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UNITED NATIONS
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STUDY ON THE CREATION OF A

MANO RIVER UNION

INDUSTRIAL FINANCING INSTITUTION

UC/RAF/84/102

Terminal report

Prepared for the Mano River Union
by the United Nations Industrial Development Organization

Based on the work of L. Chéa,
consultant in development bank procedures

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Explanatory notes

References to dollars ($) are to United States dollars.

The monetary units in the Member States of the Mano River Union are the following:

In Guinea the guinea franc (Gui F) 1/
In Liberia the Liberian dollar ($L)
In Sierra Leone the leone (Le).

The following acronyms have been used in this report:

AfDB	African Development Bank
AID	Agency for International Development (US)
BADEA	Banque africaine pour le développement économique de l'Afrique
BIAG	Banque internationale pour l'Afrique en Guinée
BIAO	Banque internationale pour l'Afrique de l'Ouest
BICIGUI	Banque internationale pour le commerce et l'industrie en Guinée
BNP	Banque nationale de Paris
BOAD	Banque Ouest africaine de développement
CCCE	Caisse centrale de coopération économique
CDC	Commonwealth Development Corporation
CEAO	Communauté économique de l'Afrique de l'Ouest
CFTC	Commonwealth Fund for Technical Cooperation
CID	Centre for Industrial Development
DEG	Deutsche Entwicklungs-Gesellschaft
ECOWAS	Economic Community of West African States
EEC	European Economic Community
EIB	European Investment Bank
FMO	Nederlandse Oversease Financierings Maatschappi N.V. (Netherlands Overseas Finance Company Limited)
FOSIDEC	Fonds de solidarité, d'indemnisation, de développement et de compensation
GTZ	Deutsche Gesellschaft fuer Technische Zusammenarbeit
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association (World Bank)
IDDA	Industrial Development Decade for Africa
IDU	Industrial Development Unit
IFC	International Finance Corporation
IMF	International Monetary Fund
KfW	Kreditanstalt fuer Wiederaufbau
LBDI	Liberian Bank for Development and Investment
MRU	Mano River Union
NDB	National Development Bank of Sierra Leone
SG	Société générale
SGG	Société générale en Guinée
WACK	West African Clearing House

1/ The sily (GS) ceased to be the legal tender in Guinea on 6 January 1986.

ABSTRACT

Following a request by the secretariat of the Mano River Union (MRU), the project "Study on the creacion of a Mano River Union industrial financing institution" (UC/RAF/84/102) was approved by the United Nations Industrial Development Organization (UNIDO) in October 1984, and a consultant was fielded for a period of 4 1/2 months, from 11 November 1985 to 15 March 1986.

The immediate objective of the project was to assist MRU in the creation of an appropriate financing mechanism for the regional industrial development programme and projects in the Union.

The consultant made a survey of existing studies on the MRU industrial development policies and strategies as well as on existing financing procedures and practices. He concludes that four alternatives may be envisaged for an improvement of financing mechanisms:

(a) Better utilization of the existing financing institutions at national, regional and international levels, including the ECOWAS Fund, for the financing of regional industrial projects;

(b) Strengthening the political and economic co-ordination among Member States through the strengthening of the MRU secretariat;

(c) Setting up a fund attached to the secretariat, which will receive funds from external sources for specific purposes;

(d) Creating an autonomous financing institution.

The consultant recommends to adopt alternatives (a) and (b) for which the following additional assistance should be sought:

(a) Immediate UNIDO technical assistance to the MRU secretariat in the form of a training seminar in project preparation and evaluation for 20-25 development executives of MRU countries;

(b) International long-term technical assistance to the secretariat aimed at building up staff, improving working methods, and also at elaborating specific regional pre-investment studies for MRU Member States.

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INTRODUCTION

The Twelfth Protocol to the Mano River Decla-ation sets out the main policies and principles for the identification and development of regional industrial projects.

In the implementation of these policies, the secretariat of the Mano River Union (MRU), with the assistance of the European Economic Commission (EEC) and the United Nations Industrial Development Organization (UNIDO), has identified a wide range of industrial projects that could enhance the scope for vertical and horizontal integration of the industrial sectors of the Member States. In this regard, the secretariat also requested the assistance of UNIDO in 1982 to undertake studies for a Mano River Union industrial strategy. This mission was carried out in 1982, and one of the important recommendations of the consultant was that the Union should proceed with in-depth studies for the establishment of a financing mechanism for the industrial projects of the Union.

It was in pursuance of this recommendation, and in recognition of the urgent need for the financing and implementation of industrial studies already undertaken, that the secretariat requested UNIDO to finance the studies for the establishment of an effective financing mechanism for the Mano River Union.

The positive response of UNIDO led to the approval of the project "Study on the creation of a Mano River Union industrial financing institution" (UC/RAF/84/102) in October 1984, and a consultant was fielded for a period of 4 1/2 months, from 11 November 1985 to 15 March 1986. The terms of reference for the consultant are reproduced in annex I.

During this period the consultant was attached to the Mano River Union secretariat at Freetown. He also visited the Member States of the Union where he held detailed discussion with senior government officials and executives of various financial and industrial enterprises. A report on these visits is contained in annex II and a list of the officials interviewed and persons consulted in annex III.

The preliminary report, including the proposals of the consultant, has been discussed and agreed upon with the relevant officials of the Mano River Union. A list of reference material and documents collected by the consultant is reproduced in annex IV.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

The existing financial mechanisms within MRU for industrial development projects were analysed and it was found that they were inadequate and had been underutilized.

The deficiencies of these mechanisms are:

(a) A shortage of foreign exchange in the three Member States which does not leave any scope for regional development financing;

(b) The lack of a regional industrial development strategy;

(c) The reluctance of national and multi-national commercial banks to provide long-term credit due to the higher risk involved in the MRU region as compared to other countries of the Economic Community of West African States (ECOWAS);

(d) The lack of adequately prepared - along international standards - and financially viable pre-investment studies.

To create in the MRU region favourable conditions for the mobilization of existing international, regional and national sources of finance, it is recommended to undertake the following pre-requisite measures:

(a) To work out a regional industrial development strategy, including a five-year regional development plan;

(b) To harmonize national investment incentives codes;

(c) To create a closer monetary co-operation among Member States to facilitate the flows of intra-union trade;

(d) To improve the methodology of project preparation, evaluation and the organization system of project promotion.

Furthermore, intra-union trade payment arrangements can be further encouraged by using the facilities available at the West African Clearing House and by expediting efforts to make effective the operations of the Union Common External Tariff.

The following four alternatives of strengthening the industrial financing mechanism were investigated:

(a) Improvement and expansion of the facilities of existing financing institutions, including better co-ordination within the ECOWAS Fund;

(b) Strengthening the co-ordination among Member States for the financing of specific regional development projects, which implies the strengthening of the MRU secretariat;

(c) Establishment of a fund within the MRU secretariat for specific projects and purposes;

(d) Creation of a separate MRU financing institution.

In the present situation, as assessed by the consultant, it would be more efficient and economical to adopt alternatives (a) and (b).

As a first step towards improving the existing mechanism, it is recommended to consider requesting technical assistance in order to consolidate and strengthen the capability of the MRU secretariat. Such technical assistance from UNIDO or a multilateral/bilateral development financing institution could take the form of:

(a) A UNIDO regional training seminar of four to six weeks duration in one of the MRU Member States, which could be extended to 25-30 executives from banking institutions and development agencies;

(b) Provision of the services of outside consultants on a permanent basis (during three years) to consolidate the MRU secretariat, including the capabilities of the Industrial Development Unit (IDU) in the preparation, up to a bankable stage, of regional industrial projects, their evaluation and promotion, for the elaboration of a regional development strategy.

I. ANALYSIS OF EXISTING STUDIES ON THE MANO RIVER UNION INDUSTRIAL DEVELOPMENT PROGRAMME AND REGIONAL INDUSTRIAL DEVELOPMENT POLICIES AND STRATEGIES

A. Brief history of the Mano River Union

The Mano River Union (MRU) was established on 3 October 1973 with the signing of the Mano River Declaration by the original Member States of Liberia and Sierra Leone. The third Member State, Guinea, acceded to the Union in October 1980.

The objectives of the Mano River Union are to intensify economic co-operation and accelerate economic growth, social progress and cultural advancement among the Member States so as to establish a firm foundation for lasting peace, friendship and social progress among the Member States. In this connection, the Mano River Declaration calls for the creation of 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 and a harmonized protective policy for producers.

The Union brings together three neighbouring countries which are at about the same level of economic development and have similar present economic problems, despite differences in colonial history and experience. The Member States are all relatively small in size and population, have limited markets, low levels of industrialization (see annex V, tables 1 and 2) and are heavily dependent on mineral resources and agricultural produce for most of their foreign exchange earnings. The Member States are also characterized by inadequate capital for investment and the necessary technology for development (see annex V, tables 3 to 6).

B. Main areas of activity of the Union

Since the inception of the Union, the main areas of priority have been the development of trade and industry, as well as the establishment of a middle-level manpower training institution. These three areas of activity still remain the centrepiece of the economic development of the Union, albeit other areas such as agriculture and self-sufficiency in food, transport and communications as well as energy now command equal priority.

C. Industrial development activities of the Union

In the area of industry, the main thrust of the Union is two-fold. On the one hand, it seeks to encourage the expansion of domestic industry to the markets of the three Member States, and on the other hand it seeks to attract larger industries which will need the relative advantage of the economies of scale provided by the Union.

The Union Commission on Industry and Trade, at its first meeting in March 1976, identified certain industries as having possibilities of being granted Union industry status, and directed the secretariat to undertake the necessary pre-feasibility studies. The secretariat, with the assistance of UNIDO through its SIS programme, commissioned the firm of Sanderson and Porter, Inc., United States of America, in 1976 to undertake, on behalf of the Mano River Union, the pre-feasibility studies for 21 industries.

These studies identified 11 industries as suitable for Union industry status. These are:

Glass containers
Cotton and cotton/polyester blend textiles
Synthetic textiles
Salt
Fruit and vegetable processing
Sardinella fishing/processing
Edible oils and oil seed processing
Agricultural implements (handtools etc.)
Detergent manufacturing
Rubber tyres manufacturing
Dry-cell batteries manufacturing

The study also identified the following four industries as export industries requiring Union support:

Iron and steel production
Aluminium production
Paper and pulp production
Plywood production

Furthermore, feasibility studies were carried out for the following four Union industrial projects, under the UNIDO-executed project SI/RAF/74/889 (for details see annex VI):

Glass container factory in the Mano River Union
Detergent manufacturing
Edible oil and oil seed processing
Synthetic textile weaving

As the result of the above-mentioned studies, a glass factory is now being established by the Indo-Liberian Glass Corporation with finance from the AfDB and the Liberian Bank for Development and Investment (LBDI). A $2.7 million contract for the construction of a glass factory has been signed. The factory is expected to come into commercial production in mid-1986.

The Mabole Fruit Company in Sierra Leone was also established in 1979 for the processing of fruit, but it ceased operations a few years ago, due to poor technology applied, poor management procedure and an inappropriate feasibility study before commencing operation.

D. The Industrial Development Unit - its purpose and activities

To facilitate the achievement of the earlier mentioned objectives, an Industrial Development Unit (IDU) was established in the secretariat of the Union in 1980 through a technical assistance agreement between EEC and MRU. IDU is part of the Division of Project Implementation of the MRU secretariat (see organigrammes in figures I and II). It has an autonomous budget up to March 1986, when the MRU secretariat will take over the budget responsibility for the fiscal year 1986/87.

The IDU project manager was an expatriate up to November 1985, when he became industrial adviser, and the local project co-manager took over the position of project manager in accordance with the schedule provided for in the EEC contract agreement.

