. Surrounding these large FDI inflows is a spurt in the growth of companies that service their needs by providing items ranging from road construction and housing to proposed electrical distribution networks.

Statistical Comparison of Liberian Banks

The banking sector enjoyed a rebound and better than expected profit margins in 2007. In 2006, substantial provisioning for non-performing loans resulted in an overall industry loss amounting to more than US\$ 2.5 million. With the balance sheets cleaned up, the banking sector was able to move ahead with branch expansions, customer service roll-outs such as internet and SMS banking, and the addition of performing loans to their portfolios. The willingness of the banks to invest in capital expenditures is reflective of their growing assets, coupled with an optimism that the Liberian economy will continue to grow. The current banks are serving a severely under-banked population, and are just now being given the tools and resources to address the needs of Liberia's commercial. A comparison of the banks shows a growth in all major aspects, at least in the three largest institutions.

Ecobank is the largest bank in both assets and net income, totaling USD 2.7 million in profit on USD 95.6 million in assets. LBDI trailed closely with USD 1.7 million after recording USD 1.2 million in losses due to provisioning in 2006. LBDI has the most extensive branch network in the country, and is focused on building and maintaining a strong customer base in response to the predicted entrance of the large regional banking institutions.

IB is considered to be the corporate bank of choice and has seen additional capital injections over the past year that has strengthened its balance sheet and established profitability at the beginning of 2008 after provisioning for non-performing loans in 2007. Ecobank is buoyed by its large regional network which has ensured a large balance sheet that will sustain its strong operating position. FIB and GBL are smaller actors in the banking sector, but still operate in their niche space.

Net Income (USD Millions)

	2003	2004	2005	2006	2007
IB	(1,380)	(1,035)	571	345	979*
LBDI	1.5	206	710	(1,155)	1,740
Ecobank	18.4	53	9.3	757	2,629
FIB	n.a.	n.a.	(174)	(97)	(863)
GBL	n.a.	n.a.	n.a.	(16.3)	n.a.
Total	(1,360)	(776)	1,200	(166.3)	3,068

**non-inclusive of provisioning for currently underperforming loans*

Assets (USD Millions)

	2003	2004	2005	2006	2007
IB	12.7	14.8	21.9	25.5	26.1
LBDI	19.7	16.2	32.2	50.5	68.5
Ecobank	15.6	44.2	47.4	65.2	95.6
FIB	n.a.	n.a.	1.9	6.1	5.3
GBL	n.a.	n.a.	n.a.	6.7	n.a.
Total	48	75.2	103.4	153.6	194.71

Equity (USD Millions)

	2003	2004	2005	2006	2007
IB	.19	-1.1	.55	1.96	3.2
LBDI	9.1	9.6	10.2	10.3	11.87
Ecobank	1.9	2.0	2.9	4.86	9.83
FIB	n.a.	n.a.	1.9	1.88	0.96
GBL	n.a.	n.a.	n.a.	.34	n.a.
Total	11.2	10.5	15.6	18.9	25.86

Return on Assets (%)

	2003	2004	2005	2006	2007
IB	-10.5	-7.6	3.1	1.5	3.89
LBDI	0	1.1	2.9	-2.8	2.5
Ecobank	0.2	0.2	0	1.3	2.7
FIB	n.a.	n.a.	-18.2	-5.2	-14
GBL	n.a.	n.a.	n.a.	-71.6	n.a.
Average	-3.4	-2.1	-3.0	-14.8	-1.23
Weighted Average	-3.2	-1.3	1.3	-2.0	0.58

Return on Equity (%)

	2003	2004	2005	2006	2007
IB	-174	-227.9	205.4	27.5	29.75
LBDI	0	2.2	7.2	-11.3	14.7
Ecobank	1.9	2.7	0.4	20.3	26.7
FIB	n.a.	n.a.	-18.2	-5.1	-47
GBL	n.a.	n.a.	n.a.	-1,398.1	n.a.
Average	-57.4	-74.3	48.7	-273.3	6.09
Weighted Average	-11.6	-7.2	8.6	-14.7	5.22

Net Profit Margin (%)

