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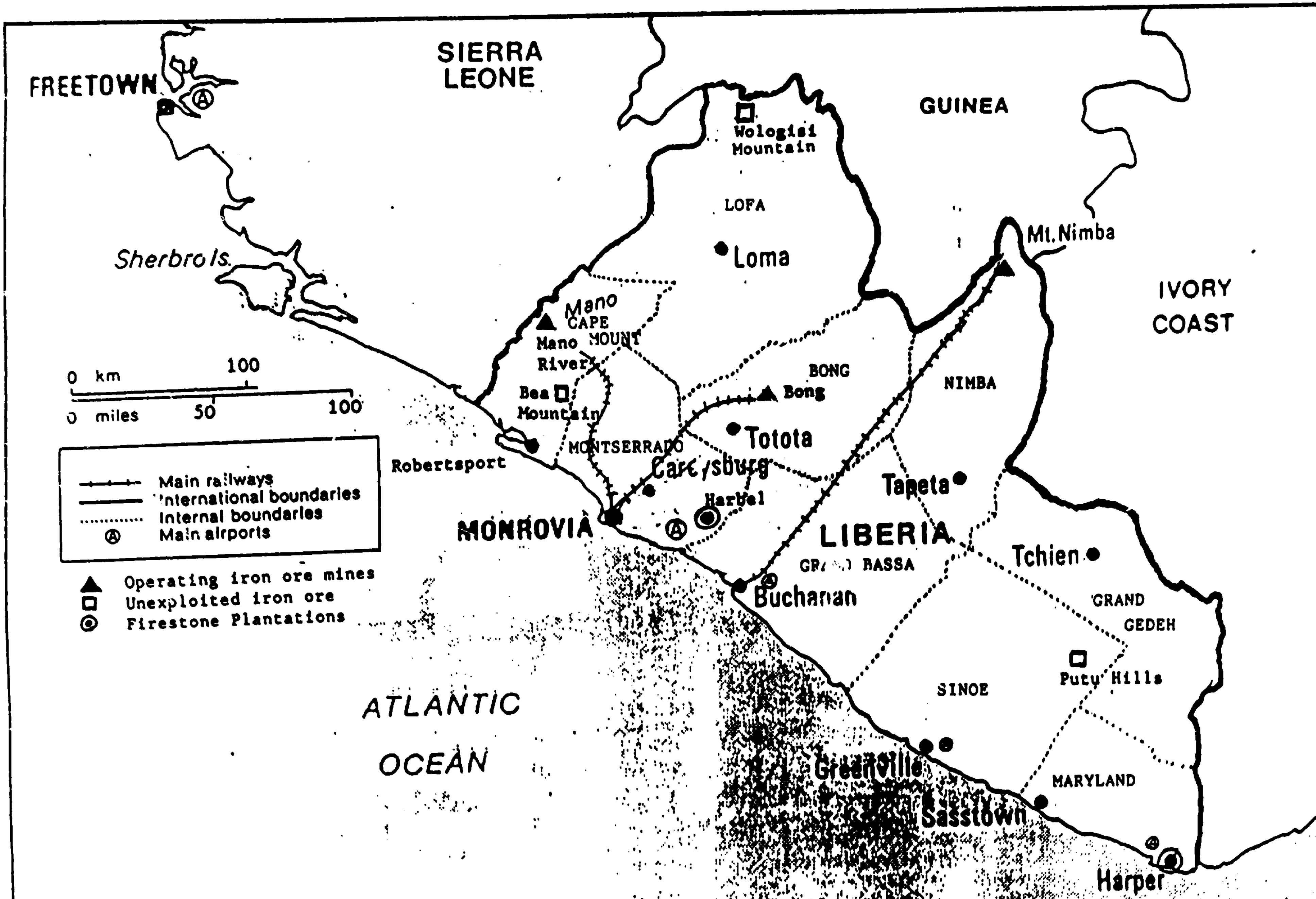
REGENERATING AFRICAN INDUSTRY

Briefing book - Liberia country mission

Prepared by Regional and Country Studies Branch,

with UNIDO consultant Hubert Schlemmer

Contents



Source: EIU Country Profile 1988

General country information

Area: 111.400 km²
Population: 2.35 mn (est. 1987); growth rate (1980/85) 3.4 %

Main Towns: Population in '000

Monrovia	450	(1986 est.)
Gbarnga	30	(1984 est.)
Tchien	15	(1984 est.)
Buchanan	24	(1982 est.)
Harper	12	(1982 est.)
Greenville	10	(1982 est.)