Purpose

The long-term objective of IDU is to promote industrial co-operation and integration among the Member States of the Union as well as the achievement of

Figure I. Organization chart of the Mano River Union, 1984

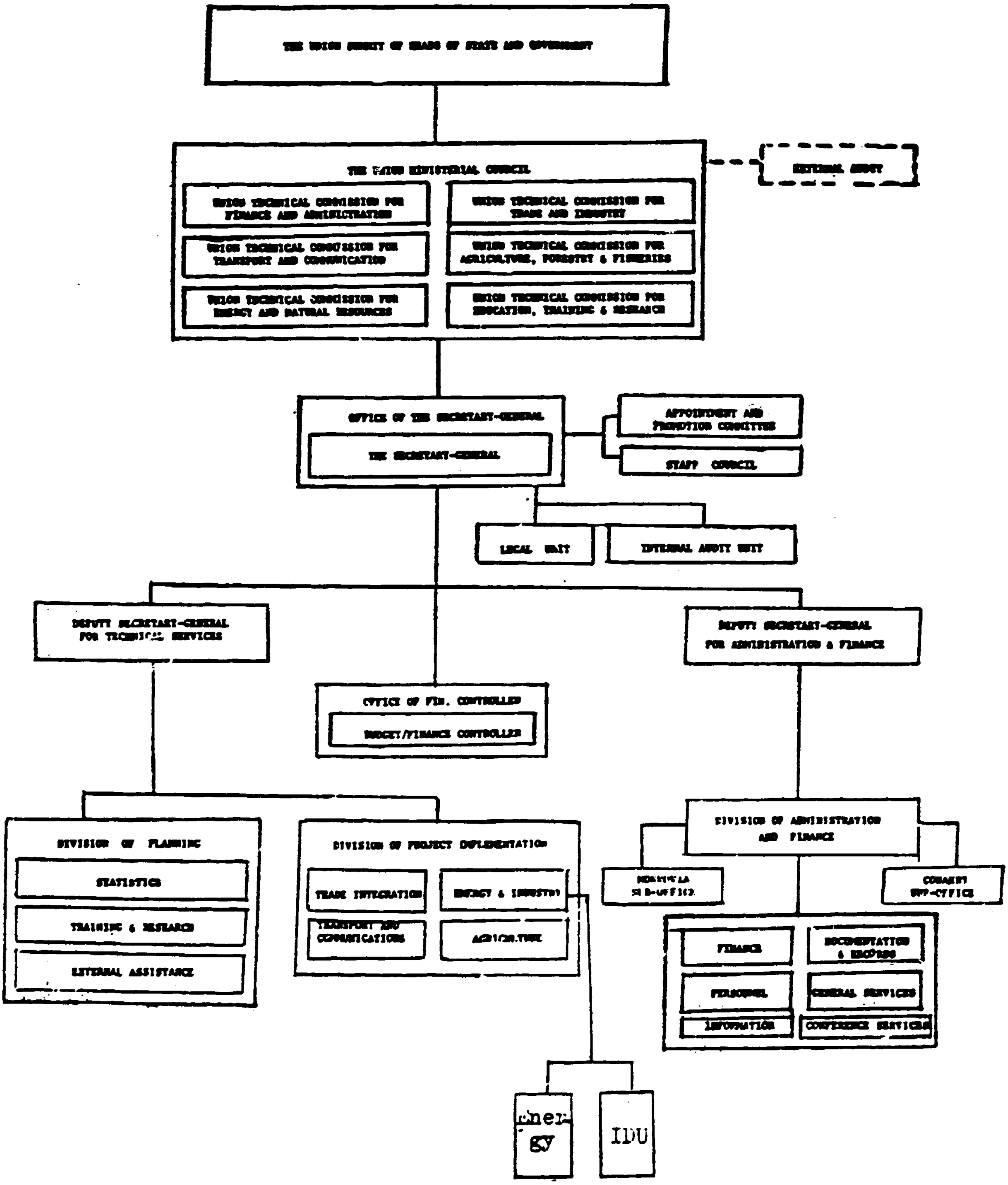
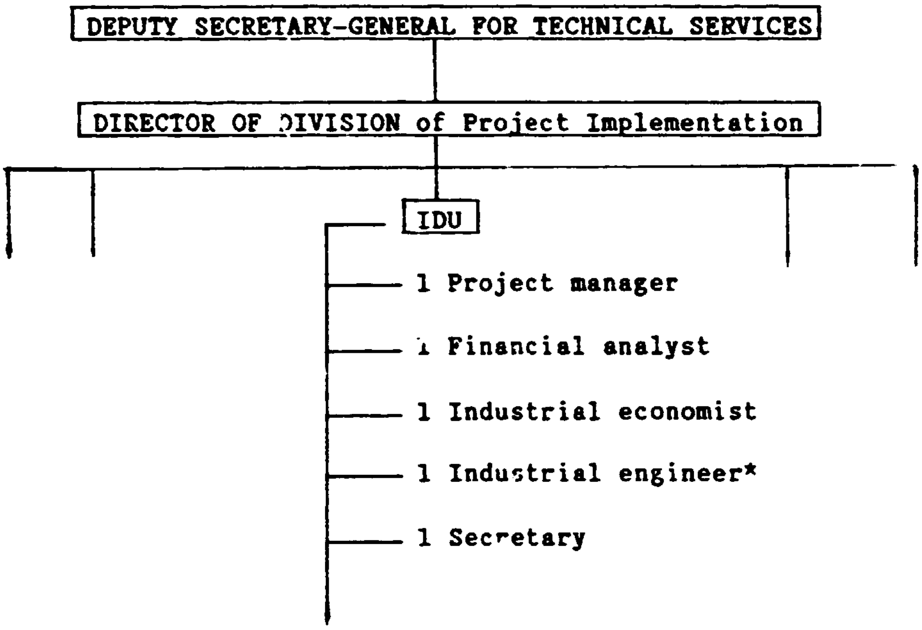


Figure II. Organigramme of the Industrial Development Unit



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*Vacant.

an accelerated rate of industrial development in each Member State. The main functions of the Unit include the identification of potential industrial projects, preparation of preliminary studies, attraction of potential investors and the provision of assistance in conducting investment studies, pre-feasibility and feasibility studies. Specifically, the Unit is responsible for:

(a) The development of an internal permanent industrial capacity and capability within the Union secretariat;

(b) The co-ordination of industrial development planning at the level of the Member States;

(c) The provision of assistance to the Member States in negotiations for the location of multi-national projects in the three countries;

(d) The promotion of joint action by both, the Member States and the Union, to develop new agricultural and industrial products;

(e) The harmonization of foreign investment and technology transfer policies;

(f) The provision of assistance in making necessary pre-investment arrangements;

(g) The provision of assistance to investors in their negotiations with banks and other sources of capital as well as with governments.

Activities

The first phase of IDU spanned the period February 1980 to September 1982. During that period, the Unit undertook the following activities:

(a) Foreign trade analysis;

(b) Industrial survey of Member States;

(c) Review of existing studies on industrial development;

(d) A synthesis report on (a), (b) and (c) above, in which 63 industrial projects were considered and selected for follow-up measures;

(e) Project profiles which contain a preliminary economic and technical evaluation of 16 selected industrial and agro-industrial projects (listed in annex VII);

(f) Application for external funding of projects;

(g) Draft investment guide on the Mano River Union including factor costs;

(h) Market study and promotion for a fruit-processing industry;

(i) Market study, technology, process evaluation, promotional activities and financing for a glass container project in the Member States.

Other activities of the IDU included training of counterparts on the job, and participation in seminars in Africa and Europe.

With the above activities, the secretariat, to a large extent, was able to complete most of the preparatory work for the elaboration of a Union industrial strategy and policy. To complement these activities, the Member States also agreed on the criteria, principles and policies for the granting of Union industry status. By this, the necessary legal and institutional framework for industries to be established and to operate freely at the Union level was created.

During the second phase, from October 1982 to the time of reporting (March 1986 inclusive), the activities of IDU involved essentially the compilation of techno-economic data and the identification and development of the following projects:

Promotion scheme for small-scale woodworking industries
Wood-fired power plants (energy production from wood and wood-waste)
Union sea-link
Industrial technology fair
Development of a prototype mobile mini palm oil mill and the establishment of a production facility for such mobile units
Salt-based chemical complex
Union technology centre
Fruit and crop survey in the Member States
Pharmaceutical industry
Charcoal production
Reprocessing of fruit concentrates and tomato paste
Union investment institution
Baby food factories
Hollow glass factory
Pulp and paper production

For some of the above projects the necessary studies have been made and approved by the Union and are now ready for implementation. These projects are:

Promotion scheme for small-scale woodworking industries
Industrial technology and trade promotion fair
Union sea-link (except for market study)
Charcoal production (pilot project)

The other 11 projects remain to be implemented.

E. MRU industrial development policies and strategies

The industrial activities currently being undertaken by the Union secretariat, through its Industrial Development Unit, are designed to be in consonance with the tenets of the Industrial Development Decade for Africa (IDDA). In this regard, the Union's industrial development policies emphasize:

(a) The promotion of export-oriented industries, preferably utilizing local raw materials and destined, in the first instance, for the subregional market;

(b) The promotion of selected import-substituting industries which can be operated efficiently;

(c) The development of small-scale pilot industries, especially those that are rural-based;

(d) The local processing of indigenous raw materials (embracing activities including (a), (b) and (c) above);

(e) The promotion of significant technical linkages in the industrial sector, in particular, and inter-sectoral linkages, in general, especially in the subregional context;

(f) A significant contribution to the creation of employment in the Union;

(g) The development or adaptation of technology, especially relating to indigenous techniques of production.

The main thrust of the policy objectives mentioned above 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 States. 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 in seeking to draw a line between industries that ought to be promoted at the Union level and those that should be the concern of the Governments of Member States.

The experience of developing countries seems to suggest that due emphasis should be placed, in the first stage of the industrialization exercise, on the production of basic consumer goods such as the processing of staple foods and clothing. The selection and ultimate production of these products must obviously be in line with the domestic availability of raw materials and in conformity with the MRU industrial development policies mentioned above.

Another element of industrial development strategy of the Union is the concentration on the production of capital goods and consumer durables during the second stage of industrialization. The development of these industries would rely heavily on the mineral and agricultural resources endowments of the Member States.

Finally, the industrial strategy of MRU calls for the drawing up of an MRU industrial development plan for an optimum period of five years which should, as far as possible, be co-ordinated with the industrial development plans of the Member States. The requirements of the plan should be systematically integrated within a well-defined time schedule and ultimately linked with the development plans of the other economic sectors. This Union industrial development plan should also be accompanied by the development of the various institutions and services required for its execution and monitoring.

II. INSTITUTIONAL AND FINANCIAL PROCEDURES AND PRACTICES FOR MRU INDUSTRIAL DEVELOPMENT PROGRAMMES AND PROJECTS

A review of the industrial development activities of the Union secretariat as presented in chapter I would clearly show that the Union secretariat has been functioning essentially as a facilitating agency and has not been directly involved in the financing or execution of industrial projects.

Feasibility studies have in the past been funded through external assistance to the Union by EEC, EEC/CID and UNIDO; while the implementation of the three industrial projects (glass container factory, mobile fruit factory and pilot charcoal project) was financed through joint venture arrangements.

A. Institutional framework for Union projects

The industrial investment policy of the Union is essentially aimed at co-ordinating the efforts of Member States, in order to achieve unity and equity in the approach to industrial development in the Member States. Thus a special status of "Union industry" is accorded to all investment projects of the Union which satisfy criteria laid down in the Tenth Protocol of the Mano River Union. Once this status is conferred on an industrial concern, the grantee can apply for a Union licence, giving the right to process, fabricate or manufacture finished and semi-finished goods from component parts, and to benefit from a wide range of preferential investment incentives that are not readily available at the national level. Furthermore, a licencee can apply for a Union investment incentive contract which grants additional privileges and obligations over and above the licence.

Additionally, in order to ensure maximum protection for an industrial concern which has been accorded Union industry status, a Union guarantee can be given, granting exclusive access to the Union market for the products of the enterprise, over a specified period.

A summary of the Union investment incentives defining the concept of "Union industry status" is contained in annex VIII.

B. The financing of Union industries

An important fact of the industrial development activities of the secretariat is the promotion of feasible projects at national and international fora with a view to attracting potential investors for the actual financing and implementation of Union projects.

Bearing in mind the limited financial resources of the secretariat and its inability to participate directly in the establishment of industries, the financial arrangements for the implementation of Union projects have so far been largely determined by the main sponsors/financiers as is illustrated below:

Illustration 1: The Mabole Fruit Company

The Mabole Fruit Company project in Sierra Leone, which was launched in 1979, and ceased operations in 1982 (see chapter I), was financed by FMO and the National Development Bank of Sierra Leone.

Illustration 2: The glass project

In the case of the Mano River Union glass project in Liberia, financing of the project was provided by the main sponsor - the Indo-Liberian Glass Corporation - and the Government of Liberia through a loan granted by the African Development Bank.

Studies were undertaken by the MRU secretariat with UNIDO assistance and the location decided. The studies and location were approved by the organs of the Union, and the project was granted Union industry status. Once this status was granted to the project, the company was able to apply for, and was granted Union licence and incentive contract, entitling it to the aforesaid privileges for the production of glass while at the same time imposing some obligations upon it. Finally, a guarantee was given for the sale of Liberian glass products in the Member States of the Union, and ensuring that no other glass factory of the same kind will be allowed to be established as a Union industry in any of the Member States for a specified period.

The support and guarantee of MRU were also given to the financier, the African Development Bank (ADB) at Abidjan, Côte d'Ivoire, in order to support the Liberian Government's requirement for financing the implementation of the project.