	2003	2004	2005	2006	2007
IB	-87.4	-43.4	18.6	10.2	23.7
LBDI	0.1	6.1	17.4	-22.7	30.8
Ecobank	0.9	1.3	0.2	9.0	20.3
FIB	n.a.	n.a.	-44.3	-14.2	-84
GBL	n.a.	n.a.	n.a.	-400.1	n.a.
Average	-28.8	-12.0	-2.0	-83.6	-2.3
Weighted Average	-22.0	-7.9	8.6	-14.0	5.4

Expenses/Income Ratio (%)

	2003	2004	2005	2006	2007
IB	146.7	88.9	79.5	61.8	76.3
LBDI	98.6	71.5	81.4	65.3	36.8
Ecobank	85.9	74.4	86.8	49.3	59.2
FIB	n.a.	n.a.	139.8	68.4	184*
GBL	n.a.	n.a.	n.a.	247.9	n.a.
Average	110.4	78.3	96.9	98.5	89.1
Weighted Average	106.6	76.9	85.0	63.4	14.23

*Attributed to Large Loan Provisioning

Deposits Market Share

	2003	2004	2005	2006	2007
IB	28%	24%	25%	18%	15%
LBDI	27%	22%	24%	29%	32%
Ecobank	45%	54%	50%	47%	52%
FIB	n.a.	n.a.	n.a.	2%	2%
GBL	n.a.	n.a.	1%	4%	n.a.
Total	100%	100%	100%	100%	100%

Assets Market Share

	2003	2004	2005	2006	2007
IB	26%	20%	21%	17%	13%
LBDI	41%	22%	31%	33%	35%
Ecobank	33%	58%	46%	42%	49%
FIB	n.a.	n.a.	2%	4%	3%
GBL	n.a.	n.a.	n.a.	4%	n.a.
Total	100%	100%	100%	100%	100%

Loans Market Share

	2003	2004	2005	2006	2007
IB	32%	6%	18%	9%	13%
LBDI	19%	30%	29%	40%	20%
Ecobank	49%	64%	49%	44%	62%
FIB	n.a.	n.a.	4%	4%	5%
GBL	n.a.	n.a.	n.a.	3%	n.a.
Total	100%	100%	100%	100%	100%

Non-Interest Income Market Share

	2003	2004	2005	2006	2007
IB	24%	27%	25%	22%	20%
LBDI	43%	32%	30%	28%	25%
Ecobank	33%	41%	42%	44%	51%
FIB	n.a.	n.a.	3%	2%	4%
GBL	n.a.	n.a.	n.a.	4%	n.a.
Total	100%	100%	100%	100%	100%

Equity Market Share

	2003	2004	2005	2006	2007
IB	2%	0%	4%	10%	13%
LBDI	81%	81%	65%	54%	46%
Ecobank	17%	19%	19%	24%	38%
FIB	n.a.	n.a.	12%	10%	4%
GBL	n.a.	n.a.	n.a.	2%	n.a.
Total	100%	100%	100%	100%	100%

Market Competition

The CBL had earlier announced that there would be a moratorium on new banks entering the country in order to give the already established institutions breathing room to reenergize their operations. Following years of civil war, the financial institutions were to be given a period to reestablish normal business practices and build the capacity of their personnel and operations. The CBL now views this position as unrealistic, or unmerited, as UBA prepares to begin operations in the market.

However, the market, and the current banks, should be able to accommodate the new

entrant. In comparison, The Gambia, which has a GDP of US\$ 350 million, has more banks than Liberia, with its estimated 2008 GDP of US\$ 818 million. There remains room for significant growth in the sector, and new entrants in the market provide an indication of how confident the region is in Liberia not only regaining its former status, but surpassing it.

The RLJ Foundation, OPIC, CHF International, and the ADF have started the Liberian Enterprise Development Finance Company (LEDFC) in order to provide longer-term (1-5 years) financing for SMEs. The LEDFC does not act as a depository for customers, and so will not compete with the balance sheets of the banking sector. A number of development finance institutions, including the IFC, OPIC, and PROPARCO, have been very active in the ongoing rehabilitation of the financial sector.