1985 GDP at current prices (L$ mn): 811.2 (1987 est.:907)
1985 GDP at (1980) constant prices (L$ mn): 797.2 (1987 est.: 821)
1985 Real GDP growth rate (%): -0.9
1985 GDP per capita (L$): 370
1985 GDP per capita at (1980) constant prices (L$): 364

Origins of GDP 1985 (% of total)/Components of GDP 1986 (% of total)

Agriculture	19.4	Private Consumption	64.3
Mining & Quarrying	19.2	Public Consumption	13.1
Manufacturing	8.2	Gross fixed	
Construction	3.8	Capital formation	11.1
Government services	16.1	Change in Stocks	0.8
Other services	33.3	Exports	44.4
		Imports	-35.8
		of goods & services	

1987 Exports (f.o.b. mn L$ est.): 291.1
1987 Imports (c.i.f. mn L$ est.): 233.8

Currency L$, US $
(October 1988 parallel market rate: 1 US $ = 2.3 L$)
1986 total external Debt disbursed: 1002 mn US $
1985 total Debt as % of GDP: 112 (1986 est.): 121

1985 Life expectancy: (men) 49 years, (women) 52 years
1985 Infant mortality rate: 12.7 %
School enrolment: 95 % (males), 57 % (females)
Languages: English, Golla, Kpelle, Mande, Kru and other

1. Background and political structure

1.1 Domestic politics

Liberia is the only country in West Africa that has no colonial past. It is Africa's oldest republic. It was founded as an independent state by the American Colonization Society in 1847 to serve as a settlement for the freed slaves from the Southern States of the United States of America. United States influence on the economy was, nevertheless, decisive, owing to the existence of huge Firestone rubber plantations at Harbel and Harper, which have been the country's largest employer for over 50 years.

Although the Constitution of Liberia was modelled upon the United States system, executive power being vested in the President with a bicameral legislature, there was only one party - the True Whig Party (TWP) - the members of which comprised approximately the 3 per cent of the population of free slave origins. Attempts to form an opposition party - Progressive People's Party (PPP), - came to an end in September 1980 when the leader, Gabriel Bacchus Matthews, and other top members of the party were arrested. Until the coup of 1980, masterminded by Master Sergeant Samuel Doe, the political scene in Liberia was dominated by the Americo-Liberians, direct decendants of the freed slaves.

The Constitution was suspended by Doe, who assumed the title of Commander-in-Chief. He formed the People's Redemption Council (PRC) comprised of 15 members representing the 15 provinces of Liberia, all of which were soldiers of the non-commissioned officer (NCO) rank or below. The composition of the PRC could be seen as a gesture of reconciliation and unity. A 15-member cabinet was also formed from members of the PPP and other opposition groups, as well as from the TWP, to advise the PRC; however, members demonstrating political ambitions were gradually eliminated.

There was a series of actual or alleged coup attempts against the PRC, of which the most prominent were in August 1981, November 1983, August 1984 and April 1985. Most of the suspects were either caught, tried and executed or fled the country. In addition to public execution, Doe attempted to suppress his critics by periodically closing down the independent newspaper "Daily Observer" and by introducing legislation effectively barring criticism of the Government.

The Constitution of July 1984, which gave birth to the Liberian Second Republic, recognized a multi-party system. Like its predecessor, it is based on the United States system with a Senate, House of Representatives, and a President who is elected for six-year terms of office and who may serve no more than two successive terms.

As party politics were legalized in July 1984, following the planned general election for October 1985, ten political parties were formed. Of these, only four were recognized by the Special Election's Commission (SECOM): the National Democratic Party (NDPL) led by Samuel Doe; the Unity Party (UP) led by Edward Kesselly; the Liberian Action Party (LAP) headed by Jackson Doe (not related to Samuel Doe); and the Liberian Unification Party (LUP) with Kpolleh as its Chairman.

The October 1985 election gave the NDPL more than two-thirds of the seats in the newly-established Congress, i.e. 21 out of 26 Senate seats and 45 out of the 64 in the House of Representatives. These election results and those of the March 1987 by-election have been rejected by the other political parties because they were considered rigged.