Illustration 3: The charcoal project

The Mano River Union charcoal project is a pilot project for the production of charcoal in the three Member States of the Union. The studies relating to this project were undertaken by the secretariat from technical assistance funding and its report approved by the relevant organs of the Union. The Union Technical Commission on Industry and Trade also approved the establishment of the first pilot plant in Sierra Leone.

The project was promoted in the Member States in order to secure a local sponsor, and in Europe to find a foreign partner. The foreign component comes from the EEC Centre for Industrial Development (CID) at Brussels. The first pilot plant is being established presently in the Samu Chiefdom, Kambia District, Sierra Leone. The Samu Chiefdom has large areas covered by mangrove trees, certified as well-suited for charcoal production. In addition, mangrove trees regenerate every five years, a fact which is relevant for ecological reasons.

Foreign financing is in the form of technical assistance through the assignment of experts and the execution of laboratory tests in Europe to determine the quality of charcoal to be produced. The local component includes the provision of necessary materials and equipment, accommodation for the experts, transportation, site for the project and training.

C. Procedures and practices for the financing of national projects

National projects are financed through development banks, commercial banks, governments and central banks. The procedures followed are relatively similar in Sierra Leone and Liberia. In the case of Guinea all projects pass through the Government.

1. The development banks

(a) Sierra Leone - The National Development Bank (NDB)

In the case of Sierra Leone, the National Development Bank established in 1968 with shares subscribed by the Government of Sierra Leone, the Bank of

Sierra Leone, the Sierra Leone Produce Marketing Board, AfDB, two foreign banks, and private individuals, has been lending to industries. The Bank is however forestalled in its operations by several management factors.

First, the lending function of the Bank is extended to several areas including industry and agriculture. Comparatively, its operation is small. It therefore cannot afford to lend for very long periods and in large amounts. But this has been the case and while loans remained unrecovered, the losses sustained as a result of such debts have eaten steadily into its capital (75%). The Bank is now virtually bankrupt, as can be seen from its annual reports.

Second, many of the projects financed are of an agricultural nature. In addition, the long moratorium period granted to borrowers have caused the Bank to pay high interest rates while failing to recover instalments from borrowers.

Industrial growth is slow as no special funds exist for industrial development. A line of credit extended to the Bank by the European Development Fund for small- and medium-scale enterprises has not been fully utilized because of the restrictions attached to the credit. Many borrowers for industrial purposes require funds to finance working capital while the line of credit is specifically for the financing of fixed productive assets.

Staffing is poor leading to inefficient and inadequate appraisal and monitoring of projects. As a result lending is not co-ordinated and the Bank's reputation is not very good.

(b) Liberia - The Liberian Bank for Development and Investment (LBDI)

The Liberian Bank for Development and Investment was officially established in 1965 as a joint venture of the Government of Liberia and private foreign as well as local institutions. The Bank issues short-, medium- and long-term loans for the development of industry.

The Bank originally was established with an industrial bias, i.e. to fund industrial projects only. However, in 1974, the act creating the Bank was amended making it a multi-sector development finance institution consistent with the Government's overall objective of balanced economic development.

Similar to NDB in Sierra Leone, LBDI's assistance to industry has considerably decreased over the years. In the years between 1981 and 1985, loans have reduced while interest rates have significantly increased from around 10 per cent to 19 per cent and over. The LBDI interest rates are applied across the board. There are no concessionary rates for projects guaranteed by the Government. The Bank levies a service charge on all loans of 1 1/2 per cent.

With the increase in interest rates over the years consistent with the realities of time, more stringent conditions for the granting of loans have emerged. This is not surprising as the Bank encourages the development of private productive enterprises in the country through the provision of loans (up to 15 years) and equity financing. It can also guarantee loans and other commitments of an enterprise. Its operation is extended to manufacture, agriculture, mining, fishery, tourism and services. In addition, the Bank can participate in the form of equity and loan not exceeding 50 per cent, or equity alone to the tune of 25 per cent, of the assets of an enterprise. These data were obtained from the LBDI management and from annual reports (see annex IV).

(c) Guinea - Crédit national and BICIGUI

Up to the end of 1985, information on the financing of industrial enterprises in Guinea is scantly provided by the government-owned Crédit national. Information revealed that financing is always a matter for the central Government, through the relevant ministry, e.g. the Ministry of Industry or the Ministry of Small- and Medium-scale Enterprises. Financing is obtained for studies as well as for implementation through collaboration between entrepreneur and project ministries. The government-owned Crédit national was unable to provide project documents for subloans for financing under an IDA Credit Line. It was closed together with other state-owned banks on 3 January 1986 when the Government decided to privatize the banking sector except for the Central Bank. 1/

2. The commercial banks

(a) Sierra Leone

There are five commercial banks in Sierra Leone. Of these, only two are indigenously owned. The others, although registered under the laws of Sierra Leone, are foreign-operated banks.

The five banks referred to are:

The Sierra Leone Commercial Bank Ltd.
The International Bank for Trade and Industry (SL) Ltd.
Barclays Bank (SL) Ltd.
Standard Chartered Bank (SL) Ltd.
Bank of Credit and Commerce International

Financing for industry by commercial banks in Sierra Leone is very limited because of the high risks involved and the high cost of servicing debts. It is not uncommon for short-term low risk projects only to be considered for financing by commercial banks.

According to commercial banks sources, there are very few local entrepreneurs who have a good knowledge of the projects they promote, many of whom lack adequate security for the financing required. As a result, many of the projects are not viable by commercial banks' standards.

Financing is mainly in the form of loans secured by mortgages in favour of the banks. Most of the loans of commercial banks are given for trade rather than industry, mainly for the purchasing of raw materials and supplies (see table). For industry and agriculture, loans are guaranteed under the Credit Guarantee Scheme operated by the Central Bank.

(b) Liberia

The main banks in the commercial banking scene in Liberia are the following:

Citibank
Chase Manhattan Bank
Bank of Credit and Commerce

1/ West Africa (13 January 1986), p. 92.

Agricultural Co-operative Development Bank
International Trust Company of Africa
National Housing and Savings Bank
TRADEVCO - Meridien Bank.

Commercial banks in Sierra Leone - Loans and advances by economic sectors, 1980 and 1984

Sector	Million leone 1980	Million leone 1984
Agriculture	4.1	5.3
Mining	4.0	8.0
Construction	4.0	8.9
Manufacturing	5.9	7.8
General commerce	36.1	65.2
Financial institutions	2.3	1.6
Central Government	0.3	-
Local authorities	-	0.2
Public utilities	2.0	0.9
Miscellaneous	21.1	14.2
Total	79.8	112.1

Source: Bank of Sierra Leone.

As with the Liberian Bank for Development and Investment, the volume of credits extended by commercial banks to industry has significantly decreased since 1981. There has been a tendency in favour of trade rather than of industry. Interest rates continue to be high, while those to whom loans are given have sometimes failed to repay the debts.

(c) Guinea

The government-owned Banque commerciale de la Guinée was active in the financing of projects in Guinea. Most projects were considered as government projects and financed as such through an ad hoc government budget until the end of 1985. After the consultant's visit in mid-December 1985, the whole banking system was privatized; three private French banks for industrial and trade financing were opened in early 1986:

Banque internationale pour l'Afrique en Guinée (BIAG) (of Banque internationale pour l'Afrique de l'Ouest (BIAO))
Société générale en Guinée (SGG) (of Société générale (SG))
Banque internationale pour le commerce et l'industrie en Guinée (BICIGUI) (of Banque nationale de Paris (BNP))

3. Government financing

The Governments of the Mano River Union Member States have participated in industrial development mainly through the establishment of public corporations. The operations of these corporations are independent, although the top management executives are appointed from government ministries.

(a) Sierra Leone

In Sierra Leone, there are four public corporations which operate industrial enterprises. The main public corporation is the Sierra Leone Produce Marketing Board (SLPMB) which runs rice mills and palm kernel oil mills. The Government of Sierra Leone also established the Forest Industries Corporation, the Vehicle Repair Services of the Road Transport Corporation and a similar service in the Sierra Leone Ports Authority. Initial financing for these establishments has been directly from government sources.

Other public corporations include the National Diamond Mining Company (DIMINCO), the National Development Bank (NDB), Torma Bum Rice Development Authority (TBRD), the Marampa Iron Ore (MARAMPA) and the National Workshop (NWS). The Government is privatizing some of them, except in strategic sectors, following the recommendations of IBRD related to a credit proposal for structural adjustment (see report 5252 - SL, March 1985).

(b) Liberia

In Liberia, similar industrial participation exists, but official details of government industrial establishments are not readily available. In general, a free market and private system is operating. The Government of Liberia has a stake in the LBDI. Until its desolution, the government stake in LBDI was held by the Liberian Development Corporation (LDC). Since its desolution, the government shares are held by the Ministry of Finance.

(c) Guinea

Industries in Guinea are government owned, and management personnel are transferred to these enterprises as any other civil servant. As such financing is mainly through the Government and the Central Bank or through support given by foreign funding agencies.

Projects of the three Member States of the MRU are financed mainly through foreign financing agencies or through bilateral arrangements with foreign Governments (see annex V, table 4).

4. The central banks

(a) Sierra Leone

The Bank of Sierra Leone provides assistance through the Credit Guarantee Scheme by which commercial bank loans are guaranteed. There is still the problem of risk as only 80 per cent of commercial bank loans are guaranteed under the Scheme. The Bank does not lend directly to industry. In fact the loans guaranteed are for industry as well as for agriculture, and only a few loans have been guaranteed since the inception of the Scheme in 1975.

A direct consequence is that the Scheme depends on the direction of lending adopted by the commercial banks. It is reported that the processing of guarantees takes a long time and renders the Scheme inefficient.

(b) Liberia

The Central Bank of Liberia facilitates the operation of commercial financing organizations and monitors the operations of the commercial banks. There is no information of direct financing for industrial development by the Bank.

(c) Guinea

Financing is from governmental sources, either directly through the Central Bank, or through support given by foreign funding agencies as already stated above. The restructuring of the Guinean economy was undertaken in early January 1986, under the guidance of the World Bank and the French Government, involving adoption of a new currency, devaluation, privatization of the banking system, adoption of a free market economy, and involving reliance on external private sources of finance. Official information on the new economic and financial measures in Guinea is not yet available.

III. ANALYSIS OF PROBLEMS OF PRESENT FINANCING SCHEMES WITH SUGGESTIONS FOR POSSIBLE IMPROVEMENTS

A. Current problems

The problems of MRU financing schemes are bound inseperably to the general problems plaguing the economies of MRU Member States. They are three-fold:

(a) Revenues of the MRU States depend to a large extent on foreign trade (see annex V, table 7). Their growth is adversely affected by the recession in the industrialized countries, and the consequent low volume of exports (see annex V, table 8). Since government expenditures have grown rapidly without a corresponding growth in revenue, the resulting deficit has been financed principally by the central banks thus increasing money supply beyond reasonable limits, causing inflation (see annex V, table 9). Government borrowing from commercial banks means that there is less credit available for the private sector (see reports of central banks);

(b) The bulk of commercial bank assets in the MRU Member States is constituted by loans for commercial purposes, principally for imports of non-industrial inputs. The policy of commercial banks is not to lend beyond six months, because of uncertainty. Commercial banks do relatively little lending to industry and agriculture; although they have tried to increase lending activities in these priority sectors as required in Sierra Leone to represent 50 per cent of total credit, they reportedly face limitations of staff and a lack of viable projects. In any case, trade financing is much more lucrative than development projects financing;

(c) In Guinea and Sierra Leone, the national development finance institutions (Crédit national and National Development Bank) have limited capability to utilize the credit lines made available in foreign exchange by foreign lenders. Their disappointing results point out the necessity of careful project preparation, evaluation and implementation to ensure project management and subsequent loans recovery.

There are many approved projects in MRU awaiting financing. If some action is not taken within reasonable time, the MRU secretariat believes, there would be an accumulation of potentially viable projects. The secretariat wishes to handle its own financing arrangements in order to co-ordinate industrial activities and implement more projects with a consequent improvement in economic life of its Member States in due course.

B. Suggested improvements

MRU now feels the need for some mechanism for financing industrial development, in order to overcome the stated problems. The envisaged financing mechanism or organization should be able to appraise projects of MRU in line with established policies, strategies, and trends of development. It should also provide advice on finance and management to projects financed from its sources.

Currently each project requires separate negotiations and consequent loan or credit finalization with more than one financier. With a new co-ordinated Union financing mechanism such time-consuming arrangements could be avoided.

Whatever form of financing mechanism is established, it will have to consider the following:

(a) The type of industries to which its financing function and energies will be directed;

(b) The scale of operations which will fall within the financing capacity of such an institution;

(c) Appraisal and processing of applications for financing of projects submitted by sponsors;

(d) Supervision of functional areas;

(e) Collateral requirements;

(f) The relationship between this institution and external sources of finance;

(g) The relationship with project development agencies of each Member State of the Union;

(h) In due course the question of trade payments arrangements.