Outlook

The future outlook for the Liberian banking sector is strong. The financial institutions stand to benefit from the resurgence in the Liberian economy with investments in infrastructure, real-estate, forestry, mining, oil, hospitality, agribusiness, and other sectors taking root in the new Liberia. Growth in assets, deposits, loans, and equity will continue with these trends. Increased training for personnel is still necessary to meet international standards and increase net profit margins, making continued investment into the education of finance and accounting a key determinant of future growth. Bringing the rest of the Liberian population into the banks as customers will also be a measurement of the industries success going forward.

INVESTMENT OPPORTUNITIES

Financial Services

There is an increasing need for quality financial services in Liberia. It serves as the

basis for growing much of the domestically driven economy, as well as providing a bridge for foreign investors to enter the country. Right now, the largest growth sectors of the financial service industry include commercial banking, investment banking, leasing, and insurance. These fields provide high growth margins in direct relationship to the industries that they service.

Commercial banking, as demonstrated in this review, is a sector ripe with opportunity due to the increasing demand from reconstruction efforts and increasing foreign direct investment. Domestic and multinational investors are in need of corporate commercial banking in order to structure the capital necessary for projects and overall expansion of operations. Ensuring that these corporations have their financial needs met in a reliable manner is a requisite for Liberian economic growth.



International Bank (Limited) Liberia

Companies engaged in mining, forestry, agriculture, and infrastructure projects are looking for a local and regional source of investment banking led corporate finance. Providing the necessary tools to lead international, regional, and domestic syndicates to the next level of operational capacity in Liberia will accelerate the pace of growth in the economy.

In Liberia, the shipping and corporate registries have the ability to form the basis



for a significant off-shore financial services industry. The government is currently reviewing existing agreements in these areas as they have done in other major concession areas with the support of the International Legal Resource Center, a joint venture of the American Bar Association and the UN Development Program.

The leasing industry in Liberia is in the beginning stages in order to address the demands of Liberian and multinational corporations engaged in infrastructure, mining, forestry, and assorted reconstruction projects that require heavy equipment without placing undue pressure on their respective balance sheets. Leasing has proved to be a viable solution for companies with low amounts of available capital to still engage in projects that would otherwise have been beyond their operational and financial capacity. Leasing in Liberia should prove to be a strong performer over the long-term.

The insurance industry in Liberia experienced a downturn for obvious reasons during the civil war. It was nearly impossible for the 20 insurance companies located in Liberia to acquire reinsurance, making it very difficult to sell new policies and service old ones. Large numbers of claims are also being processed in Liberian courts due to alleged abuse of policy clauses related to civil war and conflict. The insurance industry is beginning to recover, expecting that a majority of the liabilities due to errant claimants will be resolved, while also enjoying a resurgence in its customer base. As Liberia continues to stabilize this sector it will continue to attract outside investment.

Real Estate & Construction

Activity in the real estate sector is growing, due in large part to increased security and the availability of mortgages and construction finance credit. Demand for real estate construction has so far been driven by

the presence of organizations such as UNMIL, the World Bank, IMF, donor representatives, NGOs, and business interests. The presence of the international organizations is not going to be a permanent fixture in the Liberian landscape, but this does not mean that real estate investment will decline with their departure. Instead, it will be maintained, if not increased, due to the repatriation of the Liberian diaspora, coupled with an increase in foreign direct investment by multinational corporations requiring offices and housing.



Small Construction Project in Montserrat

Most of the structures in the country, including private residences, were damaged or destroyed during the conflict. Domestic demand for residential construction is vast as people begin to settle as the security situation has become stable. The current housing situation for most people is not tenable, as the materials and construction are unsuitable for habitat. The demand for housing has grown to the point that developers are now building houses on contract so that diasporan families do not have to rely on friends and family members to build homes, instead relying on professional contractors. These homes are being used as full or part-time homes for Liberians who wish to maintain residency in multiple countries. Out of an estimated 450,000 Liberians abroad, 10% visit the country regularly. If just 1% of the Liberians abroad were interested in buying a home in the country, initial demand would be for 4,500 residences, although this is considered to be a downward estimate.

