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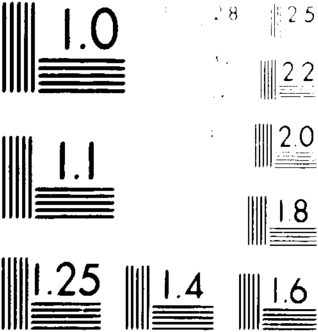
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Distr.
RESTRICTED

UNIDO/IO/R.78
14 October 1982

ENGLISH

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

ASSISTANCE FOR THE DEVELOPMENT AND IMPLEMENTATION OF REGIONAL INDUSTRIAL DEVELOPMENT POLICIES AND STRATEGIES

UC/RAF/81/161

Report of a mission to assist the Mano River Union.

Based on the work of James Bok Abban, UNIDO consultant

V.82-31463

Explanatory notes

MRU refers to the Mano River Union. The term "Union", as in "Union incentives", "Union industries" etc., refers throughout to the Mano River Union.

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CONTENTS

INTRODUCTION

Background

The Mano River Union (MRU) was established on 3 October 1973 with the signing of the Mano River Union Declaration by the President of the Republic of Liberia and the President of the Republic of Sierra Leone. The Revolutionary People's Republic of Guinea acceded to the Mano River Union Declaration and joined the Mano River Union on 25 October 1980.

The Union Secretariat was established on schedule on 1 January 1974 at Freetown, Sierra Leone.

The Mano Union River Declaration calls for the creation of conditions favourable to an expansion of mutual productive capacity, for the progressive development of a common protective policy and co-operation and for a harmonized protective policy for local producers.

The Twelfth Protocol to the Mano River Union Declaration established the policies and principles governing the establishment of Union industries, including the related harmonized interim (Union) investment incentives, the obligations of the promoters granted Union investment incentive contracts, the obligations of the member States and, in the event of a dispute, a procedure for arbitration. The Protocol also provides for administraton of Union industries.

The policy objectives behind the industrial development activities of the Union are contained in the document entitled "Criteria and procedures for the granting of Union industry status including Union licence, Union investment incentives contract and Union guarantee".

In 1980, the Industrial Development Unit was established within the Union Secretariat, with the long-term objectives of promoting industrial co-operation and industrial integration among the member States, and achieving an accelerated rate of industrial development in each member State.

The framework for the performance of this task by the Union Secretariat in general and the Industrial Development Unit in particular is, however, not clearly defined.

The Union Commission on Industry and Trade (UCIT), which consists of the ministers responsible for industry, trade, planning and finance in the member States and is responsible for superintending, supervising and implementing industry and trade co-operation among member States, gave the Union Secretariat the following mandate at its seventh meeting held at Monrovia, Liberia, 12-13 January 1981:

> "That the Secretariat, in consultation with the member States, develop a comprehensive Mano River Union Policy/Strategy on Industrialization to be presented to the next meeting of the Union Commission on Industry and Trade."

The assistance of the United Nations Industrial Development Organization (UNIDO) has been sought in the implementation of the above-mentioned mandate, in co-operation with the Mano River Union Secretariat, particularly the Economic Affairs Division, the Industrial Development Unit and the Legal Office.

Project objectives

Development Objectives

The development objectives of the project were twofold:

(a) To create conditions favourable to an expansion of mutual productive capacity, including the progressive development of a common protective policy and co-operation in the creation of new productive capacity;

(b) To develop a harmonized protective policy for local producers.

Primary Objectives

The primary objectives of the project were the following:

(a) To study and develop the framework for a reasonably comprehensive package of regional industrial development strategies and policy instruments for MRU;

(b) To analyse existing industrial development acts in each member State as well as the ideas and comments on such acts, in the member States and at the MRU Secretariat, with a view to making recommendations for policies and strategies to be applied for the Union industrialization process;

(c) To develop and outline ways and means for the practical application and implementation of those policies and strategies identified in (b) above;

(d) To identify and develop industrial policies and strategies for MRU.

Project outputs

The project outputs were to be a study and implementation programme for a comprehensive MRU policy/strategy on industrial development for MRU comprised of:

An analysis of existing industrial development acts in each member State as well as ideas and comments on those acts in the member States and at the MRU Secretariat

A recommended framework for a reasonably comprehensive package of regional (MRU) industrial development strategy and policies

A list of identified regional (MRU) industrial development strategies and policies

An outline of ways and means for the practical application and implementation of the proposed regional (MRU) industrial development policies and strategies as identified.

Places and institutions visited

Within the schedule of project activities, discussions were held with the staff of the Economic Affairs Division and the Industrial Development Unit of the MRU Secretariat. In addition, visits were made to member countries of the Union and discussions held with officials of the following ministries and organizations:

Guinea

Ministry of International Co-operation
Ministry of Small and Medium Scale Industries
Ministry of Industry
Ministry of External Trade

Liberia

Ministry of Planning and Economic Affairs
Ministry of Finance
Ministry of Commerce, Industry and Transportation
National Investment Commission
Chamber of Commerce
Bank for Development and Investment
Liberia Industrial Free Zone Authority

Sierra Leone

Ministry of Development and Economic Planning
Ministry of Finance
Ministry of Trade and Industry
Chamber of Commerce
National Development Bank

Informal discussions were also held with the members of the UNIDO team currently attached to the Ministry of Trade and Industry at Freetown then studying the small-scale industrial structure of the Sierra Leone economy.

Summary

The analysis, observations and recommendations contained in this Report are primarily based on the documented reports and information available from the MRU Secretariat, from the relevant ministries of member countries mentioned in the report and from discussions held with officials and representatives of organizations and relevant ministries of the MRU member States. The Economic Affairs Division of the MRU Secretariat proved a particularly valuable source.

The effectiveness of the mission's work was initially constrained by a lack of systematic documentation on the industrial development acts of the MRU member States (including ideas and comments on them) within the MRU Secretariat. This lapse was compensated for, however, by the enthusiasm and readiness with which the mission was received throughout, both in the MRU Secretariat and the member countries. Maximum co-operation was accorded to the mission by everyone concerned during the task of collecting requisite information and soliciting comments on the information embodied in the vital documents, and this, in no mean measure, contributed to the end product now presented.

The body of the report is organized under four main chapters:

Chapter I presents a general overview of proposals outlined for the formulation and implementation of a programme for the Industrial Development Decade for Africa. Essentially attention is focussed on the objectives of the Lagos Plan of Action and the Final Act of Lagos covering industrial development of Africa up to 1990.

Chapter II is devoted to a discussion of the features of the industrial development acts of the MRU member States.

Chapter III analyses the MRU industrial development acts and discusses their salient characteristics.

Chapter IV looks at issues pertinent to the formulation of regional industrial development policies and strategies for the MRU member States.

RECOMMENDATIONS

1. In furtherance of the achievement of a uniform industrial development in the three MRU member States, the MRU Secretariat should evolve a Union-harmonized industrial development code aimed at:

(a) Embracing a wider scope of incentives relating to the establishment of small-scale industries, indigenous enterprises, development and increased utilization of local raw materials, and promotion of export-oriented industries;

(b) Providing appropriate tax-related, capital-related and other incentives to ensure, for example, increased production of local raw materials, and ultimately continuity in their supply to strategic manufacturing enterprises.

The administration of the unified industrial development code should be simplified and carried out at the regional level.

2. To ensure the realization of significant linkages, manpower training and the utilization of local raw materials in industrial production:

(a) Incentives for the generation of value added should be escalated according to the successive levels of input processing;

(b) Special incentives should be given to industrial enterprises operating manpower training schemes or utilizing local raw materials.

3. The Technical Commission on Industry and Trade should be strengthened and charged with the task of co-ordinating the industrial activities of the three member States.

4. Broad policy objectives of MRU should related to the:

(a) Promotion of export-oriented industries utilizing local resources, destined in the first instance for the sub-regional market. These industries would contribute to the creation of a self-reliant and self-sustaining industrial base; specifically:

(i) Industries based on the utilization of domestic raw materials and energy resources which provide basic inputs e.g. iron and steel, aluminium etc. for other industries;

(ii) Engineering-based industries which contribute to the development of national productive capacity, e.g. foundries, forging machine shops and tool workshops for the manufacture of agricultural implements and equipment;

(b) Establishment of industries with links to other priority economic sectors; e.g. agriculture, mining, transport, building and construction, energy, fertilizers and related chemicals from domestic phosphate rock and domestic gas, generation of abundant and reasonably cheap electricity power for electricity intensive industries such as aluminium, copper, iron and steel used in building, communication equipment etc.

(c) Promotion of selected import-substituting industries utilizing local raw material as a means to self-sufficiency in food and other basic needs, e.g. clothing and shelter;

(d) Co-ordination of policies promoting the development of small-scale industries, especially when rural based;

(e) Development or adaptation of technology related to indigenous and other production techniques.

5. Identified "Union industries" must be selected and implemented on priority basis, the order of priority conforming to the guidelines laid down in the programme for the Industrial Development Decade for Africa.

6. In the initial period of the industrial development programme, emphasis should be placed upon the cultivation and processing of staples (basic consumer products). During the second period concentration should be on the production of capital and intermediate goods using mineral and forest products as major inputs.