In light of the above considerations, three main alternatives are likely to lead to a successful discharge of the obligations and functions required:

(a) The Union may consider the setting up of a separate and independent development financing institution;

(b) Consideration may be given to more effective use of, and co-operation with, the national development banks of the Member States;

(c) The existing capacity and functioning of IDU may be further strengthened to assure the additional role. This would be a crystallization of the already existing role of the Unit, which would include the responsibility for securing finance and assuring a development financing role for the Union.

C. Proposals for facilitating the financing of Union Industrial Projects, and their implications

Four alternative proposals are considered as possible financing schemes for MRU industrial development programmes and projects.

Proposal one

This proposal consists in utilizing the existing financing institutions within each Member State and in re-organizing and strengthening the equity, management and operational structure of moribund national development banks.

In such a financing set-up, the MRU secretariat would serve as liaison between project sponsors and lenders. IDU would act as a promoting agency for MRU projects as it is doing at present, making country surveys and sectoral studies with the objective of identifying Union status projects.

This proposal calls for the strengthening of the staff and streamlining of the IDU management into a solid unit, through further technical assistance from UNDP or the World Bank in sectoral policy studies. The role of IDU would become that of a Union project identification and co-ordinating agency, whose budget would depend on the contributions of Member States for part of the local staff and on the technical assistance contributions for local staff and foreign experts.

The current situation, which has been described in the previous chapters, is the result of technical assistance which has come to IDU through EEC-financed consultancy contracts with the ATLANTA/HAC consulting firm during the last six years (1980-1986). The outcome is a pipeline of 50 project studies seeking financing for their implementation. IDU would co-ordinate regional industrial surveys, programmes, projects and harmonize investment incentives codes.

Proposal two

This consists of strengthening the MRU secretariat simply to serve as a body for periodical meetings among Member States, the officials of each Member State taking care of the projects in their own countries. This is the least involved structure, corresponding to a situation where there are not many Union projects to justify continuous employment of professional staff, and where contributions from Member States and from technical assistance grants are not easily forthcoming.

Proposal three

The third alternative would be to provide the MRU secretariat with a fund to serve as a financing scheme, in the same way the ECOWAS Fund does to the ECOWAS secretariat and the FOSIDEC to the CEAO secretariat.

Should an MRU fund be created, the consultant would propose a draft protocol (annex IX) for the establishment of such a fund. It is to be noted that all MRU Member States are also members of the ECOWAS Fund which participate in the financing of the Freetown-Monrovia highway, an MRU-promoted project. An annual work programme of the ECOWAS Fund, as shown in annex X, could serve as an example of how to organize the MRU fund operations.

Proposal four

The last proposal is to create a separate MRU financing institution. This institution would be to MRU what the Ecobank (at Lomé) is to ECOWAS and what the Banque Ouest-africaine de développement (BOAD) at Lomé is to CEAO, namely a development and investment bank. The objectives, structure, management, finances and policies of such a development bank are detailed in chapter IV.

The establishment of a separate financing institution would require capital subscription in foreign exchange from the Member States. Before taking such a decision, the foreign exchange requirements involved would have to be determined against the capacity of each Member State, and the willingness of other private and international banks and companies to participate as shareholders investigated.

It is observed that membership in a regional development bank follows the membership in a monetary co-operation arrangement. Such monetary co-operation does not exist among MRU Member States. On the contrary, there is tendency toward monetary disunity: the monetary and financial systems in Guinea are drifting toward the sphere of influence of the "franc zone". With Liberia belonging to the dollar system, only the currency of Sierra Leone remains inconvertible. An MRU monetary payments union will require some formal parity links to be established among the currencies of Member States. Sierra Leone currency should therefore seek its support, franc or dollar, although in the case of Liberia's creation of local Liberian coins, convertibility will remain a problem.

Other conditions necessary for the successful operational activities of a subregional development bank are the existence of a subregional industrial development programme and the harmonization of investment incentives codes. These conditions might have to be fulfilled prior to considering the creation of a financing institution.

Conclusions

As the creation of a financing institution for MRU will encounter a series of obstacles and unfavourable conditions, as stated above, proposals one and two might be considered.

The following actions would be pragmatic:

(a) Better utilization of existing institutions, national as well as international and regional;

(b) Preparation of preliminary steps for the creation of a financing mechanism. If there is need for the creation of a financing institution, this will be given further consideration.

The adoption of one of the above four proposals requires careful analysis of data available concerning financing requirements for MRU projects within the next ten years or so. The consultant could not obtain complete data, but since the terms of reference required him to work out a framework for a financing institution, the following chapter provides the necessary details for the setting-up of such a financing institution.

IV. AN MRU FINANCING INSTITUTION FOR PROGRAMMES AND PROJECTS

A. Objectives and operational criteria

The broad objectives of an MRU financing institution would be stated in its statutes and policy statement:

(a) To provide equity and term-loan finance for investments in industries with equitable benefits to all Member States;

(b) To foster the development of a Union capital market.

Because of the crisis which has been affecting all the Member States for the last five years or more, the second objective could be left aside and the efforts be concentrated on meeting the first. The institution should therefore operate as a traditional development finance company providing term finance, first to industrial firms for Union status industries, and later to enterprises in agro-industry sectors or in commercial agriculture.

It could also extend its financing to national small enterprises. The main objective would be to establish itself as the major lending institution in MRU and to succeed in attracting and retaining the confidence of foreign lenders. In this respect, close and constant support from the World Bank or EEC through both financial and technical assistance would help in that effort.

B. Policy and strategy

Investment policy

The MRU financing institution would be the main financing institution channelling long-term foreign exchange resources to the Union industries from international lenders. The institution's investment strategy would have to be adopted in a general policy statement (see draft in annex XI). It would set out classic criteria for project selection (annex XII), in accordance with the priority indicated in the MRU regional development strategy: resource-based export industries with high value added, and basic goods (cloth, food, shelter) industries. In an approach which would make good sense, the investments of the MRU financing institution would remain concentrated in manufacturing, transport, commercial agriculture and agro-industry.

Operating strategy

In addition to adequate policies, the MRU financing institution should prepare a comprehensive plan aimed at achieving sufficient profitability to protect its projected equity base from erosion by inflation. During that recovery and/or adjustment period in all Member States, management of the financing institution should periodically prepare a plan which would review and make recommendations on: (a) the interest rate and fee structure the financing institution should adopt; (b) the future growth plan for the MRU financing institution; (c) the type of clients the MRU financing institution should be seeking (by size, region, sector); (d) the measures to lower the costs of providing assistance to small-scale enterprises and projects in the interiors; (e) the policy regarding subregional offices; and (f) the desirable remunerative level of equity participation. Such strategy review would have to be requested and put into effect, after review by prospective main lenders.

One element of the strategy may be an active policy of equity participation. The financing institution should consider making investments in a number of profitable firms with good growth prospects. This would help the MRU financing institution to strengthen its finances. Equity participation would also help to bring an element of Union ownership to a number of foreign-owned firms, some of which might be interested in associating with competent and serious local partners. To this end the MRU financing institution could request a credit line component - the amount of which could be worked out in conjunction with subloans - which could be used for equity participation in foreign exchange. In such a case, the MRU financing institution would take measures - to be satisfactory to foreign lenders - to protect itself against the risk of foreign exchange fluctuations or devaluation.

C. Capital structure

A public corporation may not be the appropriate way to establish as wide a capital base as possible. Private banks, international business companies, the central banks of Member States and commercial banks should join their hands through their subscription to the capital of the MRU financing institution.

The technical and financial support of the World Bank group or AfDB could mean a sound preparation for its take-off in credible conditions.

As a subregional development finance institution, the MRU financing institution has to take into account in its capital structure, the present and future characteristics of the economies of its Member States.

The capital structure will have to reflect the interests of all economic entities and States which are in a position to contribute to and profit from the prosperity of the Member States.

Taking into account the above consideration, it is proposed that the MRU financing institution takes the shape of a private limited liability company whose ownership, in per cent, would be:

	Total	Sierra Leone	Liberia	Guinea
Member States shareholders	65			
Government or central banks	35	10	10	15
Private (individuals, companies)	30	10	10	10
Foreign shareholders	35			
IFC	5			
CCCE, CDC, DEG, AID	10			
EIB, AfDB, BADEA, ECOWAS fund	10			
Private international banks	10			
Total	100			

A full list of prospective shareholders could be worked out, comprising commercial, central and international banks so that the paid-up portion would be sufficient to generate through placement enough income to meet operating and administrative costs and personnel expenses which are not or cannot be supported by external grants or technical assistance grants. For $100,000 operating and overhead costs, a paid-up capital at a rate of productivity of 5 per cent per year should amount to $2,000,000.

The paid-up capital should, analogous to the capital structure of the World Bank, represent about 10 per cent of the authorized capital, which would be $20 million.

The additional resources should come in due course from the issuing of bonds, guaranteed by the uncalled portion of the capital.

An extraordinary meeting of shareholders would decide on subscription of new shares, to restore from time to time a balanced relationship between net worth and long-term indebtedness.

D. Board of directors

The board could consist of nine members, three representing each Ministry of Finance/central bank, three representing private Union shareholders and three representing foreign shareholders. The board would be chaired by the institution's president or managing director. The board would meet periodically to discuss major policy issues and to approve loans exceeding say $200,000. The board should act in a sound and business-like manner.

An executive committee could be formed, comprising the institution's president or managing director and the department heads for operations and projects, meeting about once a month, with authority to approve all operations below board limits.

E. Management, staffing and organization

The institution's first president or managing director would be selected among experienced high-level international banking managers. He should be competent and well-respected by the Governments and the business communities of the Union. If such a position cannot be filled by a national of the Union, no effort should be spared in seeking out expatriates. Preferably the candidate should be a retired executive who is willing to spend two to three years to transfer his experience on secondment from an international financial institution.

The position of deputy managing director should be held by an experienced banker who is a national from outside the country where the Institution has its headquarters.

The two directors of operations and projects should be expatriate managers loaned by other institutional shareholders for the first two years of the Institution's operations.

The staff should typically have formal training in business administration, economics, engineering or agronomy. Current IDU staff would be absorbed into the new institution. Staff should benefit from specialized courses in project finance and management, both in the Union and abroad, and all of them should receive significant on-the-job training.

The Institution could, in the future, associate with governmental departments and central banks in the Member States, to organize training courses in banking administration and financial and economic analysis of projects, using existing training institutions and universities within Member States, such as the Institute of Public Administration and Management (IPAM) at Tower Hill, Freetown, or other similar institutes in Guinea and Liberia. The objectives are to train professional staff from both the public and private sectors. Regional seminars could also be organized by UNIDO, the

Economic Development Institute (EDI) of the World Bank, or the Union Africaine et Mauricienne des banques de développement, for four to six weeks, on various subjects, including inventory management, national accounts, financial analysis, management of small-scale enterprises, and role of development banks.

Organization

At the beginning, the structure of the Institution should be light, consisting of an expatriate president or managing director assisted by a Union national deputy managing director, and the expatriate directors of operations and projects.

Initially the department of operations could cover: finance (financial management and accounting), administration (personnel and general administration), economic research (country studies) and operational programmes. It would be responsible for the establishment of financial regulations and accounting methods.

The department of projects would be in charge of promotion and appraisal of projects, project supervision and technical review. It would also be responsible for the preparation of an operations manual, and the standardization of appraisal procedures.

F. Terms and conditions of lending

The Institution's loans would have maturities typically ranging between two and ten years, depending on the type of project being financed.

The Institution should take adequate security and should not accept subordination to any other lender.

The Institution's interest rates should not be regulated by the central banks but set by its Board, subject to limitations imposed by some foreign lenders on their lines of credit. The interest rate should, however, not be higher than those approved by commercial banks if it should be attractive, bearing in mind the specific role of a development bank within the framework of the regional economic policy. The spread resulting from the Institution's on-lending rate should be large enough for the Institution to meet its operational costs. With a 5 per cent spread, the Institution would have to disburse $2 million a year to earn $100,000. The Institution should make a concerted effort to convince foreign lenders such as ADB, BADEA, CCCE, EIB, FMO, IDA, KfW etc. of the soundness of the Institution's operations in order to attract future loans.

G. Operational procedures

It is proposed that the MRU Financing Institution operate on the same regulations concerning finance and accounting as the ECOBANK. To this effect, consultations could be arranged with ECOBANK authorities on the matter as soon as ECOBANK will have gained some experience.

Another possibility would be to examine and adapt the procedures of BOAD at Lomé or of the Banque de développement des états de l'Afrique Centrale (BDEAC) at Brazzaville. Relevant documents are available at the MRU secretariat (see annex IV).