Corporations with investments in Liberia are also finding the need to maintain quality offices and housing for their employees. Finding office space which can meet the demands of a globally connected enterprise is of paramount importance to these companies. These firms require air-conditioning, full electrification, high-speed internet and telephone connections, reliable water and plumbing, cleaning services, and security. Companies which can build and manage these accommodations are highly sought after in the current marketplace.

Another aspect of this sector is the amount of supply inputs necessary for construction and real estate development. The producers and suppliers of crushed rock, concrete, sand, finished timber, roofing materials, heavy equipment, tools, doors, windows, and formed metal products will all benefit from this industry.

General Infrastructure

The basis for any country moving forward from a conflict situation is the rebuilding of its infrastructure. In the case of Liberia, most of the infrastructure was destroyed by the conflict, or left to fall apart due to insufficient maintenance capacity. Ports, airports, bridges, roads, power-plants, fixed communications, mobile networks, power-plants, sanitation facilities, and electricity and water distribution networks are all either in the beginning stages of rehabilitation, or require major new initiatives.

There are four seaports in Liberia: the Free Port of Monrovia, Buchanan, Harper, and Greenville. Each of these ports requires an immense amount of reconstruction, upgrades, and management expertise. Liberia's economy is based largely on trade, making the ports vital to economic growth. Although Monrovia still serves as the main port for the country, the Port of Buchanan will be the main transit point for Mittal Steel's iron ore shipments, as well as the required equipment and machinery for its

operations. Port traffic will increase dramatically in Greenville, Harper, and Buchanan as exports increase with the resumption of the timber and other products.



Ships Docked Beside Shipwreck in Port of Monrovia

Roberts Field International Airport is the sole international airport in Liberia. The war resulted in significant damage, but rehabilitation is currently underway through limited grants and loans provided by the World Bank and USAID. A complete refurbishment of the airport could once again make Liberia a regional aviation transit hub in West Africa.

The road network is extremely poor due to years of neglect. Currently, there are a limited number of passable roads in the country. The government has made it a priority to rehabilitate the most important roads which link the commercial and population centers in the country. It is estimated that Liberia will need close to



The President Breaking Ground on a New Road

1,600 kilometers of roads and bridges to be built in order to have an efficient, functioning internal infrastructure. Not only will this network provide access to all areas

of the country in an efficient manner, it will allow goods to reach the seaports more easily in order to reach their end destinations efficiently. An internal road network will also provide Liberia's agricultural sector the ability to get its goods to domestic markets, a primary point of concern with current global food insecurity. Costs for these projects may run as high as USD 360 million, and will be funded by both the public and private sectors.

Liberia's fixed telephone network was destroyed during the war. The Liberia Telecommunications Corporation (LTC) is the Liberian government owned operator of fixed line services, and is the only one allowed to do so by law in Liberia. This exception to Liberia's liberalist tendencies is not surprising, as their example for such a model came from the monopolistic AT&T of an earlier era in the United States. While LTC's management under the interim government acquired a CDMA platform, negotiations are still underway to commission the platform and establish operations.

There are four licensed mobile phone companies in Liberia: Cellcom, Lonestar, Comium, and Libercell. Mobile communications has largely alleviated the problems caused by the destruction of fixed telephone networks, and it appears as if advanced wireless and mobile networks may eliminate the need for fixed telephone lines in Liberia. The total number of mobile phone subscribers is estimated between 325,000 and 375,000. As this represents only 10% of the population, it signals an opportunity for immense growth. The mobile phone companies (except Lonestar) also offer internet services. The possibility of blanketing the country with both cellular and wireless internet coverage is the most exciting opportunity in this sector. New telecommunications law aims to regularize operations and position the industry for growth.

Electricity and water supply remain significant problems in Liberia, though the new government has been able to restore services to some areas. The Mount Coffee Hydroelectric facility once supplied a bulk of the country's energy needs, but was heavily damaged by the war and now requires heavy investment for rehabilitation. Additionally, electricity distribution networks must be constructed to supply power throughout the country. With the support of a number of donors and private investors, the Liberian government is committed to resolving a way forward on the power sector front within the next quarter. Similarly, water sanitation and distribution networks are required in the urban centers in order to promote and maintain health. The lack of access to these resources presents an opportunity for large-scale investment by public-private enterprises.