7. MRU should prepare an industrial development plan, co-ordinated with the national development plans of the member States.

8. In the planning phase of the industrial development plan, recourse should be made to an industrial programming mechanism for efficient execution, implementation and monitoring the plan. This would require the establishment of servicing elements, such as the existing Industrial Development Unit of the MRU Secretariat, viz:

(a) Research, to collect vital data and to contribute to the setting-up of a Data Bank. The services of the proposed research unit may be used effectively in the monitoring exercise;

(b) Investment promotion, to handle all the aspects relating to investment promotion activities of the Union;

(c) Funding arrangements, comprising of an industrial development fund; and an embryonic industrial finance market, under whose umbrella funds will be mobilized to finance priority industrial projects;

(d) An appropriate monitoring mechanism through the effective utilization of established rolling plans, comprehensive base-line data;

(e) A permanent institutional framework within the MRU Secretariat to monitor realization of industrial policy objectives;

(f) Organization of pre-feasibility and feasibility studies for industrial projects.

9. The Union should create adequate facilities for the free flow of investable capital and payments in respect of intra-MRU trade; in this regard it should:

(a) As a short-term measure, request the working group on banking and finance to prepare proposals for facilitating internal trade payments and capital movements among member States;

(b) As a long-term measure, establish an effective financial mechanism to work towards the operation of a finance market, such as an MRU stock exchange and a clearing house facility.

I. A PROGRAMME FOR THE INDUSTRIAL DEVELOPMENT DECADE FOR AFRICA

A crucial aim of industrialization policies in most countries in Africa is to free the continent in general and individual countries in particular from the cyclical dilemna of underdevelopment and economic dependence on developed countries. In this respect, it is envisaged that each African country should design its integrated economic and social development strategy in such a way as to revolve on an industrial base aimed at meeting the interest of that country, while strengthening complementary activities at the sub-regional and regional levels.

In essence this strategy of the comprehensive development of national economies in Africa focuses attention on the structure of basic industries and besides recognizing their capability for mutual reinforcement, exerts strong growth-promoting effects on other industries and sectors, especially agriculture, thus ultimately fostering the transformation of the rural environment. This strategy is officially designated the Monrovia Strategy for the Development of Africa. The policy prescription embodied in it is articulated in the Monrovia Declaration of Commitment 1/ which, among other things, calls for the realization of sub-regional and regional internally-located industrial development, with special emphasis on the requisite national-based industrial and technological policies, capabilities and institutional infrastructure as well as intra-Africa co-operation.

In pursuing the African objectives and priorities, the Strategy embraced various modalities including declaration of the period 1980-1989 as "the African Industrial Development Decade for the purpose of focusing greater attention and evoking greater political commitment and financial and technical support, at the national, regional and international levels for the industrialization of Africa". 2/ The Lagos economic summit, which followed the Monrovia Declaration of Commitment, adopted both the Lagos Plan of Action and the Final Act of Lagos. 3/

The deliberations of the Organization of African Unity (OAU) Heads of State and Government at Lagos constituted a major landmark in the developmental programme of Africa for the rest of this century by setting in perspective the challenge facing Africa in the industrial sector. It was recognized in unambiguous terms that industrial development strategies needed essentially to be redesigned and implemented at the national, sub-regional and regional levels. Moreover, the programme of action proposed at those levels should aim at achieving a self-reliant and self-sustaining industrial development in Africa.

A. Objectives of the Lagos Plan of Action and the Final Act of Lagos up to the year 1990 4/

The tenets of the Lagos Plan of Action and the Final Act of Lagos 5/ require African countries to lay a solid foundation for industrial integration at the sub-regional and regional levels with the ultimate aim of achieving a minimum of 1.4 percent of world industrial output 6/ within the decade 1980-1990. They must also endeavour to attain self-sufficiency in food, building materials, clothing and energy.

The overall targets to be realized within this Decade must be accomplished in the context of the following policy objectives:

Creation of a solid base for self-sustained industrialization at the national and sub-regional levels;

Development of human resources to ensure that they are fully mobilized in the industrial development process;

Sufficient production of agricultural inputs such as fertilizers and pesticides, agricultural tools and machines;

Production of building materials sufficient for the construction of decent urban and rural housing for the region's growing population;

Development of intermediate and capital goods industries, particularly those providing new industries or contributing to an industrial infrastructure.

Increased local processing and upgrading of the region's raw materials;

Fulfilment of industry's energy needs by developing the different forms of energy available;

Meeting all regional textile requirements.

It is envisaged that by 1985 most African countries will have achieved the one percent target laid down in the Lagos Plan of Action. In their medium- and long-term industrial development plans they should lay the foundation for the development of essential basic industries. They need therefore to ascertain which of the following main industrial categories can be developed in the short-term on a national or sub-regional basis and which must be left to the long-term or will call for sub-regional or regional co-operation:

Food and agro-industry
Building
Metallurgical industry
Mechanical industry
Electrical and electroni industries
Chemicals
Forests
Energy
Textiles

B. Self-reliance and self-sustainment

The principle of self-reliance and self-sustainment is an essential corner-stone in the industrialization programme of Africa arising from the failure of the existing industrial pattern to meet the basic needs of Africa's increasing population both in terms of material goods and the modernization of African society. For example, the import-substitution strategy in most African countries has generally been confined to manufacture of products required by the affluent consumers and it has usually relied on foreign capital and technology inputs. The strategy of industrialization has also failed to integrate the agricultural sector into the growth process of most African countries, with the inevitable effect of sluggish growth in this major sector of the economy.

The principle of self-reliance enshrined in the Lagos Plan of Action involves the use of indigenous raw materials, labour and management in production activity, which essentially should serve domestic and regional markets. Self-sustainment within this context, therefore, implies a reliance on internal needs and stimuli.

Although in pursuance of this policy, Africa is not expected to isolate itself from the world of science and technology, the adherence to the principle of self-reliance presupposes institutionalization and intensification of the integration and co-operation schemes among countries of the same sub-region in the common effort, inter alia, to develop their own capabilities. Indeed no claim to self-reliance can be made by a country whose industrial structure is dominated by foreign investment, where a large proportion of industrial output is in the hands of subsidiaries of foreign or transnational companies or enterprises owned by non-residents, and where no scientific and technological capability, either receptive or contributive, exists.

Since economic development cannot everywhere advance at the same pace, it is necessary to identify the critical economic sectors which will serve as a driving force for the other major sectors of the economy. In order to achieve the objective of self-sustained growth, therefore, the Lagos Plan of Action has proposed the following measures:

(a) The development, processing and utilization of natural resources, e.g. food processing based on indigenous raw materials;

(b) Linkages between various industrial sectors, with close ties between industry and other sectors, especially agriculture, construction and mining;

(c) The coupling of national industrial capacity to basic and capital good industries at sub-regional level;

(d) Expansion of the industrial sector processing raw materials into semi-finished and finished goods;

(e) The selection of specific domestic products, especially mass consumption goods within the context of a viable food policy, to meet local demands.

In the process of executing African industrialization policies for the Decade, indigenous economic interests, both public and private, should assume a major responsibility. Since the objective of self-reliance calls for the institution or sometimes the restructuring of an industrial base, the State, through the regional or communal institutions, should assume a pivotal entrepreneurial role in implementing the industrial programme, particularly in promoting basic and capital goods industries. In addition, The State should also influence other national elements towards promotion of industrial projects. Essentially, interest should be generated by help in the identification of relevant projects, preparing markets and feasibility studies, mobilizing investment funds, and training manpower for the production and commercialization of industrial products.

These in broad outline are the industrial policies expounded at Lagos by the African Heads of State and Government and enshrined in the Lagos Plan of Action and the Final Act of Lagos. These constitute the requisite guidelines for definition and development of industrial policies for member States of MRU.

II. INDUSTRIAL DEVELOPMENT ACTS

A. Guinea

At Conakry two documents were made available to the mission: the Five-Year Development Plan, 1981-1985, and Law No. 005/APN/80 consisting of a code of investments. These embody the industrial policies and strategies of the Government, and the second contains salient if limited, features, of an industrial development act.

Industrial policies and strategies

The Five-Year Development Plan stipulates that within the industrial sector, emphasis will be put on the improvement of management, the utilization of installed capacities and the renovation of existing units. Also in the process of developing food-processing industries, textile industries, materials for construction, mechanical and forest industries, value will be put on local raw materials and the creation of new employment in industry. Moreover, steps will be taken to create the necessary incentives and encouragement conducive to the development of small and medium-scale enterprises.

The strategy to be adopted in achieving these objectives consists of:

(a) The renovation and/or extension of existing industries;

(b) The continuation and completion of projects already in progress;

(c) The creation of small and medium-scale enterprises utilizing local raw materials and favouring the interpenetration of agricultural and industrial activities in order to raise the standard of living of the rural population and the creation of favourable activities which will enable the development of external trade markets.

Investments code

The set of investment incentives offered by the Government of Guinea to investors in priority sectors of the economy, including the industrial sector, is incorporated in the Act, instituting an investment code. The important characteristics of this code, which was promulgated in 1980, relate to the following: (a) priority enterprises benefitting from the advantages specified; (b) specific advantages granted to approved investments; and (c) penalties.