Procurement of items financed by the Institution could be decided by the project sponsor in accordance with an appraisal team, based on competitive quotations (at least three different suppliers, including foreign) from amongst whom the promoter, with the Institution's assistance, selects the best offer on the basis of price, after-sales service, product specifications, quality and other relevant criteria.

The Institution would disburse against presentation of invoices either directly to the supplier, or as reimbursement to the promoter. Pre-conditions should be set before disbursement can be made; the fulfilment of conditions set forth in the loan agreement should be ensured before its effectiveness.

Accounting procedures should be codified in an accounting manual. A computerized accounting for the Institution could be prepared through technical assistance which the secretariat could first request for its own use.

V. CONCLUDING COMMENTS

A. Steps recommended to be taken prior to the establishment of a financing institution

In the field of industrial development, the availability of finance alone is not sufficient as it is only a means to obtain equipment for production and manpower to be managed for generating net income and appropriate cash flow. Management, control and policies are basic complementary inputs for a successful operation of industrial projects.

An MRU industrial development programme should guide the selection of priority projects. This derives from a harmonization of the industrial development programmes of the Member States.

To determine the priority sector or sectors, an industrial policy has to be developed within the framework of national development plans.

To strengthen the capacity of each Member State to identify and select projects, it is proposed that further technical assistance be provided to MRU in the form of:

An industrial engineer
An industrial economist
A financial controller for the secretariat
A training seminar in the techniques of project development, analysis and management

This would constitute preparatory steps in the training of qualified personnel to run an eventual financing institution, when the political unity and consensus, which is currently lacking, as well as monetary co-operation among Member States, will be realized.

Meanwhile, it is advisable that each Member State concentrate its efforts and scarce financial resources to implement economic recovery or structural adjustment programmes, using the next few years' time to solve the most pressing problems of addressing the basic needs of the population.

B. Current obstacles

In the long run, it is in the interest of the Union States, present and future, to be integrated economically so as to have a market of appropriate size for manufactured products. The cost of achieving this objective remains high and could be prohibitive as a series of short-term unpredictable and recurrent problems will continue to crop up and will demand immediate tackling, leaving no time and energy to think of the long-term goal of economic integration in the mutual interest of Member States.

One must not, however, get discouraged by temporary or even repeated setbacks, as long as a harmonized industrial development strategy will have been discussed, modified and agreed upon, in various working groups, committees and councils.

MRU Member States are submitted to various divisive factors. Politically, each Member State belongs to different experiences of colonial or semi-colonial influences which result in different official languages among the decision-makers in business and Government. Colonial influences left behind different patterns of education, government, monetary and trade systems. Apart from common groups living on both sides of inherited political borders, there have been no historical struggles which could have contributed to create ties of friendship, trade and education among the countries' elite; Guinea has links with France, Sierra Leone with the United Kingdom and Liberia with the United States of America.

Apart from the problem with the official language, MRU Member States have different external trade partners and different currencies, which render intra-Union trade, inaugurated in 1981, difficult to be implemented.

Obstacles to further economic integration can be summarized as follows:

(a) Lack of political co-ordination;

(b) Non-complementarity of economies or rather competitivity in export markets;

(c) Lack of foreign exchange;

(d) Lack of common historical colonial bonds and common struggles;

(e) Lack of monetary co-operation.

However, the people of the three Member States have many ethnic, social and family bonds which make them feel the necessity of solidarity and co-operation to solve common and similar problems, such as trade and payments imbalances, budget deficit, weak monetary and banking system, weak currencies, too much dependence on foreign aid and external financial resources and too little local entrepreneurship.

C. Outlook

In terms of achievements towards economic integration, the MRU secretariat has accomplished a number of steps in the right direction through the help of various international, multinational and bilateral institutions as well as through the budget contributions of Member States, amounting to around $2,000,000 per year, according to the proposed MRU budget for 1985-1986.

External assistance from EEC (Lomé I and II), from Austria, France, Germany, Federal Republic of, Netherlands and United Kingdom of Great Britain and Northern Ireland, from the Commonwealth Fund for Technical Cooperation (CFTC) as well as from the United Nations Secretariat and specialized agencies (UNDP, ILO, FAO, UNESCO, UPU, IMO and UNIDO) amounted to about $127.4 million (see list of MRU projects in annex IV). A tangible realization is the nearly completed construction of the Monrovia-Freetown highway and bridge financed by the Federal Republic of Germany, ADB, BADEA and the ECOWAS fund. Other realizations are:

(a) The establishment of the Telecommunications and Postal Training Institute;

(b) The establishment of the Marine Training Institute;

(c) The feasibility studies of the Mano River Basin Development Project;

(d) The establishment of the Industrial Development Unit (IDU) within the MRU secretariat.

At present the MRU secretariat manages 25 projects in different sectors, and IDU undertakes various activities of the industrial development programme. One of these activities was the collaboration with the UNIDO consultant undertaking this study on the establishment of a Union financing institution.

The main objective of the establishment of a Union financing institution is to obtain funds for the implementation of projects which would come out of 51 industrial studies listed, which are now in the hands of IDU.

Should the financing institution be established, the work undertaken to date by IDU i.e.:

(a) A trade analysis in the MRU;

(b) An industrial survey of MRU Member States in 1981, being updated in 1986;

(c) A review of previously made 63 industrial studies of which 51 were selected;

(d) Fifty pre-feasibility studies, half of which became feasibility studies;

(e) Promotion of 17 projects at the Dakar Industrial Forum in 1982, plus six projects at the 1984 Forum;

(f) Implementation of two Union Industry Projects,

would provide the groundwork for the Institution's activities.

The two projects being implemented as the result of IDU promotion activities are: the Liberian Glass Factory for which a German technical partner and an Indian sponsor have been matched by IDU; and the Charcoal Production Project, which is implemented as a pilot project by CDI/EEC with a local investor from Sierra Leone.

Existing sources of finance for industrial development projects are lacking in MRU Member States. They are poorly managed at the level of national development banks, except in Liberia.

In Sierra Leone, the National Development Bank (NDB) is practically not operating, having incurred a loss exceeding its equity. A restructure or closure is under consideration and the Government's decision is awaited. In Guinea, the Crédit national was not able to utilize a credit line placed at its disposal for the last three years. The credibility of government-owned development financing institutions has been eroded by the poor performance of these institutions in at least two Member States of the MRU.

The tendency, favoured by the World Bank group and accepted by national government authorities, seems to be the creation of private development finance institutions in which the Government has a share together with IFC, operated as an international bank affiliate. This is the case of BICIGUI in Guinea which will take over the management of the IDA credit line, previously allocated to the Crédit national (becoming defunct following the privatization of the whole Guinean banking system in early January 1986).

The national situations would indicate that a subregional development financing institution could fill the gap for MRU projects. But a careful analysis of the MRU functioning indicates that financial, organizational and administrative restructuring should be undertaken prior to setting up a separate financing institution. Appropriate harmonization and rationalization of industrial policies are pre-requisites for an attractive investment environment.

An immediate step to be taken should be to prepare technical staff which would become the nucleus for propulsion of financing capability. Such capability is based on sound project identification, evaluation capacity, sound finance and technical knowledge and experience in project management. This capability exists within the IDU personnel. A logical step seems to be to build up the competence of IDU through filling the current vacancies of an industrial engineer and an industrial economist, conducting seminars in development projects evaluation and implementation under UNIDO's technical assistance, and seminars in techniques of project appraisal at appropriate funding agencies.

Given the lack of foreign exchange of the national Governments or central banks of Member States as contribution to the paid-in capital of an envisaged subregional development financing institution, another most reasonable immediate step to be taken seems to be to take time to create a harmonized implementation of an MRU common external tariff and a harmonized comprehensive industrial development programme. Such a Union programme will follow the completion of a regional industrial survey. This would leave time for each Member State to concentrate on individual problems, i.e. on a national economic recovery in Guinea, on the structural adjustment programme in Sierra Leone, and on a stabilization programme in Liberia.

Meanwhile, the West African Clearing House (WACH) trade payment facilities for intra-union trade could be availed of between the commercial banks of Member States. Major projects could be submitted to existing regional and international development financing institutions: the ECOWAS fund to which MRU and CEAO countries belong, the ECOBANK being established, AFDB, BADEA, EIB, and the World Bank, as well as other bilateral aid and financing institutions of the industrialized and new industrial countries.

Central banks could also be requested to modify their respective banking acts upon recommendation of the Union Ministerial Council (see figure I for its position in the organization chart of MRU), to provide incentives and guarantees to persuade commercial banks to get interested in long-term financing and co-financing of well-selected development projects.

The mobilization of development funds through the issuing of bonds in each Member State as well as on international capital markets through an MRU co-ordinating agency and government guarantees would be another source of finance for MRU development projects. The main concern should, however, be the continuity of project management from the time of its identification until the time the last repayment will have been made. Such a task spans over 10 to 20 years and requires dedication and patience from all concerned. This indicates the seriousness of a development project which involves more than mere finance or project evaluation. Human inputs in terms of management policy and management control are very basic for the success of all economic undertakings.

Annex I

TERMS OF REFERENCE OF THE CONSULTANT

The consultant will be attached to the secretariat of the Mano River Union and will undertake the following activities:

(a) To analyse existing studies on the Mano River Union Industrial Development Programme and regional industrial development policies and strategies of the Union;

(b) To study the existing institutional and financial procedures and practices used within the Mano River Union for the implementation and financing of regional industrial development programmes and projects;

(c) To assist the Industrial Development Unit of the MRU in the evaluation and selection of industrial investment projects;

(d) To train the personnel assigned by MRU in the evaluation, selection and financing of industrial investment projects;

(e) To work out comprehensive recommendations on the creation of an MRU industrial financing institution, including the following main points:

(i) The policy and strategy of such an institution;

(ii) Sources of capital financing for the institution itself (e.g. national development banks, international financing agencies) and partition of capital ownership;

(iii) The organizational and operational structure of the institution's administration (legal status, membership of the board, personnel requirements etc.);

(iv) Methodologies and standards for the presentation and evaluation of investment projects;

(v) Guidelines for investment promotion activities and supervision of investment projects' implementation;

(vi) The operational mechanisms of the institution's transactions including:

- System for project selection, approval and promotion
- Criteria for equity participation and lending
- System for the disbursement of funds, reporting, loan repayment and project monitoring and control;

(vii) Suggestions for improvement of existing financing schemes, national, regional or international and for co-operation with local national banks;

(viii) Scheme for the implementation period of the institution's organization up to its operational stage;

(f) To prepare the draft final report containing all the above-mentioned recommendations, discuss it with the authorities of MRU and UNIDO, and finalize it in conformity with their suggestions.

Annex II

REPORT ON VISITS TO THE MEMBER STATES OF THE UNION

National Workshop on Industrial Strategy (Sierra Leone)

The mission participated, at the invitation of the SIDFA and MRU, at the Sierra Leone National Workshop on Industrial Strategy from 2 to 7 December 1985, in a committee on industrial financing. It was found useful by way of obtaining some insight into small-scale industry finance.

Guinea

The mission visited Conakry from 11 to 17 December 1985 by car, and held informal meetings with officials of the Ministry of International Co-operation, Ministry of Finance, Ministry of Industrial Development, Ministry of Planning and the Central Bank. Government officials seem to be more concerned with immediate problems facing the Guinean economy than with subregional or regional problems. The Central Bank (Banque centrale de la Republique de Guinée) and the Guinean Bank for External Trade (a 100-per cent affiliate of the Central Bank) do not publish or communicate their annual reports.

The mission learned that the Guinean economic recovery programme was approved by the Government in June 1985 but the plan, due to shortage of government funds, will be published with UNDP financial assistance in January 1986.

The general findings were:

(a) The Government was privatizing the public corporations, except for basic strategic infrastructure such as electricity and railways, to alleviate the budget deficit;

(b) The state banking system had not been regulated by strict banking principles of the banking act. It was learnt from the World Bank officials that an important change was taking place and that three private French banks with Guinean government and private interest will be set up. The mission could not contact any private banking executives due to the fact that their banks had not yet started full-scale operations.

There was in effect no development finance institution in Guinea, the state-owned Crédit national being inefficient. A new private development finance institution was to be set up with funds from IFC.

Some government officials interviewed appeared to convey the impression that their investment in terms of contribution to the Mano River Union, has been negative. To this effect, the Government of Guinea has decided to temporarily stop its activities in order to have time to think over the Union's future course of action.

All officials indicated their Government's acute lack of foreign exchange funds to participate in any equity of a new MRU financing institution. However, some officials see its usefulness in the future and promised to consider the matter if and when requested to do so by their Government.