Agribusiness

The government is committed to encouraging the rapid growth of the agricultural industry. Before the conflict, Liberia was a net exporter of foodstuffs, primarily rice, now it is dependant on imports. Rising food and commodity prices heighten the desire to increase domestic agricultural production. Reviving this sector will be instrumental in providing jobs, returning people to the country, providing food security, and turning Liberia from a net food importer into an exporter.



Rice Paddies

There have been multiple investments in negotiations, the contract for Firestone's rubber plantation concession has been ratified. Firestone has the longest corporate history in the country, and their further commitment signals an institutional belief in the future of the Liberian agricultural industry. Buchanan Renewable Energies has invested USD 30 million into the renewable energy sector by recycling rubber plantations for use in domestic energy. The Libyan Africa Investment Portfolio has also invested USD 30 million in a venture with the Foundation for African Development for the production of rice. There are also investors who are looking to invest heavily in the production of palm oil. Liberia's heavy rainfall and rich soil make it a natural choice for the large scale production of a wide variety of agricultural products.



Firestone Rubber Plantation

Mining

Liberia has extensive reserves of iron ore, gold, diamonds, and other minerals that are proving to be extremely valuable on the international commodity markets. Revenues from iron ore accounted for nearly half of the country's earnings prior to the civil war. All iron ore mining operations were closed during the period of conflict and the necessary support infrastructure was eroded, infrastructure which is now being replaced. Leading the way is Arcelor Mittal, which recently began laying the groundwork for its operations in the Bong mines, including a railway to Port Buchanan and facilities at

the port for the loading of the iron ore onto cargo ships.



Iron Ore Mining

Other concession agreements are being negotiated with numerous mining companies, the largest being the Western Cluster, which is also laden with high-grade iron ore. After awarding the Western Cluster to a South African company, the government has hired Deloitte & Touche to complete a due diligence exercise on all five bidders prior to ratification of the contract. Small, artisanal diamond and gold mines dot the countryside as Liberians search for the precious stones and minerals. Following the lifting of the UN ban on Liberian diamonds and accession to the Kimberly Process, Liberian diamonds are now accepted in international markets, and socially acceptable to conscience driven consumers. In light of this progress, the Israeli Diamond Institute has committed its expertise and resources towards helping the government of Liberia develop the diamond sector. The IDI is a consortium of Israeli diamond traders, polishers, and cutters, and represents a large percentage of the global diamond industry.

Oil

The Gulf of Guinea, stretching from Liberia to Gabon, is a known depository of oil reserves. Ghana is the latest country to announce a significant off-shore oil discovery. Evidence of oil was discovered off Liberia's shores decades ago, but investment was never forthcoming due to

the political instability that plagued the country since 1980. As these factors are alleviated, the government is in a position to negotiate with investors on the 14 off-shore blocks that have been identified. Liberia is instituting measures such as the EITI, GEMAP, PRS, and other initiatives which are being solidified as good governance bulwarks to ensure transparent allocation of these drilling rights.



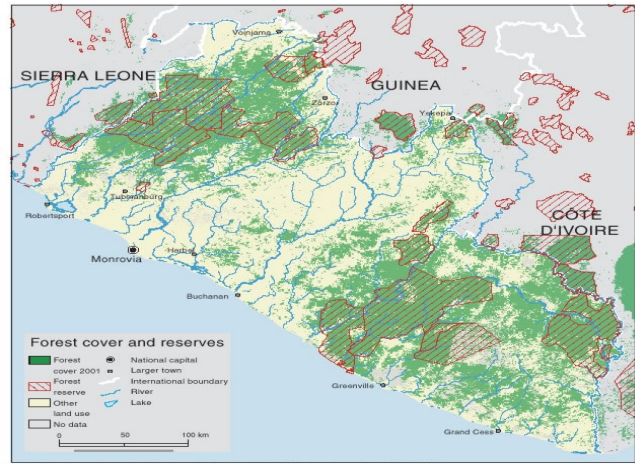
Offshore Oil Drilling in the Gulf of Guinea

Opportunities in relation to the oil-sector are expansive, ranging from financial services, shipping, housing and office space, and an array of secondary support services. International investment into this area will range well beyond just the oil exploration and extraction itself, but should incorporate many facets of the Liberian economy.