1.2 Foreign relations

Although, after the 1980 coup, some elements in the PRC and the cabinet were keen to adopt a non-aligned position, and although links to the USSR and Libya were developed, the Government has maintained its traditionally close ties with the United States. Liberia houses important United States military installations, including a satellite tracking station, as well as United States commercial investment. The Administration and Congress of the United States have increasingly used the threat of withdrawal of aid as a lever on the Doe regime. In 1987, United States operations experts (OPEX) were drafted into key ministries, parastatals and the Central Bank, with effective power to veto spending decisions. Most United States aid had meanwhile been suspended because of Liberia's arrears on previous borrowing.

Relations with neighbouring countries have also oscillated since the coup of 1980. In February 1983 the publication of a falsified report in a Sierra Leone newspaper prompted a confrontation with that country. At one stage, 2,000 Liberian troops were deployed along the countries' common border. However, this incident was resolved by the end of that same year. In November 1983, the Ghanian chargé d'affaires was expelled, along with the Ambassador of the USSR, following Government charges of complicity in a plot to overthrow the Government. Suggestions that the October 1985 coup attempt had been made with assistance from the Côte d'Ivoire, Sierra Leone and Ghana, though denied, led to temporary border closures and further disruption of regional relationships. Cordial relations with Sierra Leone have now been resumed.

Liberia is a member of various regional organizations (e.g. ECOWAS, the Mano River Union). No recent documentation on their activities was available, nor on Liberia's role within them. The Mano River Union suffers from serious financial problems. A marine training institute set up by the organization was turned over to the Liberian Government. As assistance project for this institute has been formulated by UNIDO.

1.3 Recent developments and outlook

As in November 1987, the Liberian Government is composed of 22 Ministers, of which one is without portfolio. The Minister for Finance, Mr. John G. Bestman, and the Minister for Justice, Mr. Jenkins KZB Scott, were replaced, following allegations of mismanagement and fraud, by Mr. David Farhat and Mr. Emmanuel Bgalazeh, respectively. The one-time Ministry of Commerce has been expanded into the Ministry of Commerce, Industry and Transportation under Mr. J. Weissel McClain.

After the skirmish of 13 July 1988 with armed rebels in the Nimba region, in which the former Vice-President, Major-General Nicholas Podier, was reported killed, the political situation has remained tense. Events this year would suggest that President Doe has become increasingly isolated. Concerned about his future prospects, he has responded by seeking to secure his constitutional position. The legislature voted at the end of June 1988 to alter the electoral procedures allowing the President to serve only two terms of office. The amendment, which in effect would enable President Doe to remain in office indefinitely, has received sharp criticism from the leading opposition parties but will, apparently, be put to a referendum in 1989.

2. The Liberian economy

2.1 The overall economic situation (tables 1 and 2)

Liberia has a good natural resource base. Iron ore, gold, rubber, wood, cocoa, coffee and fish are the main natural resources that are presently being exploited. The country also has ample agricultural land reserves.

The economy is dependent upon primary commodity production, with the bulk of the population still involved in subsistence agriculture (see Annex Table 1). In the monetised sector, production is concentrated in iron ore, rubber and diamonds, all of which are exported in a crude form, while rice and cassava are grown for the domestic market. All important trade partners are industrialized countries. Imports from the ECOWAS region have fluctuated around 15 per cent of total imports in recent years. The corresponding figure for exports is 1-2 per cent. Nigeria, Ivory Coast and Guinea are the leading ECOWAS trading partners. Trade with countries in the region has been handicapped by the fact that, because of its linkage with the United States dollar, the exchange rate of the Liberian dollar appreciated substantially between 1981 and early 1985, severely reducing the profitability of Liberian trade. Since then, however, available statistics indicate a significant decline in the real effective rate, restoring competitiveness. Relatively easy access to US dollars also means that large amounts of goods are smuggled into Liberia from neighbouring countries to be sold for hard currency.

Liberia earns revenue as the world's largest flag state: 30 per cent of tankers and bulk carriers worldwide fly the Liberian flag. In September 1986 the Government cut ship registration fees in the hope of halting the decline in Liberian registered vessels.

Foreign-owned firms are the largest in the country; Government control of their activities appears rather tenuous, and its share in their revenue is low. The large-scale rubber plantations, providing 40-50 per cent of annual production, are foreign-owned. The Government owns most of the stocks in the country's largest iron ore mine.

The economy is characterized by weak linkages. The mines and plantations are virtual enclaves, producing directly for shipment overseas and relying largely upon imports for their everyday needs. Very little processing of iron ore and rubber (as well as other natural resources) takes place beyond the basic level needed for overseas transport. The rural areas would appear to function almost independently from urban settlements which, together with the mines and plantations, are the loci of the modern economy.