Liberia

The mission visited Monrovia from 31 January to 7 February 1986. The Liberian commercial banking system is entirely foreign owned with some Liberian interest participation. The banking system is relatively well developed in its operating mechanism and structure apart from some dysfunctioning in the inter-bank clearing system due to the shortage of US dollars "green" notes and the abundance of Liberian-issued coins especially the five-dollar coins, i.e. $40 million value of coins against around $11 million value of US dollar notes in circulation.

There are development finance institutions cum commercial banking institutions: the National Housing and Savings Bank, and the Agricultural Co-operative Development Bank. The Liberian Bank for Development and Investment (LBDI) gave the impression, through their President and Managing Director and their professional staff, to be a well-run institution, which could offer the management services for any fund or special fund envisaged to be set up by the Mano River Union. Their management think that the creation of an MRU bank is not advisable. LBDI's shareholders include the Government of Liberia, IFC, DEG, and CDC. LBDI has set up an independent affiliate, instead of a department, with UNIDO technical assistance, to deal with the promotion and financing of small-scale enterprises in Liberia. The Small Enterprise Financing Organization (SEFO) could become an appropriate model for similar financing in Guinea and Sierra Leone.

Côte d'Ivoire and Togo

The mission visited Abidjan and Lomé from 21 to 27 February 1986. Officials of the African Development Bank (ADB) whom the mission met indicated the ADB's capacity and willingness to finance any subregional and national projects which fall in line with the ADB evaluation criteria, implying that MRU projects, if found viable, could be financed by ADB either as subregional or as national projects, such as the case of the Monrovia-Freetown Highway comprising various sections in Sierra Leone and Liberia.

The ECOWAS Fund also indicated that, the MRU being part of ECOWAS, the ECOWAS Fund was willing at any time to support MRU in the financing of projects in accordance with the established procedures of the Fund. The ECOWAS Fund has committed a $5 million loan to the Monrovia-Freetown Highway. It is true that the Fund also encountered some of its own co-ordinating problems; and the ECOWAS Fund officials would see the proliferation of West African subregional institutions as counter-productive, resulting in inordinate dispersion of energy and human competence of the region's elites. There seems to be in fact a study being carried out by ECA on the rationalization of subregional institutions in the region.

The Banque Ouest africaine de développement (BOAD) at Lomé is a creation of the West African Monetary Union among most French-speaking countries of the region. Its headquarters buildings and operations, as published, show a high degree of activities which could be used as example for an MRU bank in the future.

The statutes of the Ecobank Trans-national Incorporated (ETI) are not made public. The Ecobank is to open its doors during 1986, as a creation of the Federation of Chambers of Commerce in West Africa. It would start as a commercial bank, then establish an offshore unit, and later establish development bank units at Lomé, Abidjan and Lagos.

Annex III

LIST OF OFFICIALS INTERVIEWED AND PERSONS CONSULTED

A. Sierra Leone

Bank of Sierra Leone

Mr. Feyi Jones-Asgill, Director of Research
Mr. J.K.E. Cole, Director of Foreign Department
Mr. Max-Butscher, Assistant Director of Research
Mr. R.W.W. Keith, Rural Banking Adviser
Mr. Sidique Sesay, Economist, Department of Research
Mrs. Mahdi, Librarian
Mrs. Tungi Campbell, Librarian, Law Library

National Development Bank Ltd.

Ms. Olive P. Taylor, Legal Counsel, Acting General Manager
Mr. Herbert H. Nelson-Okrafor, Director of Administration and Finance/Secretary

Sierra Leone Commercial Bank Ltd.

Mr. S. Anthony, General Manager
Mr. Victor F. Jamina, Chief Manager

Barclays Bank of Sierra Leone Ltd.

Mr. A. G. Roberts, Manager
Mr. Macfoy, Deputy Manager
Mr. Kakay, Branch Manager, Congo Cross Branch

Standard Chartered Bank Sierra Leone Ltd.

Mr. P. G. Wilcockson, Advances Manager, NDB Board Member

International Bank for Trade and Industry

Mr. Rao Raj, Director
Mr. Kebbay

Bank of Credit and Commerce International

Mr. Pattoo Srinivasan, Country Manager

Ministry of Finance, Development and Economic Planning

Mr. P.F.V. Manley-Spain, Deputy Director, Central Planning Unit
Mr. Raymond Johnson, Senior Development Officer, Central Planning Unit

Ministry of Trade and Industry

Mr. Monteiro, Chief Technical Adviser, UNIDO
Mr. T. Brewah, Deputy Secretary
Mr. J. King, Director of Industries
Mr. A. Ahmed, Deputy Director for Small-Scale Enterprises

World Bank

Mr. George Alibaruho, Policy Advisor to the Minister of Finance
Mr. Sultan Ahmed, Economist
Mr. Douglas Michael Addison, West Africa Program 1B

International Monetary Fund

Mr. Gregory C. Dahl, Resident Representative

West African Clearing House

Mr. Chris E. Nemedia, Executive Secretary
Mr. Sissoko, Deputy Executive Secretary
Mr. Eugene Sylva, Director
Mr. Balde, Chief Accountant

Chamber of Commerce of Sierra Leone

Mr. T. Hope, President of the Federation of West Africa Chamber of Commerce, President of Ecobank being established
Ms. F. Iscandari, Secretary

Business and industrial firms

Mr. E. O. Bart-Williams, Ajua Consultants Ltd., CDI (EEC) antenna in Sierra Leone
Mr. Francis R. Genet, Genet and Partners
Mr. Eugene S. Nicolls, General Manager, Wellington Distilleries Ltd.
Mr. B. I. Wiest, Managing Director, Seaboard West African Ltd.
Mr. Hall, General Manager, Aureol Tobacco Company
Mr. Bob Blanwarrdt, Project Manager, Consultant for Rural Water Supply at Port Loko
Mr. Paulsen, Consultant in Land Survey, Federal Institute of Geo-Sciences

UNDP/UNCTAD/UNIDO

Mr. Richard B. Olver, Deputy Resident Representative
Mr. M. Alemayehu, Senior Industrial Field Adviser
Mr. Michael H. N. Geoghegan, Senior Programme Adviser
Mr. J. Vestgarrd, Junior Professional Officer
Mr. Aloke Kumar Mitra, ECA/UNIDO
Mr. Yohannes Habtu, UNCTAD/Senior Economic Adviser to MRU

EEC

Mr. Werner Ködderitzsh, Delegate of the Commission of the European Communities

GTZ (German Office for Technical Cooperation)

Mr. Udo Quedenfeldt, Civil Engineer

Embassy of France

Mr. Louis Dominici, Ambassador
Mr. Christian Tonani, Technical Co-operation and Cultural Attaché
Mr. Jean-Pierre Schoepflin, Commercial Attaché
Mr. Patrick de Coninck, Honorary Consul of Sierra Leone to Paris

Mano River Union secretariat

Mr. Ahmed Dumbuya, Deputy Secretary-General for Technical Services
Mr. Shekou Doumbouya, Deputy Secretary-General for Administration and Finance
Mr. Baldwin R. C. Banks, Director, Project Implementation Division

Mr. Patrick Elliott, Integration Economist
Dr. Steve Kanu, Director, Planning Division

MRU/IDU

Mr. F. Reichhart, Technical Adviser
Mr. Foday Mansaray, Project Manager
Mr. C. H. Greene, Financial Analyst
Mr. S. Tamara, Industrial Economist
Mr. Foday Yumkella, Charcoal Pilot Project Sponsor

B. Guinea

Ministry of Economy and Finance

Mr. Bernard Kamano, Director, Treasury and External Finance Department
Mr. Fomondo Magassouba, Deputy Director for Budget
Mr. Doumbouya, Operations Officer, Treasury Department
Mr. Mamadou Kan Diallo, Central Directorate of Economic and Finance Research
Mr Alpha Abdoul Diallo, Officer in charge of Prices and Market Studies, Directorate of Economic Affairs

Ministry of Industrial Development

Mr. Richard Haba, Minister
Mr. Karamo Talibi Cissé, Small-scale Enterprises Division
Mr. Nabé, Chief, Division of Economic and Financial Studies
Mr. Alseny Sylla, Project Manager, National Office for Promotion of Small-scale Enterprises

Ministry of International Co-operation

Mr. El-Hadj Sakoba Keita, Director, ECOWAS/MRU Division
Mr. Sankon, MRU Co-ordinator
Mr. Bah, MRU Co-ordinator

Ministry of Planning

Mr. Thomas Curtis, Adviser to the Minister and President of the National Investment Commission
Mr. Jacques Schwartz, Technical Adviser, Central Statistical Office
Mr. H. F. Charlot (on mission from the French Ministry of Co-operation)

Ministry of Trade

Mr. Henri Younes, UNCTAD Trade Adviser

Banks

Mr. Talibe Diallo, Director-General, Research Department, Central Bank of the Republic of Guinea
Mr. Saidu Diallo, Governor, Bank of Guinea for External Trade (BGCE)
Ms. Kadiatu Diallo, Deputy Director

World Bank

Mr. Paul M. Cadario, Senior Loan Officer
Western African Programs Department II

UNIDO

Mr. Louis Alexandrenne, Senior Industrial Field Adviser
Ms. Leny Van Oyem, Junior Professional Officer

Caisse centrale de coopération économique

Mr. Yves Malpel (also Board Member of LBDI)

C. Liberia

National Investment Commission

Mr. Krishnan D. Khosla, Chief Technical Adviser, UNIDO

Ministry of Planning and Economic Affairs

Ms. Amelia A. Ward, Acting Deputy Minister for Economic Affairs
Mr. Kwekwe Washington, Assistant Minister for Economic Affairs
Mr. Roger M. Colin, Staff Economist, Transportation Project

Ministry of Commerce, Industry and Transportation

Ms. Joetta C. Dennis, Assistant Minister for Industry

Ministry of Finance

Mr. Virgilio V. Gaudinez, IMF Adviser on Debt Management

Bureau of the Budget

Mr. Moses S. Wreh, Deputy Director

National Bank of Liberia

Mr. Robert Tubman, Deputy Governor, Ex-Managing Director of ECOWAS Fund
Mr. G. Hossein Shankarami, IMF Adviser (Research)
Mr. V. S. Subramaniam, IMF Adviser
Mr. Christopher F. Kommeh, Manager, Research Department
Mr. Gaye Zulu, Manager, Operations Department
Mr. George T. Marshall, Economist, Research Department

Liberian Bank for Development and Investment

Mr. David K. Vinton, President
Mr. Mobert M. Titus, General Manager

SEFO (Small Enterprise Financing Organization) Business Advisory Service

Mr. T. N. Desai, Project Approval and Supervision Adviser
Mr. James Keddie, Adviser

Bank of Credit and Commerce International (Overseas) Ltd.

Mr. Mohinadha P. Dhall, Country Manager

Citibank

Mr. B. A. Torres, Operations Manager

UNDP/UNIDO

Mr. Francis R. Blain, Resident Representative
Mr. Sven Berthelsen, Junior Professional Officer
Mr. M. Gabbay, Consultant for Survey of Small-scale Enterprises

World Bank

Mr. John Kendall, IBRD Resident Representative

MRU

Mr. Luke Bawa, Resident Co-ordinator

D. Côte d'Ivoire

African Development Bank/Fund

Mr. Claude Cambray, Executive Director
Mr. E. Tetegan, Deputy Director, Infrastructure and Industry Department
Mr. A. Mengesha, Adviser, Central Projects Unit
Mr. Elsadig Mahmoud Musa, Senior Industrial Engineer, Central Projects Unit
Mr. O. E. Nnamoko, Senior Procurement Officer, Central Projects Unit
Mr. Harry Tlalé, Senior Programme Officer
Mr. Lars Lagging, Civil Engineer, Transport Division

Bank of Credit and Commerce International

Mr. Ul Haq, Deputy Manager
Mr. Ali, Cash Manager

E. Togo

ECOWAS Fund (Lomé)

Mr. Ousmane Diallo, Director of Operations
Mr. Hillah, Director of Administration

Banque Ouest africaine de développement

Mr. Sheikh Fall, Director
Mr. Gossé, Economist, Research and Planning Department

Ecobank

Mr. Thomas F. Hope, President
Mr. F. Sossah, Executive Director - Eco promotions

Bank of Credit and Commerce International

Mr. R. Selvaraju, Deputy Manager

French Embassy

Mr. G. M. Chenu, Ambassador

Annex IV

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A. Mano River Union secretariat*

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Annex V

STATISTICAL DATA ON MRU MEMBER STATES

Table 1. Basic indicators of MRU Member States

	Liberia	Sierra Leone	Guinea
Population (millions)			
mid-1983	2.1	3.6	5.8
Area (thousands of square kilometres)	111	72	246
GNP per capita			
Dollars 1983	480	330	300
Average annual growth rate (percentage)			
1965-1983	0.8	1.1	1.1
Average annual rate of inflation			
1965-1973	1.5	1.9	3.0
1973-1983	7.2	14.7	4.0
Life expectancy at birth (years)			
1983	49	38	37
GDP average annual growth rate (percentage)			
1965-1973	5.5	3.7	3.0
1973-1983	0.2	1.9	3.1

Source: World Development Report 1985.