Forestry

Liberia's 9.6 million hectares of land area contains 4.3 million hectares of tropical forest containing sought after hard woods. The UN ban on Liberian timber was lifted in June of 2006, but Liberia's Forest Development Agency (FDA) decided to maintain the ban on logging until it could establish concessionary agreements that would guarantee environmentally sustainable and socially equitable practices by the logging companies. The FDA announced in April of 2008 that the forestry industry was ready to begin anew. Studies indicate that there is an estimated 2.3 million hectares available for commercial logging,

which should have a sustainable yield of 750,000 cubic meters of timber every year.



Liberia Timber Reserves

In order to ensure that illegal forestry operations are curbed, if not eliminated, every log shipped out of Liberia's ports will require an electronic tag that has been affixed to it the day it was cut down. This practice makes sure that the timber companies are not over-logging, that illegal operations cannot ship their product, and that the Liberian government is able to collect all tax revenues and avoid human temptation for corruption. This breakthrough method does have implementation costs, but the benefits in environmental security and government revenues should make up for these costs. Species include white mahogany, spicy cedar, iron wood, African oak, red oak, walnut, cotton, rubber, grey plum, and many others.

In addition to the simple exportation of unfinished timber, value-added industries should be considered for investment. Domestic demand will require finished lumber for construction projects, furniture, and railroad sleeper ties. With such large forest reserves, large-scale manufacturing of furniture and other finished products is an investment opportunity, with domestic demand for the finished product being supplemented by exports to other West African countries, Europe, and the US.

Tourism & Hospitality

Liberia is home to beautiful beaches, expansive tropical forest reserves, plant and wildlife diversity, access to deep sea fishing, and a friendly population that is welcoming to foreign guests. Hotels, resorts, and adventure tourism is gaining a niche in this West African hub, especially as people are curious to visit areas that were previously inaccessible due to political and social instability. Hotels have already sprouted up in Monrovia in order to accommodate the large influx of personnel associated with the international organizations. Immediate needs in the capital city may have been met, but this does not preclude investment in more high-end and strategically located vacation spots for the adventure traveler.



Miami Beach, Monrovia (Courtesy of David Vaucher)

INVESTMENT INCENTIVES

Capital Controls

Liberia has a long history of liberalism and is arguably the most economically liberalized economy in West Africa. There are absolutely no capital controls, allowing investors to transfer funds and dividends into and out of the country without any restrictions. This legal structure is being reviewed in recognition of Liberia's previous listing on the OFAC list and

current US Patriot Act requirements, but any further legislation should be tailored to encourage even greater private sector investment.

Private Sector Guarantees

The National Investment Commission implements the Investment Incentive Code of 1973, which prohibits the nationalization of private enterprises. These measures are designed to attract foreign investment, and to ensure that future Liberian governments maintain the spirit of free enterprise. Additional incentives include the granting of 100% duty exemption on imported machinery, equipment, spare parts, construction materials, and even raw materials for qualified projects and companies. There are also tax exemptions on profits that are reinvested back into fixed assets in order to encourage operational capacities for companies. Enterprises are also allowed to apply for preferential rates for the long-term leasing of land for manufacturing facilities in certain economic zones. It should be noted that only Liberian citizens can technically own land in Liberia, but this merely creates a market for very long-term leases which serve the same purpose.

Free Ports & Trade Zone

In 1976, the government created the Liberia Industrial Free Zone Authority in order to include the placement of manufacturing facilities in and around the port areas by designating numerous free trade zones. Companies located in these zones are exempt from import duties and income tax. With the political instability that broke out soon after this initiative, the free trade zones were never implemented outside of the Free Port of Monrovia. With the return of peace, stability, and infrastructure, the government is looking to once again capitalize on this earlier legislation in order to attract value added enterprises into Liberia as a source of employment for its citizens.