Priority enterprises benefiting from specific advantages under the Code

Article 2

(a) Mining industries concerned with extraction, or enrichment, or processing of mineral substances;

(b) Industrial enterprises concerned with mechanical or chemical preparation and processing;

(c) Industries connected with manufacturing and assembly of consumer goods in demand;

(d) Agricultual and rural development enterprises;

(e) Transport and public works enterprises;

(f) Building and hotel ventures.

Provided that:

(i) Any enterprise exploiting a mineral resource should preferably be constituted into a joint company governed by a Special Convention/Agreement (article 5);

(ii) The enterpsies referred to in article 5 above, can only be included in the Agreement if they are committed, within a period to be specified by common accord, to processing the natural resource into a more finished product (article 6).

Specific advantages granted to investments

Articles 9-21

All investments approved in the context of the present code will be exempted from or have their fiscal charges reduced. This preferential arrangement, however, is on a progressive basis depending on the interest and importance of the said investments to the country's economic development. Details of the scope and duration of the privileges will be given in the body of the agreement.

(a) During the construction or installation phase:

(i) All equipment, materials and raw materials necessary for the studies, the construction and infrastructural work as well as for the extension and modernization of existing units, on importation will be exempted from customs and other dues normally levied. Excluded from this tax exemption, however, are such equipment, tools, materials and raw materials as can be supplied by Guinean industries, provided cost increase does not exceed 10 per cent and equivalent standards of quality and delivery are guaranteed;

(ii) Without special permission from the Ministry of Finance, after advice from the Ministry of Planning, all equipment, tools, materials and raw materials enjoying the exemption instituted by the present Code may not, for a period of 5 years, be used for any purpose other than that for which they were imported. Any such change will nullyfy the advantages granted by the Decree of Consent, unless the materials are used in another approved enterprise.

(b) During the take-off phase:

However, none of the tax exemptions outlined above will apply during the period of full production.

(i) For a period not exceeding 5 years from the date of production, and dependant upon the importance of the investment and the nature of the work, a total or partial exemption from entry charges on raw material, spare parts, machines and vehicles used in production, will be granted to the approved enterprise;

(ii) Identical advantages may be granted to such enterprises in respect of exit fees applicable to finished goods.

(c) During the production phase:

Products of the approved enterprises will enjoy customs protection within the Guinean market.

Approved enterprises are categorized under two systems, A and B, and will be governed by Common Law. Small and medium-sized enterprises fall under system A and require the investment of at least 25 million sylis, realizable within 3 years. Fiscal benefits are granted to enterprises under system A for a period not exceeding 7 years dependant upon the location and the nature of the activities. These include:

(a) Total or partial exemption from taxes on industrial and commercial profits and from the apprenticeship tax, effective from the financial year in which the first sale was effected (either in Guinea or abroad);

(b) Total or partial exemption from the tax on building land, trade licence and house tax. For building ventures the exemption from tax on building land may either be total or partial;

(c) Total or partial exemption from income tax on stocks and shares;

(d) Total exemption from taxes on turnover, from ad valorem stamp on the proportion of production which is exported. For that part of the production which is consumed in Guinea, exemption may be either total or partial;

(e) Partial or total exemption from incorporation dues;

(f) Partial or total exemption from the fixed lump-sum paid as employer's contribution.

Those enterprises with activities regarded as having priority in the social and economic development of Guinea fall into system B.

(a) In consideration of the particular importance of their investment, the long installation period necessary before such enterprises can achieve a normal rhythm of production, and the necessity to adopt exceptional measures prior to installation, these enterprises can seek from the Guinean Government a development agreement involving both exemption from certain dues and taxes and the grant of a long-term fiscal arrangement, not exceeding 25 years;

(b) During the entire period of validity of the long-term fiscal arrangement, all taxes and dues applicable to the enterprises whether or not they are mentioned in the development agreement, may not be the subject of any change either on the basis of taxation or in the manner of collection. They will remain stabilized as they existed on the date of conclusion of the development agreement;

(c) During the implementation phase of the stabilized fiscal system, any legislation or statutory provision which contravenes the terms of the above-stated concession shall not be applicable to enterprises enjoying the advantages offered by the present code;

(d) In the event of favourable changes in the common law fiscal system, an enterprise under a stabilized fiscal arrangement may request the benefits of the said changes. The enterprise may also request renegotiation under the common law fiscal arrangement.

Articles 25-26

Other guarantees relate to:

(a) A development agreement fixing and guaranteeing the conditions governing the creation and functioning of the authorized enterprise can be drawn up. This may include general guarantees on recruitment, mobility of workforce, freedom of employment whithin the framework of the Republic of Guinea's law, and the renewal of certain licences, e.g. the operations permit;

(b) Foreign capital investment in Guinea will enjoy appropriate security and protection within the framework of the rules and regulations. Investors guaranteed against any interference whether physical or ethical.

Penalties

Article 27

(a) In cases where the approved enterprise does not conform to the essential date of the programme originally submitted, upon recommendation by the National Investments Commission, the Government may indicate by decree the withdrawal of its consent;

(b) A withdrawal decision will be made only when an enterprise has failed to react to the formal notice of the Supervising ministry within 60 days; or upon the recording of serious shortcomings.

B. Liberia

Liberia's industrial policies and strategies and the legal instrument effecting their *modus operandi* are contained in two documents shown to the mission by the Liberian Ministry of Planning and Economic Affairs. These were: Chapter VII, dealing with manufacturing industry, and the Act Amending the Investment Incentive Code of the Republic of Liberia. The second of th two documents is to be construed as Liberia's industrial development act covering the major aspects of industrial promotion there.

Industrial policies and strategies

Other developing countries, especially those in the sub-region, Liberia has long relied for the realization of its industrial development objectives on an import substitution strategy. This has resulted in an industrial structure increasingly dependent on imported inputs such as expertise, capital goods, intermediate products, spare parts and other essential supplies.

In recognition of the limitations inherent in this strategy, especially in the light of Liberia's scarcity of foreign exchange and small domestic market, the Government has seen the need for change in the long-term development strategy of the industrial sector, and now requires a switch of investment priorities. These will be primarily geared towards the processing of domestic raw materials for export, instead of production aimed at the domestic market and using utilizing imported inputs, as has been the tendency recently. In effect, this official change in industrial strategy is based on the presumption that "the development of export markets is the only means of lifting the severe market-size constraint to efficient industrial development in Liberia. This should be supplemented by the encouragement of small-scale enterprises whenever there is an economically viable technology. In this way, the size of plants will be more closely linked to the likely market demand, thereby reducing the incidence of low utilization of capacity".7/

Thus a broad outline of the strategies for the manufacturing sector comprises:

Maximum processing of local raw materials

Production or assembly of goods for export

Encouragement of small-scale industry

The range of Liberia's natural resources is enormous and embracing a variety of forest products, minerals and agro-based raw materials. It is envisaged that their exploitation would pave the way for the introduction of a broad industrial base within the context both of export promotion and selective import-substitution. With regard to export-oriented industries, Liberia recognizes the difficulties facing developing countries in selling their manufactured products in developed markets owing to the operation of the developed countries' restrictive policies. Nonetheless, the Government believes that there is place for strategically located industries relying on abundant, cheap and adaptable labour in order to develop significant manufacturing export industries in co-operation with foreign investors.

The Government has therefore established the Liberia Industrial Free Zone Authority (LIFZA) to serve as the focal point for industries geared to process in-bond imported raw materials into finished products for the export market. However, the long-term objective of LIFZA is to encourage foreign investment in industrial activities utilizing indigenous raw materials e.g. timber-based industries, food processing and related industries, ceramics and glass, metal fabrication, assembly, and electrical-electronic industry.

Facilities are also available to promote Liberian export activities. These are offered by MRU itself, the West African Economic Community (ECOWAS) and the Lome Convention. An agreement between the European Economic Community

(EEC) and African, Caribbean and Pacific (ACP) States, providing inter alia, relief from customs and other trade barriers between EEC and ACP countries.

Recognition is also given to the importance of small-scale industries in the development of the Liberian economy, essentially facilitating a maximum diffusion of capital resources for the benefit of as many Liberians as possible, but also to develop indigenous entrepreneurship and to promote relevant skills. Given the limited size of the Liberian market, small-scale industrial operation also ensures a relatively more efficient use of national resources than would large-scale industry. The small-scale industrial sector moreover, appreciably labour-intensive, using much local raw material in such products as clothing, furniture, cooking utensils, confectionery and building materials. Government policy is consequently directed towards helping this sector by means of technical advice, training of personnel including managers, and in providing credit on liberal terms.

Although the main thrust of Liberia's industrial policy lies in an open door principle within the ambit of uninhibited private enterprise, the Government nonetheless, must devote part of its financial resources to the execution of major industrial projects, in some cases involving the provision of infrastructure (e.g. rural industrial estates). It also participates directly in production activity e.g. the Liberia Sugar Corporation. Government financial commitments accord with the overall development strategy of the industrial sector. Broadly stated, these projects relate to:

Processing of local raw materials (timber, rubber, sugar-cane)

Export orientation (wood products, rubber goods)

Efficient import-substitution e.g. sugar

Technical linkages among producers, e.g. processed rubber for rubber goods industry

Liberia's investment incentive code

The legal instrument covering the inducements granted by Government to the industrial sector within the frame-work of official development policies is the Investment Incentive Code of the Republic of Liberia which came into force in March 1973. Its salient features are definitions of the conditions for the award of an incentive contract; the incentives offered; the period and amount of the incentives; and the implicit obligations within the investment incentive contract.