Table 2. Structure of production of MRU Member States

	Guinea		Sierra Leone		Liberia	
	1965	1983	1965	1983	1965	1983
GDP (million $US)	520	1 910	320	950	270	980
Distribution of GDP (percentage)						
Agriculture	..	38	34	32	27	36
Industry	..	23	28	20	40	26
(Manufacturing)	..	2	6	5	3	7
Services	..	39	38	48	34	38

Source: World Development Report 1985.

Table 3. Balance of payments and reserves

	Liberia	Sierra Leone	Guinea
Current account balance (million $US)			
1970	..	-16	..
1983	-135	-33	-65
Receipt of workers' remittances (million $US)			
1970	..	..	..
1983	..	..	..
Net direct private investment (million $US)			
1970	..	8	..
1983	3	2	..
Gross international reserves (million $US)			
1970	..	39	..
1983	20	16	..
In months of import coverage			
1983	0.4	1.0	..

Source: World Development Report 1985.

Table 4. Flow of public and publicly guaranteed external capital (medium- and long-term loans) (In million US dollars)

	Liberia	Sierra Leone	Guinea
Gross inflow			
1970	7	8	90
1983	66	21	79
Repayment of principal			
1970	12	10	10
1983	10	7	48
Net inflow			
1970	-4	-2	79
1983	56	14	31

Source: World Development Report 1985.

Table 5. External public debt and debt service ratio

	Liberia	Sierra Leone	Guinea
External public debt			
Outstanding and disbursed:			
In million $US			
1970	158	59	314
1983	699	359	1 216
As percentage of GNP			
1970	49.6	14.3	47.4
1983	72.1	34.5	69.2
Interest payments on external public debt			
In million $US			
1970	6	2	4
1983	21	3	22
Debt service as percentage of GNP			
1970	5.5	2.9	2.2
1983	3.2	0.9	4.0
Export of goods and services			
1970	..	9.9	..
1983	6.6	7.2	..

Source: World Development Report 1985.

Table 6. Terms of public borrowing

	Liberia	Sierra Leone	Guinea
Commitments (million $US)			
1970	11	24	66
1983	36	22	122
Average interest rate (percentage)			
1970	5.4	3.5	2.9
1983	8.7	0.8	4.6
Average maturity (years)			
1970	19	27	13
1983	14	47	24
Average grace period (years)			
1970	5	6	5
1983	5	10	6

Source: World Development Report 1985.

Table 7. Central government expenditure and current revenue

	Liberia	Sierra Leone	Guinea
Total expenditure 1982 (percentage of GNP)	39.4	22.7	..
Overall surplus/deficit 1982 (percentage of GDP)	-12.4	-10.7	..
Total current revenue 1982 (percentage of GNP)	2.52	11.6	..
Percentage of total current revenue			
Tax revenue			
Taxes on income, profit and capital gain	35.3	24.1	..
Social security contributions	..	..	..
Domestic taxes on goods and services	29.6	23.5	..
Taxes on international trade and transactions	31.3	49.5	..
Other taxes	1.9	1.1	..
Current non-tax revenue	1.9	1.8	..

Table 8. Growth of merchandise trade

	Liberia	Sierra Leone	Guinea
Merchandise trade (million $US)			
Exports 1983	841	202	390
Imports 1983	415	171	279
Average annual growth rate (percentage)			
Exports			
1965-1973	8.9	2.2	..
1973-1983	-2.3	-5.3	..
Imports			
1965-1973	3.6	0.9	..
1973-1983	-4.3	-5.0	..
Terms of trade (1980=100)			
1981	95	84	..
1983	102	94	..

Table 9. Money supply growth
(Percentage)

	Liberia	Sierra Leone	Guinea
1981	-14	-0.4	
1982	9.9	66.7	
1983	19.1	41.9	
1979-1981			39

Annex VI

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Annex VII

PROJECT PROFILES PREPARED BY THE INDUSTRIAL DEVELOPMENT UNIT OF MRU DURING ITS FIRST PHASE (1980-1982)

1. Production of baby food in the Mano River Union
2. Production of natural and concentrated tomato juice and tomato ketchup in the Mano River Union
3. Development of fruit-processing industry in the Mano River Union
4. Production of instant coffee in the Mano River Union
5. Production of animal feed in the Mano River Union
6. Production of soap concentrates in cubes in the Mano River Union
7. Production of baker's yeast in the Mano River Union
8. Edible oil industry in the Mano River Union
9. Production of paint and protective coatings in the Mano River Union
10. Development of a pharmaceutical industry in the Mano River Union
11. Production of detergents in the Mano River Union
12. Glass-reinforced polyester products in the Mano River Union
13. Tyre manufacture in the Mano River Union
14. Glass-container industry in the Mano River Union
15. Mechanical workshops and spare-parts industry in the Mano River Union
16. Processing of cassava and cassava pellets in the Mano River Union

Annex VIII*

SUMMARY OF MRU INVESTMENT INCENTIVES
(adopted in March 1979)

A. Definition of terms

To promote regional industrial development, the Mano River Union has created a series of instruments which are governed by the concept of "Union Industry Status". These instruments are:

(a) Union Industry;

(b) Union Licence;

(c) Union Investment Incentive Contract;

(d) Union Guarantee.

(a) Union Industry

A Union Industry is one that has fulfilled the undermentioned requirements:

(1) It must be within the definition of the International Standard Industrial Classification (ISIC) of the United Nations. That is, it must undertake projects in the Union which process, fabricate, or manufacture finished and semi-finished goods from component parts, or it must belong to any one or more of these sectors:

(a) Agriculture;

(b) Forestry and fishing;

(c) Electricity, gas and water where such enterprises are not run as state undertakings or similar agencies;

(d) Mining and quarrying;

(e) Building and construction;

(f) Transport and communications;

(g) Those sub-sections of the services sector which provide technical services to the sectors listed above;

(h) Tourism;

(i) Any combination of the sectors and sub-sectors enumerated in (v-viii) above;

(2) Must either principally be located or have its proposed principal location in one of the Member States of the Union;

(3) Must have been approved as such by the Union Technical Commission on Industry and Trade.

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(b) Union Licence

(1) A Union Licence is a licence issued by or on behalf of the Union Commission on Industry and Trade to an investor or sponsor who has been granted Union Industry Status under the Twelfth Protocol to the Mano River Declaration.

(2) Where the applicant for Union Industry Status is an existing company or proposes to establish as a company before it is granted a Union Licence, it shall produce evidence of incorporation under the laws of the Member States where it is principally located or proposes to have its principal location.

(c) Union Investment Incentive Contract

A Union Investment Incentive Contract is a contract between the Mano River Union and the investor or sponsor of an approved investment project, setting out the investment incentives and benefits granted by the Union in respect of the approved investment project and the mutual obligations of the parties thereto.

(d) Union Guarantee

A Union Guarantee is essentially an undertaking by the Union to an investor or sponsor of an approved investment project that it will not, for the duration of the guarantee, grant a Union Licence to produce and make similar goods or services to another investor or sponsor, thereby conferring upon the guarantee an exclusive right in the production and marketing of the products in respect of which the Guarantee is granted.

B. Benefits of Union Industries to investors and sponsors

(a) Union Licence

(1) Free transfer of goods which the industry produces within the Member States;

(2) Free movement of personnel for the purposes of the enterprise between the Member States.

(b) Union Investment Incentive Contract

(1) Union tariff protection, when necessary, for t. period of the Investment Incentive Contract;

(2) Unrestricted transfer of funds within and outside the Union for normal commercial purposes;

(3) Drawback of import duties paid on materials or component parts used in producing goods exported from the Union or warehoused for exportation;

(4) Use of industrial estates when available and suitable;

(5) Exemption from income tax for a period to be determined by the Commission and specified in the Investment Incentive Contract;

(6) Exemption from payment of import duties on approved imports of machinery and equipment to be used in establishing the approved investment project;

(7) Exemption of up to 90 per cent from the payment of import duties on raw materials and semi-processed products of the approved investment project;

(8) Compensation to the investor or sponsor for any economic disadvantage he may suffer as a result of location in a place other than that proposed by the investor or sponsor;

(9) Any other benefits or incentives agreed upon.

(c) Union Guarantee

(1) Assurance of the Union market for the products for the duration of the Guarantee;

(2) Assurance of exclusive right to produce and market the products;

(3) Other protective measures such as tariff protection and quantitative restriction.

C. Criteria for obtaining Union Industry Status

(a) Union Licence

The criteria for obtaining a Union Licence are:

(1) The project must process, fabricate, or manufacture finished and semi-finished goods from component parts or belong to any one or more of these sectors:

(a) Agriculture;

(b) Forestry and fishing;

(c) Electricity, gas and water where such enterprises are not run as state undertakings or similar agencies;

(d) Mining and quarrying;

(e) Building and construction;

(f) Transport and communications;

(g) Those sub-sections of the services sector which provide technical services to the sectors listed and enumerated above;

(h) Tourism;

(i) Any combination of the sectors and sub-sectors already referred to.

(2) Capability of interested entrepreneur to market the products or services to a substantial degree within the Union;

(3) Overall positive effect of project on economic development and integration of the Union;

(4) The project should provide needed training skills transferable to other existing and potential industries within the Union;

(5) Potential for long-term export;

(6) Provision of significant infrastructural improvement;

(7) Opportunity for substantial equity participation;

(8) Eligibility for the granting of a national licence;

(9) Reasonable comparability of ex-factory price of products with c.i.f. value of similar imported products;

(10) Minimum duplication with projects already in operation;

(11) Capacity for maximizing the use of materials, technical skills and other supplies within the Union;

(12) Creation of employment opportunities.

(b) Union Investment Incentive Contract

The criteria for obtaining a Union Investment Incentive Contract are:

(1) Possession of a valid Union Licence (an enterprise may be granted a Union Licence and Union Investment Incentive Contract simultaneously);

(2) Overall positive effect of project on the economic development and integration of the Union;

(3) Project should provide needed training skills transferable to other existing and potential industries within the Union;

(4) Potential for long-term export;

(5) Provision of significant infrastructural improvement;

(6) Opportunity for substantial equity participation within the Union;

(7) Project must be consistent with the existing Union and national industrial and economic plants and policies;

(8) Eligibility for the grant of a national Investment Incentive Contract in Liberia and a Development Certificate in Sierra Leone (as well as the corresponding certificate of Guinea);

(9) Reasonable comparability of ex-factory price of products with c.i.f. value of similar imported products;

(10) Minimum duplication with projects already operational;

(11) Capacity for maximizing the use of raw materials, technical skills and other supplies within the Union;

(12) Creation of employment opportunities.

(c) Union Guarantee

The criteria for obtaining a Union Guarantee are:

(1) Possession of a valid Union Licence;

(2) Submission of banking references;

(3) Submission of projected balance sheet and profit and loss statement;

(4) Should satisfy 95 per cent of the Union market for the projects/services;

(5) Products should meet international standards of quality;

(6) Provision of significant infrastructural improvement;

(7) Opportunity for substantial equity participation;

(8) Project must be consistent with existing Union and national industrial and economic plans and policies;

(9) Capacity for maximizing the use of raw materials, technical skills and other supplies within the Union.

Annex IX*

DRAFT PROTOCOL - MRU FUND FOR CO-OPERATION, COMPENSATION AND DEVELOPMENT

Article 1

Establishment

There is hereby established a Fund to be known as the Fund for Co-operation, Compensation and Development hereinafter referred to as "the Fund".

Article 2

Ordinary capital resources of the Fund

1. The Fund shall derive its resources from:

(a) Contribution of Member States;

(b) Income from Union enterprises;

(c) Receipts from bilateral and multilateral sources as well as other foreign sources;

(d) Subsidies and contributions of all kinds and from all sources;

(e) Income derived from loans made from the above mentioned resources or from guarantees given by the Fund;

(f) Borrowing by the Fund;

(g) Any other resources or income received by the Fund which do not form part of its Special Facilities referred to in article 3.

2. The contributions of Member States referred to in subparagraph (a) of the preceeding paragraph shall be determined by the Council of Ministers and shall be of such minimum and maximum amounts as the Council of Ministers may determine.

3. Trade, Customs, Immigration, Monetary and Payments Commission shall be established, which shall propose regulations governing the payment and currencies of contributions by Member States, the operation, organization, management and status of the Fund and matters related and incidental thereto for the approval of the Council of Ministers.