Other impediments to economic development include:

- lack of domestic entrepreneurs;
- low skill levels;
- insufficiently developed physical and institutional infrastructure.

Apart from taxation of the rubber and mining companies and of rubber and iron ore exports, Government revenue consists mainly of shipping fees and foreign assistance. Financing the Government's regular and development expenditure is therefore extremely dependent upon external economic and political development, over which Liberia has no control.

Table 1: Structure of Gross Domestic Product at factor costs
(Constant 1981 prices)

	1981		1982-85 average		1986	
	$ million	%	$ million	%	$ million	%
Agriculture, forestry and fishing	297.0	31.7	316.3	32.8	342.3	37.4
Mining and quarrying	127.4	13.6	102.1	10.6	94.3	10.3
Manufacturing	62.9	6.7	66.7	6.9	65.1	7.1
Electricity and water	22.7	2.4	24.5	2.5	24.0	2.6
Construction	37.0	3.9	33.0	3.4	26.7	2.9
Trade, hotels and restaurants	59.1	6.3	62.6	6.5	52.4	5.7
Transportation	76.1	8.1	83.2	8.6	71.1	7.8
Financial institutions and real estate	85.8	9.1	86.3	8.9	87.3	9.6
Government services	154.4	16.5	147.7	15.3	135.6	14.9
Other services	28.6	3.0	30.0	3.1	28.0	3.1
Less imputed bank charges	13.3	1.4	12.8	1.3	13.7	1.5
TOTAL GDP	937.8	100.0	965.2	100.0	913.1	100.0

Source: Ministry of Planning and Economic Affairs, Liberia.

Table 2: Balance of payments summary, 1979-1984
($ million)

Balance of Payments	1980	1981	1982	1983	1984	1985
Current account	46	69	2	-84	13	75
Merchandise: Exports fob	600	529	477	428	452	436
Merchandise: Imports fob	-478	-424	-382	-366	-320	-251
Trade balance	122	105	94	61	132	184
Other goods, services and income: credit	13	12	35	40	40	38
Other goods, services and income: debit	-97	-86	-173	-259	-218	-210
Private unrequited transfers	-29	-30	-45	-3?	-44	-28
Official unrequited transfers nie[a/]	36	68	92	113	103	90
Direct investment	-	-	35	49	39	-16
Portfolio investment, nie[a/]	-	-	-	5	7	7
Other long-term capital, nie[a/]	70	44	143	28	40	-95
Other short-term capital, nie[a/]	5	8	2	-60	-41	-32
Net errors and omissions	-168	-170	-258	-13	-152	-131
Counterpart to SDR allocation	5	5	-	-	-	-
Counterpart to valuation changes	-27	4	4	9	14	-25

Source: IMF, International Financial Statistics, October 1987

a/ Not included elsewhere.

There have been various attempts to diversify the economy. In agriculture this has included the expansion of coffee and cocoa production as well as forestry exploitation for export, and palm nuts both for domestic consumption and for export. A "Green Revolution" programme announced in 1986 (see Section 2.6) has thus far had little effect on output levels, due mainly to a lack of inputs. In the mineral sector, the Government is encouraging a number of United States companies to explore for oil inland and offshore. Attempts to speed up industrialization, including revision of the foreign investment code and expansion of the industrial free zone near Monrovia, have had little effect. More details on manufacturing may be found in Chapter 3. The most important attempt to regenerate the economy is the 1986 Economic Recovery Programme, described in more detail in Section 2.5.

2.2 Major sectors

Mining

Iron ore mining is the largest single sector of Liberian economy. Liberia accounts for over 50 per cent of iron ore production of the African continent. Liberia's iron ore output reached 19,540 thousand metric tonnes in 1981, but shrunk to 13,500 thousand metric tonnes in 1987, a drop of 31 per cent. This drop is due to lack of demand and competition with other major iron ore producers, mainly in Asia. Iron ore export revenue fell from US$331 million in 1980 to US$272 million and further down to US$218 million in 1987. The share of iron ore export in total exports declined from about 60 per cent in 1980/81 to 55 per cent in 1986/87 (see Table 3).

The largest foreign concessionaire working the iron ore deposits is LAMCO, a Liberian-American-Swedish Company. It is situated at Nimba Mountain near the border with Guinea and Ivory Coast. LAMCO, which accounts for half of the country's iron ore production, announced a 50 per cent cut back in production at Nimba in 1987 and projects probable closure in 1990 due to the depletion of the mine. Total iron ore production of LAMCO fell from 10.5 million tonnes in 1981 to 7.2 million tonnes in 1986. As total iron ore production in Liberia is declining, LAMCO's output still accounts for 50 per cent of the total.