The Preamble to the Act Amending the Investment Incentive Code of the Republic of Liberia recognizes "the great benefits derived from the open door policy of Liberia which provides for non-nationalization of private enterprise, free movement of capital including the repatriation of dividends and also of the capital originally invested in the case of change of ownership or termination of enterprise as well as facilitating the employment of the necessary foreign technical and managerial personnel together with unrestricted home transfer of savings of such personnel".[8] As already remarked Liberia's open door philosophy constitutes a major cornerstone of the nation's industrial policy, seeking to encourage the establishment and expansion of industrial activities which:

(a) Utilize to the highest possible extent, Liberian manpower at all levels and contribute to advancing their skills through training schemes (on-the-job and otherwise);

(b) Utilize raw materials and products of Liberian origin to the maximum possible extent;

(c) Utilize, to a maximum extent, ancillary activities available in the productive and service sectors of Liberia;

(d) Contribute to making Liberia independent of importation of basic necessities as far as it is economically feasible;

(e) Contribute to the expansion and diversification of Liberia's exports;

(f) Contribute to a wholesome distribution of employment opportunities all over the country.[9/]

In pursuance of these policy objectives, the amended Investment Incentive Code lays down broad guidelines, the main points of which are:

Conditions for the award of an investment incentive contract

Section 4

No incentive shall be granted to an enterprise unless it satisfies the following conditions:

(a) Falls within the overall priority as established by the National Planning Council;

(b) Ensures the permanent employment of Liberians at all levels, and carries out appropriate training schemes and, in case of expansion, increases employment and augments training activities in harmony with the volume of expansion;

(c) Leaves an option open for Liberians to contribute to the enterprise by purchasing shares or otherwise participating in the ownership;

(d) Produces a local value added amounting to not less than 25 per cent of the value of gross output;

(e) Takes its raw material and other supplies of Liberia origin and imports only such items of which the local product is not available in sufficient quantity and/or its quality or price is not approximately equal with the intended imports as determined by the Government.

Incentives

Section 5

1. Enterprises that are granted investment incentive contracts shall be entitled to the following customs duty benefits in respect of the approved investment project:

(a) Approved imports of machinery and equipment to be used in establishing the approved investment project shall be exempt from import duty up to 90 per cent of the dutiable value of such imports. No exemption shall be made for construction materials. and spare parts on non-capital equipment. Any equipment with less than a three-year life may be considered non-capital;

(b) Approved imports of raw materials, semi-finished products and other supplies used in the productive operations of approved investment projects shall be exempt from import duty up to 90 per cent of the dutiable value of such imports;

(c) Approved imports listed under paragraphs (a) and (b), above, shall not be exempt from consular fees.

2. Enterprises that are granted investment incentive contracts shall be entitled to the following income tax benefits in respect of the approved investment project:

(a) Profits reinvested into fixed assets shall be exempt from income tax; exemption for reinvestment into housing for employees must receive prior approval from the Concession and Investment Commission;

(b) All the remaining profits of the enterprise shall be exempt from 50 per cent of the income tax that would be otherwise payable.

3. Enterprises that are granted investment incentive contracts shall be entitled to full rebate on import duties and full refund of income tax as well as excise tax paid by them in respect of manufactured goods exported from the production of the approved investment project.

4. Sponsors of enterprises having investment incentive contracts in respect of an approved investment project may be granted by the Government, upon application by the sponsor in the project proposal, one or more of the following additional benefits:

(a) The lease of available land for plant site in a Government owned industrial park at a preferential rate during the term of lease together with all possible assistance by Government in making available other necessary infrastructural facilities;

(b) Support in securing loans and/or contribution to equity capital of pertinent Government agencies with priority given in this respecc to smaller enterpreneurs;

(c) Reasonable tariff protection that has to be calculated so as to protect the local ex-factory price inclusive of excise tax, if any;

(d) Loss carry-forward provisions as regulated by the income tax law of Liberia;

(e) Accelerated depreciation and an initial depreciation as regulated by the income tax law of Liberia;

(f) The Government and its agencies shall purchase products from the production of the approved investment project provided, the quantities are sufficient and the quality and price of the products are equal to those intended to be purchased from elsewhere. The sufficiency of quantities and similarity of quality and price of goods are to be determired by the Government of Liberia;

(g) Furthermore, an indirect benefit flows from what is stipulated in paragraph (c) in Section 4 of this Act.

Period and degree of incentives

Section 6

1. Incentives described in sub-sections 1, 2 and 3 as well as in paragraph (c) of sub-section 4 in section 5 shall be granted for a period not exceeding five years.

2. The beginning of this period should commence from the date of arrival of the machinery and equipment at the port in respect of incentives under section 5, sub-section 1, and from the date when marketable production starts in respect of incentives under section 5, sub-sections 2 and 3, and in paragraph (c) of sub-section 4. These two dates have to be specified in the project proposal and in the investment incentive contract.

3. Other incentives described in section 5, but not specifically mentioned in sub-section 1 of this Section, shall extend for the life of the investment incentive contract.

4. The possibility of an extension of the incentive period as described in sub-sections 1 and 2, above, is regulated by section 10 of this Act.

5. Certain incentives may be granted fully or partially depending on the fulfilment by the approved investment project of certain national development strategy criteria: such as national development priority, location, employment, linkage effects.

This applies to incentives described in section 5, sub-sections 1 and 2.

Obligation under the investment incentive contract

Section 7

1. The sponsor of an approved investment project shall undertake the following obligations under an investment incentive contract:

(a) To implement the project substantially as described in the project proposal and in compliance with the terms of the investment incentive contract;

(b) To employ Liberian manpower and to select and train Liberians on a systematic basis in skills required at all levels in the operation of the approved investment projects;

(c) To ensure that at any time of the implementation and the operation of the project, the outstanding risk-bearing capital of its own shall not be less than one third of the borrowed capital; not taking into account a possible participation in capital stock by a public corporation or the Government of the Republic of Liberia;

(d) To permit such audits as are necessary to ascertain compliance with the terms of the investment incentive contract;

(e) To submit, at the time of filling the annual income tax return and making application for tax refund, if any, to the Concession and Investment Commission:

(i) Such reports as make it possible to judge the compliance or otherwise with the terms of investment incentives contract and the specific obligations detailed in the present section;

(ii) A copy of the latest balance sheet;

(iii) A copy of the relevant profit and loss statement;

(iv) A statement from the chief executive officer of the approved investment project on the compliance or lack of compliance with the terms of the investment contract.

2. All reports submitted in accordance with paragraph (e) of the preceding sub-section shall be considered confidential and inviolate.

C. Sierra Leone

The industrial policies and strategies of the Government of Sierra Leone and the legal framework governing their operation are specified in the following documents made available to the mission by the Ministry of Trade and Industry in Freetown:

A draft outline of the National Development Plan, 1981/82-1985/86

Development of Industries Act, 1960[10/] (with suggested amendments to take effect shortly)

Industrial policies and strategies

As has been the case with most developing countries in Africa, Sierra Leone has since 1961 followed the import-substitution strategy in industrial development. Thus between 1961 and 1966 goods already in production included cigarettes, paint, beverages, cement, furniture, nails, soap, plastic footwear, umbrellas, metal buckets and window frames, most of which depended on imported raw materials. This industrialization strategy has a number of limitations, some of which have already been discussed above. However, in the context of the experience of Sierra Leone, the import-substitution strategy has resulted in the following drawbacks which have constituted serious impediments to national industrial development during the past two decades:

(a) Inefficient operation of manufacturing enterprises, which largely rely on imported inputs and sell at high prices, thus becoming uncompetitive in international markets;

(b) Inability to develop indigenous raw materials on a large scale for local processing or manufacture before exporting;

(c) The operation of capital-intensive production as opposed to the objective of promoting labour-intensive production methods;

(d) The existence of high effective rates of protection which distort the pattern of resource allocation within the economy.

In order to remove most, if not all, of the limitations inherent in the industrial strategy discussed briefly above, both the National Development Plan and the Development of Industries Act seek to develop a new industrial strategy, salient points being:

(a) The establishment of export-oriented industries, e.g. fruit canning and fish processing;

(b) The establishment and strengthening of inter-industry linkages through the promotion of agro-based manufacturing enterprises;

(c) The establishment of import substitution enterprises mainly to produce paper, sugar and certain processed food items, primarily to meet the requirements of the local market;

(d) The development of small-scale and rural industries using local raw materials;

(e) Increased processing of indigenous minerals;

(f) Co-operation with other members of the Mano River Union in establishing viable large-scale manufacturing industries.