Article 3

Special facilities

1. The Fund shall accept for administration the resources of any special facilities.

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2. Special facilities accepted by the Fund under paragraph 1 of this article shall be used in such a manner and on such terms and conditions as are not constant with other objectives of the Fund, and the agreement under which such resources are accepted by the Fund for administration and where so specified, to provide compensation and other forms of assistance to Member States.

Article 4

Purposes of the Fund

The Fund shall be used to:

(a) Provide compensation to Member States which have suffered losses as a result of the location of Union enterprises;

(b) Provide compensation and other forms of assistance to Member States which have suffered losses arising out of the application of the provisions of this Treaty on the liberalization of trade within the Union;

(c) Guarantee foreign investments made in Member States in respect of enterprises established in pursuance of the provisions of this Treaty on the harmonization of industrial policies;

(d) Provide appropriate means to facilitate the sustained mobilization of internal and external financial resources for the Member States and the Union;

(e) Promote development projects in the less developed Member States of the Union;

(f) Provide grants for financing national or Union research and development activities;

(g) Grant loans for feasibility studies and development projects in the Member States.

Article 5

Operating principles

Apart from the compensation or other form of assistance to a Member State as may be determined by the Council, or where it may be inappropriate to do so, the other operations of the Fund shall be conducted in accordance with the following principles:

(a) The Fund shall be guided by sound banking principles in its operations and shall not make loans or undertake any responsibility for the discharge or re-financing of earlier commitments by borrowers;

(b) In selecting projects, the Fund shall always be guided by the need to pursue the objectives set forth in article 4 of the Protocol;

(c) Subject to article 4 of this Protocol, the Fund shall ensure that it shall conduct its operations so as not to impede the balanced economic development of all Member States;

(d) The operations of the Fund shall provide principally for the financing directly of specific projects within the Member States but may include loans to, or guarantees of loans made to, the national development agencies of the Member States insofar as such loans or guarantees are in respect of and used for specific projects which are agreed to by the Fund;

(e) The Fund shall seek to maintain a reasonable diversification of its investments;

(f) The Fund shall seek to resolve its funds by selling its investments in equity capital to other investors wherever it can appropriately do so on satisfactory terms;

(g) The Fund shall not finance any undertaking in the territory of a Member State if that Member State objects to such financing;

(h) Before a loan is granted or guaranteed or an investment made, the applicant shall have submitted an adequate proposal to the Fund, and the Managing Director shall have presented to the Board of Directors a written report regarding the proposal, together with his recommendations;

(i) In considering an application for a loan or guarantee, the Fund shall pay due regard to the ability of the borrower to obtain finance or facilities elsewhere, on terms and conditions that the Fund considers reasonable for the recipient, taking into account all pertinent factors;

(j) In making or guaranteeing a loan, the Fund shall pay due regard to the prospects that the borrower and its guarantor, if any, will be able to meet their obligations under the loan contract;

(k) In making or guaranteeing a loan, the rate of interest, other charges and the schedule for repayment of principal shall be such as are, in the opinion of the Fund, appropriate for the loan concerned;

(l) In guaranteeing a loan made by other investors, the Fund shall charge a suitable fee or commission for its risk;

(m) In the case of a direct loan made by the Fund, the borrower shall be permitted by the Fund to draw the loan funds only to meet payments in connection with the project as they fall due;

(n) The Fund shall take all necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by the Fund are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency;

(o) The Fund shall ensure that every loan contract entered into by it shall enable the Fund to exercise all necessary powers of entry, inspection and supervision of operations in connection with the project and shall further enable the Fund to require the borrower to provide information and to allow inspection of its books and records during such time as any part of the loan remains outstanding.

Annex X

EXAMPLE OF A WORK PROGRAMME
(ECOWAS Fund, October 1981 to September 1982)

Project	Contribution
A. Operational activities	
1. Financial lay out of projects submitted to the Fund by Member States	
2. Follow-up of contacts with financial credit institutions and mobilization of financial resources	
3. Compilation of specific projects for financing	In conjunction with competent organizations in Member States
4. Organization of a seminar on regional projects	With the participants of ADB, BOAD, the Entente Council, OCAM, Solidarity Fund, FOSIDEC - CEAO
5. Evaluation of the ECOWAS telecommunications project and negotiation with Member States on relending and loan repayment conditions	With the assistance of telecommunications experts/ consultants
6. Supervision and monitoring of the implementation of the telecommunications project	With the assistance of telecommunications experts/ consultants
7. Participation in the financing of feasibility studies on transport, agricultural and Industrial projects	Jointly with the Executive Secretariat
8. Meeting of the Management Committee of the Special Fund for Telecommunications	
9. Follow-up of the preparation of the list of consultants, experts and consulting firms for the implementation of projects likely to be financed by the Fund	Jointly with the Executive Sectretariat
10. Follow-up of the participation in the establishment of a system of information (economic and financial data bank)	In collaboration with the Executive Secretariat

Project	Contribution
11. Studies to be undertaken in collaboration with the West African Chamber of Commerce on possiblities of using its mechanisms within the framework of compensation for losses of revenue suffered by Member States	In collaboration with the Executive Secretariat
12. Economic and financial publications of Member States	

B. Administrative activities

13. Preparation of tender procedures	In collaboration with the Executive Secretariat
14. Preparation of disbursement procedures	
15. Recruitment of additional staff, and training courses	In collaboration with the Executive Secretariat
16. Preparation of procedures for examining applications for loans and loan management and administration	
17. Collection of outstanding contribution to the capital and budget	

Annex XI*

DRAFT STATEMENT OF GENERAL POLICY OF THE MRU FINANCING INSTITUTION (to be approved by the Board of Directors)

The purpose of this statement is to outline the policy that shall be applied to the activities of the MRU Financing Institution, hereinafter referred to as the Institution, subject to any amendments that may be made to this policy, after appropriate studies, by the Board of Directors of the Institution.

A. Objectives and operational criteria

1. The Institution shall assist in the development of soundly managed enterprises in the Mano River Union in all productive sectors of the economy. The Institution may not, however, engage in activities relating exclusively to land or housing nor in activities of a purely social, commercial or consumption nature.

2. The Institution shall assist enterprises which are to a major part privately owned. The Institution will also assist, up to a limit of 25% of its commitments, enterprises with juridical personality that have, in fact an autonomous administration, financial management, accounting system and control, and to which the State(s) contributes directly or indirectly more than 49% of their share capital. Those enterprises shall also meet all the other eligibility requirements set forth in the Statutes and in the present Statements of Policy.

3. The Institution shall extend its assistance on the basis of economic and financial criteria only. Enterprises that submit projects to the Institution shall be required to have an efficient management, be technically sound, have satisfactory market prospects for their production, be able to guarantee a financial return on the investment and generally contribute to the economic growth of the country. The Institution shall take all these different aspects into consideration when appraising the projects submitted to it.

4. The Institution shall make every effort to foster the distribution of industrial shareholdings and the growth of a capital market in the MRU Member States. With this end in view, it shall subscribe to issues of shares and bonds in appropriate cases and shall sell shares from its portfolio, provided that these operations are carried out under satisfactory conditions and that the enterprises concerned are not prejudiced by such a sale. The Institution shall endeavour to create a market for its own shares in the MRU Member States and to do everything within its power, within the framework of the law and its own statutes, to encourage regional investors to participate in its capital.

5. In accordance to a provision of its statutes, the Institution shall extend all kinds of assistance, financial and other, in keeping with its objectives. The Institution shall invest in the capital of enterprises and shall subscribe to issues of shares and other securities. It shall grant medium and long-term loans, for periods depending on the type of project involved, with an appropriate grace period. The Institution may also furnish guarantees in certain cases. It shall endeavour to actively promote the establishment of

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new and the expansion of existing enterprises. It shall give its clients technical assistance and advice in the planning, layout and execution of their projects. These loans and participations may be granted for construction work, purchase of plant and equipment and for the constitution of permanent working capital.

B. Investment policy

6. The Institution's assistance in the form of loans or participations, or both forms combined, may not normally amount to less than $10,000. However, the Institution is prepared to consider requests for financing of projects which, without reaching this amount, nevertheless present a definite economic interest.

7. As a general rule, the total amount of loans granted by the Institution, together with its participations and any other commitment of a financial nature in favour of a single enterprise, may not exceed 20 per cent of the paid-up share capital, the inimpaired reserves and the quasi-capital which might be contributed by the Government(s).

8. The Institution shall join with other financial institutions, whether local, foreign or international, in financing projects whose financial requirements exceed its capacity.

9. The Institution's total investments in the form of equity participation may not exceed the total of the Institution's share capital plus unimpaired reserves and the government long-term advance.

10. As a general rule, the Institution shall limit its equity participation in any one enterprise to a maximum of 10 per cent of its own share capital plus unimpaired reserves and the government long-term advance ranking pari passu with the share capital.

11. Generally, the Institution shall not assume managerial responsibilities in enterprises it assists and shall limit its share participations to 25 per cent of the share capital of any given enterprise. It may, however, by unanimous decision of the Board, exceed this percentage and even assume managerial responsibility if this is justified by the circumstances or the nature of the enterprise. The Institution may also, notwithstanding the above restrictions, take any action it considers essential to protect its investments.

12. When the Institution underwrites an issue of shares or other securities, it may commit itself for an initial amount in excess of the limits fixed in paragraphs 10 and 11, as long as it has good reasons to believe that its final investment will remain within those limits.

13. When deciding upon the amount and form of financial assistance it shall provide, the Institution shall take into account all the financial requirements of the project and the financial situation of the enterprise in question. In principal, the loan the Institution grants shall not together exceed 50 per cent of the total cost of the project. It may, however, exceed this limit if there is special justification, such as in the case of an expansion project.

14. The Institution shall endeavour to maintain a balanced portfolio by distributing its loans, participations and other commitments among all the sectors of industrial and economic activity within the range of its objectives.

C. Financial policy

15. The general aim of the Institution's financial policy is to maintain the value of its own capital, to manage its funds in such a way that it is at all times ready to honour its obligations on time and to achieve a profit margin that enables it to cover its operating costs, form adequate reserves and distribute reasonable dividends to its shareholders. To this end, the Institution shall:

(a) Maintain a satisfactory balance between the maturities of its own obligations and those of the loans it grants;

(b) Not incur debts of more than one year of term in excess of five times the amount of its capital plus quasi-capital (debt-equity ratio);

(c) Generally require appropriate guarantees for the loans it grants;

(d) Fix its interest rates, commissions and other charges at a level that will enable it to obtain a satisfactory return;

(e) Make adequate provisions against potential losses and build up reserves to a level consistent with sound financial practices, taking into account the size and quality of its portfolio of loans and investments as well as the need to pay adequate dividends to its shareholders.

D. Organization - special provisions

16. The Institution shall strive to develop and maintain a solid and well-balanced organization and a management team capable of appraising the financing proposals put before it, assisting enterprises in the formulation of their projects and supervising their execution. With this in view, it shall give specific attention to the training of its professional staff, both locally and abroad. Professional and other staff shall be recruited solely on the basis of their professional qualifications.

17. The Institution shall require that its borrowers have an accounting system which meets the requirements of sound management. It shall, as far as it is possible, exercise the right to check the activities and inspect the accounts and books of the companies it finances.

18. The Institution's own accounts shall be kept in accordance with generally accepted international standards. The Institution shall engage the services of an independent firm of professional accountants of international repute to audit its annual accounts.

19. The Institution may undertake the management of special funds only on condition that such management does not, in the view of the Board of Directors, interfere with the Institution's capacity to fulfil its main objective of promoting and financing productive investments. Such funds shall only be managed by the Institution on condition that it receives a remuneration to be determined in the light of the service rendered.

20. The Institution will seek to pass on to its sub-borrowers the foreign exchange risk on all foreign borrowings.

Annex XII*

DRAFT STATEMENT OF INVESTMENT STRATEGY
(Criteria for selection of projects by the MRU Fund)

Selection of projects shall take into account economic conditions, the major problems facing the subregion and national priorities, while also bearing in mind the limited resources at the disposal of the MRU Fund.

In view of the particular difficulties facing the MRU subregion and the foreign exchange shortage, the MRU Fund shall give priority to projects meeting the following criteria:

(a) Improvement of the balance of payment;

(b) Satisfaction of basic needs;

(c) Exploitation of local raw materials;

(d) Employment creation;

(e) Improvement of transport conditions in the interior.

Specifically, the MRU Fund shall assist the following projects:

(a) Export-oriented projects;

(b) Agro-based projects and those based on domestic raw materials;

(c) Labour-intensive small-scale projects, including handicrafts, based on local raw materials and involving minimal, if any, foreign exchange requirements;

(d) Engineering projects to supply components and spare parts to other industries;

(e) Commercial agriculture projects;

(f) Transport projects;

(g) Import-substituting projects showing net foreign exchange benefits.

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