The depressed level of world demand for iron ore has delayed the exploitation of deposits at Wologisi in the northwest, the Bea Mountains in the west, and Putu Hills in the southeast. There is a potential for further mining in Liberia, but sluggish world iron ore markets have kept LAMCO from further investments. Though there are feasible projects which could keep LAMCO operating beyond 1990, all depend substantially on the raising of capital for new infrastructure. There is a joint project with Guinea for developing a deposit across the Guinean border. The two governments have decided to press ahead with the effort to raise the necessary US$325 million investment in mid-1987. The start up has been set for 1990, with output likely to be in the range of 10-12 millions tonnes per year. Since the Liberian Goverment holds 62.5 per cent interest in LAMCO, strong support for this project can be expected.

The other two iron ore concessionaires are the FRG's Bong Mining Company (BMC), almost abreast with LAMCO in terms of output volume since the latter's output reduction, and the Liberian National Iron Ore Company (NIOC) at Mano River. In early 1988, BMC was in serious financial trouble. The company has

Table 3: Liberia: Major exports, 1981/82-1986/87
(in millions of US dollars)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87 Prel. Est.
Iron ore	331.1	325.1	295.3	257.8	272.3	245.6	217.8
Rubber	93.6	[illegible]	59.8	87.5	78.4	82.7	81.6
Logs and timber	45.9	45.4	38.1	33.5	33.6	41.0	63.9
Diamonds	23.5	28.9	19.5	12.6	8.8	6.2	4.1
Coffee	24.7	19.2	18.7	17.8	18.3	22.7	9.8
Cocoa	10.9	11.7	8.8	14.9	12.9	8.7	4.1
Other exports	11.5	4.9	5.0	4.0	9.3	9.0	12.1
Re-exports	13.5	4.8	7.3	5.3	3.0	3.0	2.4
Total exports, f.o.b.	554.7	508.9	452.5	433.4	436.5	419.0	395.8

Source: IMF.

Table 4: Composition of imports (value and share), 1981 and 1984

	Value ($'000) 1981	Value ($'000) 1984	Share (per cent) 1981	Share (per cent) 1984
Food, beverages and tobacco	102,811	86,119	21.5	23.7
Crude materials	6,432	4,934	1.4	1.4
Fuels	129,598	71,748	27.1	19.7
Manufacturing	238,587	200,408	50.0	55.2
- Animal and vegetable oil	3,461	4,655	0.7	1.3
- Chemicals	33,088	24,206	6.9	6.7
- Basic manufactures	61,253	50,242	12.8	13.8
- Machinery, transport equipment	118,652	97,174	24.9	26.8
- Other manufactured goods	22,133	24,131	4.7	6.6
Total	477,429	363,209	100.0	100.0

Source: United Nations, 1985 International Trade Statistics Yearbook, Vol.1, 1987.

continued operations with an EEC loan. Though the Liberian Government held a 50 per cent stake in NIOC, the company was managed by the US Steel Corporation subsidiary Metchem Canada. Despite a US$67 million rehabilitation project, agreed with the World Bank, ADB, OPEC Fund and others, production ceased in 1985. Rapidly depleting reserves and soaring operational costs have forced the remaining producers to make economies. Even so, a further decline in iron ore production is expected.

Small-scale mining of gold and diamonds is found in the lower Lofa river and Tchien areas. Estimated export revenue from diamonds was US$11 million in 1987 (calculated on the basis of the official exchange rate). Gold and diamond smuggling into Liberia from Sierra Leone makes accurate estimates of production and sales impossible. Some estimates of actual exports go as high as US$50 million. A large international mining company is negotiating with the Government of Liberia for a major investment in gold and diamond production. Of potential economic significance, finally, are the deposits of barite, kyanite and uranium.

Rubber

Rubber is the country's second largest foreign exchange source after iron ore, accounting for 21 per cent of total exports in 1987 (see Table 3). Liberian smallholder farmers account for about 60,000 ha of farmland cultivated with rubber, but only about a quarter of total rubber output in 1986. The drop in rubber prices in 1981 brought production by some 5,000 small rubber farmers to a halt. The price index of rubber export fell by 39 percentage points till 1985/86 and has only recently started recovering (see Annex Table 2). Firestone rubber production, however, rose by 20 per cent in the same period. Even so, Firestone, the largest operator of rubber plantations, had to close down the plantation in Cavalla in 1983 becuase of heavy losses. At present the world's largest industrial rubber plantation, the Firestone plantation near Harbel, produces most of the rubber for export, estimated at US$89 million in 1987.