In addition to the broad policy objectives outlined above, the Government aims at encouraging the development of indigenous entrepreneurship and the managerial and labour skills required for industrial development. Official initiative in the manufacturing sector would be confined mainly to providing institutional support, for example credit for the operation of viable new ventures in specified areas, or the promulgation of relevant industrial regulations. Most Government regulations, in particular those affecting the conduct of industrial operation and investment promotion, are contained in the Development of Industries Act, 1960. The important elements of this Act are concerned with organizing investment promotion activities to develop Sierra Leonean entrepreneurship, attract and maintain foreign and expatriate investment in industry, facilitate industrial growth in areas outside the main cities, and to encourage the diversion of expatriate capital in particular from trade to industry.

The Development of Industries Act of Sierra Leone

The main aspects of the Development of Industries Act of Sierra Leone are the following:

Beneficiaries from incentives and guarantees under the Act

Export-oriented resource-based industries

Resource-based industries designed to meet the local requirements

Building materials industries

Export-oriented industries partly based on imported materials and services

Import-substitution industries with capacity to save or earn foreign exchange and value added greater than thirty percent

Incentives

The following incentives shall apply to an industrial establishment as provided in this Act:

(a) Preferential treatment with respect to the granting and processing of import licenses;

(b) Total exemption from customs duty payable on capital equipment, raw materials and other intermediate goods where:

(i) In the case of capital equipment, labour intensive techniques of production are not available as an alternative;

(ii) In the case of raw materials, they are not available from domestic sources of supply;

(iii) In the case of intermediate goods, they do not inhibit the creation of domestic value added;

(c) Relief by way of capital allowances as provided in this Act;

(d) Relief from surtax for such period as the Project Approval Committee may determine;[11/]

(e) Relief from income tax in such manner and for such period as the Project Approval Committee may determine.[11/]

The following additional incentives shall apply to an industrial establishment which exports a substantial amount of its industrial products:

(a) Relief from any tax or customs duty payable on the export of such products;[12/]

(b) Eligibility for application for export credit guarantee scheme established by the Bank of Sierra Leone;

(c) Favourable export tariff exemptions through Customs Union if any industrial establishment registered under this Act secures Union status under the Protocols of the Mano River Union Agreement;[13/]

(d) Relief from import tariff in respect of raw materials.

Any industrial establishment which provides training facilities or incurs training expenses for Sierra Leonean citizens shall be entitled to write off against income tax any such expenses incurred in the provision of such facilities.

There shall be accorded to any employer of an expatriate or foreign instructor hired for any such training which is undertaken in Sierra Leone, an exemption from payroll tax.

The following additional incentives shall apply to any industrial establishment which is located outside Freetown:

(a) Eligibility to obtain loans and equity participation from the National Development Bank of Sierra Leone up to a maximum of fifty (5) per cent;

(b) Eligibility to lease or rental of any factory premises or office facilities in the provinces;

(c) The use of any extension services provided by the Government of Sierra Leone;

(d) The use of advisory services of the Government of Sierra Leone for industrial development under the auspices of the United Nations Industrial Development Organization or any other special organization or agency engaged in rural development, industrial development, technology marketing and for similar purposes.

A Sierra Leone enterprise shall be entitled to the following additional incentives:

(a) Priority with respect to granting or approval for an industrial project;

(b) The exemption from the payroll tax for foreign and expatriate employees engaged in a Sierra Leonean enterprise; and

(c) Eligibility to obtain loans and equity participation from the National Development Bank of Sierra Leone up to a maximum of seventy-five (75) per cent.

Capital allowances on any asset enforced by the Income Tax Act and specifically stipulated within the purview of this Act during the tax holiday period are as indicated below:

(a) The rates of capital allowances of plant, machinery or equipment specified in the development certificate under this Act shall during the tax holiday period be as follows:

Initial allowances	-	25 per cent.
Annual allowance	-	10 per cent.

(b) The initial allowance shall be made in respect of expenditure on plant, machinery or equipment specified in the development certificate if such plant, machinery or equipment has been in use outside Sierra Leone prior to acquisition;

(c) An investment allowance of 15 per cent of the cost may be made in respect of an industrial establishment in place of an initial allowance, and such investment allowance shall not be deductible in ascertaining the residue of the expenditure for the purpose of a balancing allowance or balancing charge.

The following additional incentives shall apply to any industrial establishment which utilizes foreign investment provided from outside Sierra Leone or which, in the opinion of the Project Approval Committee, employs within Sierra Leone a significant amount of expatriate capital:

(a) A right to remit, on cessation of business interest, the value of such foreign capital or expatriate capital subject to the law relating to exchange control at the time of application for remittance;

(b) On making application therefore, an election to remit any accrued profits or dividends during the twelve-month period immediately following the end of the financial year to which the application refers, subject to any law relating to exchange control at the time of such application;

(c) Any remittable profit which is reinvested in Sierra Leone shall be credited to any amount which may be remitted on cessation of business.

No tax shall be charged on any expenditure made by any industrial establishment in respect of research conducted by any approved industrial project or on behalf of such project by a recognized research institution.[14/]

Under the Act provision is also made for the net losses incurred by any person during the tax holiday period, to be carried forward and set-off against the profits or income arising from the operations of the approved industrial establishment in any of the basic periods of the next succeeding five years of assessment immediately following the expiration of the tax holiday period.

Withdrawal of incentives and guarantees

The Project Approval Committee may withdraw, as provided in this Act, any incentives or guarantees granted by or under this Act if an industrial establishment no longer qualifies for any such incentives or guarantees.

In addition to the above stated major elements of the Development of Industries Act, provision is also made for the registration of new or existing industrial establishments under the Act and to comply with such conditions as the Minister of Trade and Industry may specify. The Minister may also require industrial establishments to provide him with information pertaining, inter alia, to the financial status, general development and changes in the structure of the industrial establishments concerned.

III. ANALYSIS OF THE INDUSTRIAL DEVELOPMENT ACTS OF MRU MEMBER STATES

A. Comparative analysis

The industrial development acts of the MRU member States seek to establish a legal framework within which the implementation of the industrial policies of each country will be activated. The industrial policies of the three countries can be grouped under five main categories, aimed at promoting:

Export-oriented industries

Selected import substitution industries

Local processing of indigenous raw materials

The development of small-scale rural industries

Significant technical linkages in the industrial sector

Within the context of their respective acts, each of the three countries places emphasis on the need to develop an industrial structure which recognizes the existence of abundant local raw materials and the importance of utilizing them, particularly in export-oriented industrial activities. The rationale behind this approach obviously arises from the failure of the import-substitution strategy for industrial development experienced by most African nations. It accepts the necessity for the development of a new pattern of industrial development within these countries, which will be outward looking rather than parochial in character.

In addition to encouraging indigenous entrepreneurs to invest in export-oriented activities, Liberia for example, has created an industrial free zone authority. Under its aegis, albeit limited, the modus operandi of the nation's export promotion strategy will be accelerated to realize its full potential; especially in terms of its direct effect on the quantum and value of exports, and indirectly by providing an example within the local business environment. Guinea and Sierra Leone have no such facility, but both, Sierra Leone in particular, seek to influence their export-oriented sectors by giving a more comprehensive package of incentives to local entrepreneurs.

As normally conceived, an industrial free zone area is little more than an enclave subject to a number of limitations, e.g. the range of goods produced, the nature of technology employed, the extent of linkage effects in the economy, the degree of dependence on imported or local raw materials etc. Thus industrial free zones may exert an inhibiting effect on the industrial development activity of the host country. With checks and balances incorporated into the functional mechanism of such facilities the envisaged adverse effects would undoubtedly be ameliorated in the course of time. This is not to gainsay such benefits as industrial free zones may confer on the economy of the host country. However, given the priority accorded to the development of appropriate technology, the processing and utilization of indigenous raw materials by local manufacturing enterprises, and the positive linkage effects in the industrial sector within the programme for the African Industrial Development Decade etc., it is necessary to emphasize the potential contributions of non-enclave industrial organizations which are not subject to such constraints.

Further, the incentives offered under the Sierra Leone act are more elaborate and comprehensive, especially in regard to the establishment of export promotion industries, encouragement of local entrepreneurs and industrial establishments outside the capital than are those of the other two countries.

It is, therefore, necessary for Guinea and Liberia to streamline their industrial development acts to embrace a much wider scope of incentives. They should reflect the same characteristics as the Sierra Leone measures and seek to give official support and encouragement to export promotion activities originating from local initiatives, rural industrial development, promotion of indigenous entrepreneurship and the development of appropriate technology, preferably indigenous.

The policy guidelines of the development plans of the three countries place sufficient stress on the need to institute measures aimed at encouraging the establishment of small-scale indigenous enterprises. However, specific measures designed to realize this policy objective are conspicuously absent from the three individual development acts, except perhaps marginally in the case of Guinea.

Such policy directives, aiming to promote the establishment of small-scale industries, may either be specifically incorporated in the acts or construed from them. They are peripheral and are not designed to achieve maximum incentive in this important sector. Specific measures required to stimulate investment activity in this sector need to be specifically inserted into the three individual industrial development acts, related to financial and fiscal or to capital and tax related incentives.

Thus, a selection can be made over the fields:

(a) Tax-related incentives:

(i) Accelerated depreciation;

(ii) Tax-free reserves;

(iii) Investment deductions either as investment allowances or investment tax credits;

(iv) Concessionary tax rates and exemptions;

(b) Capital-related incentives:

(i) Investment grants;

(ii) Preferential loans, especially at concessional rates lower than market rates chargeable for loans to investors in non-priority sectors;

(iii) Interest rate subsidies payable to institutions financing loans made to investors within the sector;

(iv) Offer of Government guarantees to institutions financing loans in the sector.15/ The scope of coverage should not be confined only to small-scale enterprises but also to important industrial sub-sectors such as export production, users of local raw materials on a substantial scale, or enterprises with a rural bias which will ultimately benefit the rural communities.

In the effort to increase the pace of industrialization based primarily on local sources of vital inputs, especially the agro-based ones, the member countries of Mano River Union like all countries at their present stage of industrial development should not always take for granted an adequate supply of identified indigenous raw materials. Consequently, it is absolutely necessary for the three countries to ensure that when a manufacturing outfit dependent on local materials has been instituted, its sources of local inputs would be maintained during the life of the investment project involved. Hence the urgent need for the three Governments to offer appropriate incentives with the objective of developing and sustaining local sources of strategic raw materials in order to maintain the momentum of their industrialization programmes.

Apart from the type of incentives to be offered to such prospective investors, recourses can also be made to:

The supply of inputs (seedlings, pest and insect control etc.);

Provision of extended services;

Availability of infrastructural facilities (e.g. irrigation, transport);

Provision of an adequate pricing and marketing mechanism to assist the commericalization of agricultural raw materials;

The encouragement of outgrower plantations.

The promotion of selected import substitution industries, involving the production of sugar, textiles, vegetable oils etc.; which has been emphasized in the development plans of most MRU countries, are all agro-based. Therefore, policy measures which have been identified as conducive to their development will, ipso facto, contribute to a firm basis for survival, provided adequate consumer patronage exists. In the context of this proviso, arrangements prevail within the MRU whereby such industries may attain "Union status" (including a Union licence, Union investment incentive contract and a Union guarantee) on application. Among other benefits these will enjoy the advantages of the larger market.

In fact, in this regard existing MRU regulations are adequate and offering an "escape route" to member countries which currently experience much difficulty in exporting manufactured goods to the developed countries by reason of the discriminatory nature of the latters' industrial and commercial policies.

One of the policy aims of each member country is to ensure that significant technical linkages are established in the industrial sector. These are a logical complement to the creation of effective mutual linkages between vital sectors, such as those embracing industry and agriculture, during the course of development. The issues discussed above implicitly recognize, inter alia, the policy measures that need to be adopted in achieving inter-sectoral linkages. The full realization of technical linkages in industrial activity would require, in addition to some of the measures already discussed above, policy directives to foster the creation of significant value added in industrial production, viz: cotton-spun thread (yarn), woven greybaft-dyed fabric (cloth), and sewn garments. Under the Investment Incentive Code of Liberia and the Industrial Development Act of Sierra Leone, fixed incentives are specifically given to entrepreneurs who generate various degrees of value added in production. However, to ensure significant linkages in industrial production, the incentive should be escalated in accordance with succeeding levels of industrial activity and the subsequent increase in value added at each production stage. Where industrial operations do not easily lend themselves to integrated processes under a single umbrella, (as distinct from textile manufacturing cited above) or require heavy capital outlay in setting up integrated production apparatus, they will require government assistance of other types, preferably in addition to the award of value added incentives. In this respect, consideration should be given to a possible selection from the package listed above, as tax-related and capital-related incentives.

In the effort to create technical linkages in industry, the availability of appropriate manpower is crucial, as in most areas of industrial activity. Special incentives should be given to entrepreneurs who recognize this important fact and who institute measures aimed at positively influencing the heterogenous manpower mix through various forms of training, including in-service training. Both the Liberian and the Sierra Leonean acts specify general incentives applicable to all relevant enterprises, which institute manpower training schemes. Incentives of the nature discussed above must be considered in addition to those existing. They should be applied specifically to enterprises seeking to train manpower necessary for integrated industrial processes with strong linkage effects.

B. Summary of observations

The gist of the analysis of the industrial development acts of the three MRU countries essentially boils down to the following:

First, there is need for streamlining policy measures within the context of the harmonization of the industrial development acts of Guinea, Liberia and Sierra Leone. The existing MRU regulations covered by the Twelfth Protocol of the Mano River Union Declaration and embodied in the criteria and procedures for the granting of Union industry status etc., do not go far enough in the context of the harmonization exercise now recommended. In fact the realization of the harmonization objectives envisaged under the present regulations has been hamstrung by the creation of "Union industries". The anticipated benefits to the member States on one hand, and to the Union on the other, have so far not extended for example to development of small-scale rural industries based on local raw materials, which would exert strong technical and sectoral linkage influence on the Union economy. Second, an outline of specific incentive measures, incorporating those suggested here, must be aimed at fostering the following objectives:

Promotion of export-oriented industries among member countries of the Union

Promotion of selected import-substituting industries

Encouragement of the local processing of local raw materials

Development of small-scale rural industries

Creation of significant technical and sectoral linkages in industrial activity

Thirdly, the administration of a harmonized industrial development act should be simplified, preferably regionalized in the case, for example, of measures aimed at developing small-scale rural industries, to remove unnecessary red tape and afford prompt action in the course of operating the act.

Lastly, while carrying out the suggested harmonization exercise between the three MRU member States, both Guinea and Liberia should consider redrafting their regulations governing incentives granted to the industrial sector under the broadly-based umbrella of an industrial development code with a format similar to that of the present Sierra Leone Act.

It is worth noting that the co-operation of member States in administering their individual industrial development acts - soon to become a unified act - is specifically recommended by the Heads of State and Government of the MRU member States. Article 7, sub-section 7, of the Twelfth Protocol of the Mano River Union Declaration calls on the Governments "to promote active collaboration among the member States in the administration of their investment incentive codes." In this laudable objective, the Technical Commission on Industry and Trade should be strengthened as necessary and given the responsibility of co-ordinating the Union industrial activities of the three MRU member States.

IV. REGIONAL INDUSTRIAL DEVELOPMENT POLICIES AND STRATEGIES FOR MRU MEMBER STATES

Introduction

The nomination of 1980-1990 to be the Industrial Development Decade for Africa has brought to the fore the urgent need for African countries to evolve specific policy measures as a basis for achieving those goals to be realized during the decade.

In the normal course of events, all countries at the threshold of the developmental process recognize the importance of industrialization as a necessary engine of growth. In this regard, effort is usually made to formulate the industrial policies appropriate to the particular circumstances of the economy and to suggest a basis for maximum contribution of the industrial sector towards the achievement of developmental objectives. Differences exist however in the way in which industrial policies are evolved and applied. These differences in turn reflect divergencies in political and economic philosophy, economic and social structure and the existing level of industrialization in a particular economy. The major differences between countries in formalizing their industrial policies, reflect the extent to which such policies are judged to be relevant to overall economic or social strategies. In most developing countries great reliance is put on the leading role of industrialization in the development process, but it is also seen as an important social equalization measure. Thus selective industrial policies are used systematically to influence the pace of economic development and to generate widely diffused social benefits. These selective measures essentially relate to a large range of policy instruments affecting, inter alia, the regional distribution of industry, the rate and direction of industrial progress, the utilization of indigenous resources, and the structure and competitiveness of domestic industries.

The analysis of the individual industrial development acts of the MRU member countries, offered in the preceding chapter of this report, indicates the nature of industrial policies already formulated and the framework of strategies adopted to effect them. As already observed, these policies and strategies are primarily designed to achieve national goals. For this reason they are devoid of sub-regional bias both in their content and application.

The limitations - sometimes, indeed, acute developmental constraints - inherent in the unilateral approach to industrial development, especially by African countries, has been recognized within the context of the programme for the Industrial Development Decade for Africa and was fundamentally the raison d'être for the formation of the Mano River Union in the early 1970s - an effort to build a platform for a joint effort, initially by Liberia and Sierra Leone, later joined by Guinea, for the industrial development of the sub-region. In essence, the long-term objectives of the Union are directed towards the promotion of industrial co-operation, industrial integration between the member States and, ultimately, an acceleration of the rate of industrial development in each member country. Thus the industrial policies and strategies intended to foster the goals of the Union, while designed to accord to national policies and strategies, must also conform to those outlined in the programme for the Industrial Development Decade for Africa.

A. Existing industrial policies

The Twelfth Protocol of the Mano River Union Declaration established a nucleus for the industrial policies of the Union in the form of "policies and principles governing the establishment of Union industries". The main thrust of the guidelines for the industrial development of the Union embraced by these policies and principles are contained in the document entitled: "Criteria and procedures for the granting of Union industry status including a Union licence investment incentive contract and a Union guarantee". In this document, the policy objectives categorized under Union industrial investment policy and underlying the Union industrial development activities are listed as:

The removal of barriers to the establishment of Union-wide industry

The creation of a unified business environment involving the formulation of a special regime of company law for Union industry with attendant provisions for taxation

The organization of industry to take account of the dimensions of the Union market

The promotion of technological progress in the Union

The recognition, promotion and development of the social and regional aspects of industrial development

As stated in the document referred to above, in essence the Union industrial investment policy is to co-ordinate Union investment development efforts, to achieve a unified and equitable approach to industrial development within the member States, and to improve the structure and dimensions of Union industry. The document also lays down a set of criteria governing the award of a Union investment incentive contract and a Union guarantee conferring monopolistic status on an investor or sponsor of an approved investment project within the context of the Union investment incentives. This, in effect, constitutes the framework for the operation of industries with Union status and *modus operandi* for achieving the policy objectives broadly described above.

In addition to granting Union status to selected industries (including those already existing) under the regulations discussed above, MRU has also identified some, now designated as Union industries. These embrace the following products: glass containers, rubber tyres, salt, soap and detergents, agricultural equipment, textiles (including synthetic textile weaving), dry cell batteries, sardinella (fishing and processing), edible oils (including oil seed processing), and fruit and vegetables (processing and canning).

These have all been identified by the Union Commission on Industry and Trade as ventures possibly deserving promotion and consequently allocated to the member countries deemed to possess the capacity to operate the projects involved successfully.

It is apparent that these Union industries were mainly chosen on the basis of the availability of raw materials and consumer patronage. The majority of them are still on the drawing board, however, a main constraint being financial. There is therefore an urgent need to place the listed projects into some order of priority, in any case, until adequate financial arrangements of the type outlined later in this chapter have been worked out to enable the Union to assume financial responsibility for their execution. Indeed the ultimate policy direction suggests that it is absolutely essential for MRU to select Union industries and influence their execution within the context of a comprehensive industrial policy framework. It is unnecessary to emphasize here that this applies with equal force to all industrial development activities within the Union which are covered by the Twelfth Protocol of the Mano River Union Declaration.

B. Industrial policy guidelines

In consonance with the tenets of the programme for the Industrial Development Decade for Africa, and the existing industrial policies both of the MRU and its member States, the policy guidelines for the industrial development of member countries should be oriented towards achieving the following aims:

(a) The promotion of export-oriented industries utilizing local resources and initially destined for the sub-regional market. They should contribute to the creation of self-reliant and self-sustaining industrial bases. These are:

(i) Industries based on use of domestic raw materials and energy to provide basic inputs, e.g. iron and steel, aluminium, to other industries;

(ii) Engineering-based industries which contribute to the development of national productive capacity, e.g. foundry, forging machine shops and tools workshops for the manufacture of agricultural equipment;

(b) The establishment of industries having links with other priority sectors especially agriculture, mining, transport, building and construction, energy etc. Production of fertilizers and related chemicals from domestic phosphate rock, domestic gas, reasonably cheap electrical power for industries producing finished aluminium, copper, iron and steel for building, communication equipments etc;

(c) Promotion of selected import-substituting industries for the achievement of self-sufficiency in food and other basic needs such as clothing and shelter;

(d) Co-ordination of policies affecting the development of small-scale and rural-based industries;

(e) Development or adaptation of technology which relates to indigenous and local production.

The need for export-oriented industries to strengthen the industrial base in the sub-region is now more sensitive for African countries than ever before. The main reason for concern emanates from the challenge posed by the programme for the Industrial Development Decade for Africa and the Lima industrial growth target. Industrialization based on export promotion, within the context of the world market undoubtedly offers considerable scope for industrial expansion in the sub-region consistent with the aims of the Lima target. However, in view of the inherent difficulties of the world export market, the Union should primarily concentrate its export efforts towards the sub-regional market.

In addition to the promotion of such export-oriented industrial policy, the Union should also encourage efficient import-substituting industries based on local raw materials, thus seeking to satisfy the basic needs of the people in the sub-region. Member countries of the Union have sometimes identified specific industries within this category of industrial promotion; for example, sugar production in Liberia. However, efforts should be made to find ways of forestalling possible uncontrolled reactions by member countries to opportunities offered by this "demonstration effect", as such reaction must serve to minimize the advantages implicit in a large union market.

Each country of MRU has placed special emphasis on the need to promote and encourage the establishment of small-scale industries, the importance of which cannot be over-emphasized. This has been amply demonstrated in the development plans of member countries and is reflected in the observations made elsewhere in this report. Thus, in addition to national efforts which should aim at establishing a firm foundation for the promotion and survival of small-scale industries, the Union must provide the necessary support to this vital sector by its institutional infrastructure.

One of the messages for African countries from the programme for the Industrial Development Decade for Africa relates to measures necessary for the attainment of self-reliant and self-sustained industrialization. Due emphasis being placed on the development, processing and utilization of natural resources. Apart from the linkage between this element of economic activity and the major sectors of industrial operation, outlined above, the increased activity initiated will contribute towards the development of the rural areas and thus raise the standard of life of the rural folk. If well planned and developed, the availability of local raw materials will also remove one of the main constraints upon the development of industries in the developing nations, their customary shaky reliance on imported raw materials caused by an inadequacy of foreign exchange reserves. One of the challenges facing African countries in their industrialization efforts is to establish the linkage between production of essential consumer goods at a national level, and of intermediate and capital goods at a sub-regional level, especially where ample opportunities exist for exploiting this facility. Luckily, the creation of MRU opens up the avenues through which a programme may be launched aimed at influencing latent sub-regional linkages existing in the industrial sectors of member States.

Broadly stated, in the long run this programme would call for the creation of structures within MRU, having a high degree of linkages and being complementary to each other. Such action would ultimately involve the expansion of the linked economic activities into the conversion of local raw materials into semi-finished and finished products. In this context, one can even envisage a developmental chain reaction: 1. the choice of specific commodities to meet effective domestic demands, especially for the mass consumption products; 2. the search by local agents for beneficial novel forms of production and distribution with the requisite input mix; and 3. a generation of demand domestically for production units, leading ultimately to greater employment opportunity throughout the sub-region.

The choice of input mix in industrial activity must obviously depend upon the kind of technology predominant in the industrial sector: and this within the context of the continent's development efforts, must be based on self-reliance considerations. Thus in the context of African economies, and in particular MRU, one cannot over-emphasize the need for the adoption of appropriate technology - largely indigenous to the community - in the process of developing a meaningful structure from which the MRU industrialization corpus can eventually take off.

It has been said in the programme for the Industrial Development Decade for Africa, that self-reliance in technology means developing the indigenous capacity to evaluate various industrial techniques and to select the technology most appropriate to local demands. It also covers the adaptation and improvement of imported technology and the creation of indigenous technology. This clearly implies that the Union must invest in science and technology within the general framework of an MRU apparatus which seeks, basically, to influence the pace of indigenous technological progress.

C. Strategies for industrial development

The main thrust of the policy objectives already discussed is to ensure the development of industrial activities at the Union level, complementary to those at the national level and specific to the requirements of the member countries. In this connection the approval given to the list of Union industries by the Union Commission on Industry and Trade constitutes an encouraging starting point, since it seeks to specify those industries which ought to be promoted at the Union level and those which should be the concern of member Governments. However, as previously stated, the importance to the Union of selecting on a priority basis those industrial projects to be promoted, cannot be overstressed in view of the shortage of capital resources (both monetary and equipment) in the member States. Indeed, evidence based on the experience of countries, in the course of their development process within a sub-regional context, seems to sugges that initially emphasis should be placed on basic consumer goods related to processed staples, e.g. cereals, roots, tubers, fruits, vegetables, edible oil, meat, fish, clothing and footwear. The selection and ultimate production of these commodities must obviously be related to the domestic availability of raw materials and must conform to the guidelines enunciated in this report.

The second stage of the Union's industrialization programme should concentrate on the production of capital and intermediate goods providing essential and strategic inputs to industry and other economic activities, particularly those involved in the production of basic needs such as food and clothing.

Although MRU represents a potential market of about ten million people and could support the promotion of selected priority large-scale industries, it would be difficult to establish a range of basic industries to serve the MRU market alone. Industries which immediately come to mind are those relying on minerals such as iron and bauxite, or upon inputs which consitute a nucleus of basic products necessary for self-reliant and self-sustaining industrialization within the context of the Industrial Development Decade for Africa. The strategy of industrial development for this category should be to foster a consensus of MRU member States so as to reach an agreed arrangement whereby these industries would be established within the MRU States, serving a wider market, including the entire ECOWAS region.

The intitial step towards the realization of the policy objectives outlined above, is for the Union to draw up an MRU industrial development plan, which should be co-ordinated as far as possible with the national industrial plans of member States of the Union, initially it should operate for a period of five years, supplemented at one-year intervals with rolling plans to ensure effective control. Salient features of the plan must concern the commitment of the Union in each of the following categories, whilst respecting the specific requirements of each country. Suggested subjects for consideration are:

(a) A list of industries to be promoted within the plan period (including industrial activities at both the national and Union levels, selected on priority basis);

(b) Sources of raw materials: availability and development;

(c) Manpower: categories, nature of training programmes, especially supervisory personnel necessary to ensure retention of the benefits accruing to the country from the comparative advantages standpoint;

(d) Technology: nature, input mix, effective measures required to influence modes of production etc.;

(e) Energy: availability and development, sources etc.;

(f) Finance: sources, mobilization measures etc.;

(g) Infrastructure: existing facilities, measures aimed at adding, upgrading etc.

In addition the following information would be desirable as a useful complement to the statistics necessary to ensure successful execution of the industrial development plan:

(a) A forecast of the effective demand for industrial products (potential based on market analysis and projection);

(b) An estimate of present and future production within the Union;

(c) A calculation of production required to meet the demand, by comparison of projected demand with existing capacities;

(d) Identification of other key industrial projects within the Union, utilizing their products as inputs.

The requirements of the projected plan catalogued above should be systematically integrated within a set time schedule and ultimately linked with the national development plans in the other economic sectors. In this regard, the industrial development plan must be matched by the development of the various institutions and services required for its execution and monitoring. The most important are outlined below.

Other subsidiary steps involve actions to be taken to embrace all the important facets of a meaningful industrial development plan, some of which require a long-term frame of reference. Thus the planning and implementation of industrial programmes and projects within the envisaged industrial development plan under the auspices of the Union should involve, inter alia: the preparation of industrial studies; the development of natural resources; the identification of priority industries; the diagnosis of existing industrial structures; the development of indigenous industrial capabilities; the development, adaptation and transfer of technology; the development of an adequate industrial institutional infrastructure; the mobilization of financial and energy resources; and the development of negotiating capabilities at both the national and union levels.

D. Measures required for the practical application and implementation of proposed industrial policies and strategies

A number of ad hoc measures have already been taken by the MRU Secretariat, within the ambit of prevailing protocols, and these will undoubtedly help to speed up the pace of industrialization in the Union. They include:

Publication of criteria and procedures for the granting of Union industry status, including Union licence and Union investment incentives contract and Union guarantee.

The harmonization of fiscal incentives to industry in MRU.

The establishment of the Industrial Development Unit and its activation under Phase I.

Production of the Investors Guide.

The harmonization of excise legislation.

The issue of a harmonized customs tariff classification.

The establishment of the Union Investment Fund and the Union Investment Board.

The main advantages of economic integration among developing countries - usually starting with a customs union - are not confined to free trade alone, but also to the opportunities offered to countries by increased investment in all spheres of economic activity, particularly those in the industrial sector. This clearly calls for the development of complementary structures over the whole field of production and demand.

In this respect the need is not only for the harmonization and co-ordination of many economic and commercial policy instruments, but for joint and concerted action to develop a satisfactory apparatus for increased indsutrial production, aimed at the full utilization of the natural and human resources of the MRU countries.

In addition to the measures outlined above, therefore, there is an urgent need for the development and adaptation of supporting measures to create the necessary scope for co-operation in the agricultural and manufactured production from the MRU States.

As previously suggested, realization of these policy objectives requires the integration of the major segments of the industrial sectors of the economies of MRU States. This, in turn, involves the institution of a regional industrial programming mechanism, within the Union, to provide for expanded markets, better utilization of resources, production specialization and, ideally, the equitable distribution of industries between member countries.

If any package of measures is to work, in the context of a regional industrial programming instrument, and thus to contribute to realization of long-term industrial commitments, their operation should be organized within a well laid out institutional framework. This institutional framework should, in turn, be formulated within the ambit of planning and implementational demarcated functional areas of activity as suggested below:

Planning phase

During the planning phase, the following activities should be covered:

(a) The formulation of an MRU industrial development plan co-ordinated with national plans of member States, based on the outline given above;

(b) The establishment of a research unit to deal with the following subjects in the framework of industrial survey, and to contribute to a data bank for planning use in these areas:

(i) Manpower availability and development;

(ii) Raw material availability and development;

(iii) Small-scale industrial activity, especially in rural areas;

(iv) Manufacturing enterprises and their linkages, both intra- and inter-sectoral;

(v) Energy availability and development;

(vi) Technology - existant and developing, and to suit the local environment;

(vii) Infrastructure - existing network and development;

(c) Under the auspices of the Industrial Development Unit the following steps are recommended:

(i) Identification of vital projects for Union promotion, within the context of the selection criteria specified for Union industries and the priorities established by MRU;

(ii) Introduction of pre-feasibility and feasibility studies of projects earmarked in the Industrial Development Plan;

(iii) Assistance in the formulation of the Industrial Development Plan within the framework of a viable regional industrial programming scheme;

(d) To establish an investment promotion unit to be charged with the following responsibilities:

(i) To prepare background information on all selected and bankable projects;

(ii) To issue an up-to-date investor's guide;

(iii) To determine the nature and source of funding, and the terms and conditions of the contract under which capital is required by member countries and others for participation in specific Union projects;

(iv) To identify and establish contact with potential investors;

(v) To co-ordinate investment activities within the industrial sectors of member States;

(e) To establish a funding apparatus under which funds would be mobilized for the promotion of the priority industrial projects of importance listed in the industrial development plan. In this connection the measures outlined below are necessary:

(i) Establish an industrial development fund[16/] with capital contribution from the following sources: Initial lump sum contributions from member States; A levy on Union exports originating from member countries; The profits derived or accrued from the funds investment; Development loan assistance from sources such as the African Development Bank (ADB), Arab Bank for Economic Development in Africa (BADEA) and the proposed International Bank for Industrial Development (IBID); Any or all monies from all sources provided for, donated or lent to the fund;

(ii) Establish an embroynic industrial finance market for the sub-region as an avenue for possible joint participation at both private and public levels in industrial projects in the union economy, of, for instance, the national development banks, commercial banks, insurance companies and finance corporations. Transnational industrial corporations could also be encouraged to participate in the activities of this market;

(iii) As a long-term measure to establish a Union stock exchange tc facilitate, inter alia the floating of private indigenous companies, including small-scale enterprises.

Implementation phase

The relevant categories of information required for project implementation are sevenfold:

(a) Project financing information:
Financial plan
Financial progress reporting and document control

(b) Information defining project structure and scope:
Project structure and scope
Responsible and performing organizations

(c) Project action planning and control information:
Master plan and schedule
Task work statement and action plans
Task schedules
Progress reporting

(d) Resource planning and budgeting information:
Manpower and cost estimates
Manpower and cost budgets

(e) Contracting, work authorization and resource control information:
Work orders and contracts
Expenditure records
Work and resource (funds, manpower) control information

(f) Product information:
Descriptions, drawings and specifications
Product control information

(g) Environmental information.

The end-product of this exercise would determine the extent to which policy objectives designed for specific industrial projects have been realized. A permanent institutional framework must be developed within the MRU Secretariat to facilitate the successful performance of this vital function, conceivably, in co-operation with those national organs which have similar internal responsibilities. As already suggested, a section of the proposed research unit could well handle this assignment.

In a nutshell, this constitutes an objective framework within which the industrial development aspirations of MRU member States may be realized. Indeed it would create an avenue through which a thorough programme of action may be effectively propelled, not only with the aim of meeting the challenge posed by the stipulated output targets of the Industrial Development Decade for Africa, but also as a crucial step towards the solid foundation upon which the well-being of MRU citizens must ultimately rest.

Fortunately, most of the matter discussed in this report reflects popular opinion within official circles of the Union, and therefore, is unlikely to invoke a potential line of reaction. However, whether or not the method of approach towards industrial development suggested here is acceptable to all member States of the Union does not depend on policy advisers alone, but on the political will of the policymakers of the member States themselves.

Notes

1/ CM/Res. 722 (XXXIII) of July 1979. In adopting the Monrovia Declaration of Commitment, the Heads of State and Government of the Organization of African Unity also decided to convene an extraordinary session devoted to African economic development matters at Lagos, Nigeria, from 28 to 29 April 1980.

2/ Ibid., paragraph 9 (a).

3/ Lagos Plan of Action for the Economic Development of Africa, 1980-2000 (ECA and OAU).

4/ What follows is based primarily on Part I of the Report of the Intergovernmental Meeting of Experts on "Proposals for the formulation and implementation of a Programme for the Industrial Development Decade for Africa" Addis Ababa, 19-23 October 1981 and Sixth Conference of African Ministers of Industry, Kampala, 23-25 November 1981.

5/ Ibid., paragraph 65.

6/ Africa is expected to achieve a minimum of 2 per cent of the 25 per cent Lima target of the minimum contribution by all the developing countries to world industrial output by the year 2000.

7/ National Development Plan of Liberia, p. 37.

8/ The Act Amending the Investment Incentive Code of the Republic of Liberia, p. 1.

9/ Ibid., p. 2.

10/ The effective Act was promulgated in 1960, but since then it has gone through various changes. The points presented, here, reflect these changes up to 1980.

11/ The suggested amendment adds the following: "provided that such relief will not apply to profits to the extent their total amount during the holiday period exceeds 150 per cent of the original capital invested". A time limit of 5 years is also stipulated.

12/ The suggested amendment removes this sub-section.

13/ The specific reference to the requirement of securing Union status under the Protocols of the Mano River Union before benefiting from this incentive is removed by the suggested amendment.

14/ The suggested amendment adds: "in the year such expenditure was incurred".

15/ Viz: Sierra Leone's Small-scale Industries and Handicraft Development Act, 1982, now in draft form. It should be noted that the incentives proposed in this Act fall short of those required to give a major boost to small-scale enterprises in the economies of the three member States.

16/ It is recognized that the Union Industries Fund exists, under whose auspices the suggestions made here may be acted upon. The operational mechanism of the Fund is given in the Draft Protocol to the Mano River Union Declaration establishing it.