The expanding demand for rubber is the major reason for the recent rise in prices which is expected to continue for the next few years. Some estimates project that the value of production will double between 1987 and 1989. Rubber is likely to become Liberia's largest export in 1989, and its growth should partially compensate for the decline in iron ore exports. In spite of this, there is speculation that Firestone may pull out of Liberia, negotiations apparently being under way with Bridgestone of Japan and Pirelli of Italy.

Logging

Liberia has substantial forestry reserves. Presently, the total forest area is estimated at 12 million acres (see Annex Table 3). The forest potential is concentrated in the southeastern area (Maryland, Sinoe and Grand Gedeh). The logs and timber exports share of total exports rose from 8.3 per cent in 1981 to 9.8 per cent in 1986 and is estimated to reach about 16 per cent in 1987 (see Table 3). Recorded log and wood exports rose by 40 per cent, up to US$62 million in 1987. A large proportion of the logs and timber is believed to be transacted outside official channels in order to evade stumpage fees. Timber exploitation is predominantly undertaken by foreign companies under concessional agreements. Liberia's benefits of log and timber exploitation is limited as no income accrues from further processing in the country. The rapid expansion of the log and timber industry has raised concern over the depletion of rain forest, worsening the hitherto acceptable consequences of traditional "slash and burn" farming.

Agriculture

Agriculture has traditionally been one of the strongest sectors of Liberia's economy. The share of employment in agriculture is estimated at over 80 per cent of the working population, from which about 89 per cent are employed in the non-monetized agricultural sector. The predominance of subsistence agriculture is one reason for the scarcity of data pertaining to the sector.

Coffee and cocoa, the main export crops, are mainly grown by smallholders. The estimates for 1987 show a sharp decline of export volume for both, coffee and cocoa (see Table 3). Agricultural production estimates show a stagnation in output for cocoa and a slight decline in coffee production (see Annex Table 4). Production and export figures are heavily affected by changes in world demand.

The official figures do not reflect the substantial volume of produce that moves unofficially across the border into neighbouring countries. This is mainly due to the low prices paid for coffee and cocoa on behalf of the Liberia Produce Marketing Corporation (LPMC), which has a trading monopoly, by official buying agents.

The Government has encouraged the cultivation of oil palms to provide oil for domestic consumption. Figures in Annex Table 4 show a moderate increase in production volume. A range of oil palm products is purchased and exported by LPMC. Earnings have been variable.

Rice and cassava are important staple food crops. Liberia, however, has to import about a quarter of its rice consumption, much of which is supplied by USAID. Progress towards the government's aim of self-sufficiency in rice production has been limited. The table of estimated agricultural production shows a stagnation fo rice prodution at the level of 250,000 tonnes per year. Food production per capita has fallen steadily over the last decade and was some 15 per cent below the level of 1975, in 1985.

2.3 Recent developments

Some encouraging signs that the downward trend may have ceased can be taken from the GDP figures. According to the new series of national accounts, the decline in the monetary economy would seem to have reached its trough in 1983, with the rate of decline moderating to less than 1 per cent in 1987, compared to 1.4 per cent in 1984, 2 per cent in 1985 and 1.9 per cent in 1986. The decline in exports which began in 1980 seems to have persisted, but there are indications that export earnings, excluding those from iron ore, have stabilized from 1987, the major stabilizing influences being rubber and timber exports. Figures of crop purchases by the Liberia Produce Marketing Corporation in 1987 indicate some increase in crop harvests, although illegal across-the-border sales from Côte d'Ivoire cannot be ruled out. After mild recovery in 1986, imports also seem to have increased dramatically in 1987, a reflection of greater availability of foreign exchange from increased log and rubber exports. Whether increased imports reflect greater business confidence or merely increased consumption is not clear. It is estimated that imports into Liberia less trans-shipment were some 35 per cent greater for the 12-month period ending November 1987 compared with the corresponding 12-month period to November 1986.

There were improvements in Government revenue peformance in 1987 due in large measure to administrative reforms and continued smooth operation of collection of on-shore Government revenue by commercial banks. Yet these were hardly strong enough to prevent rising overall budget deficits which amounted to almost 8 per cent of monetary GDP. The deficit financing by the Government was partly through borrowing from the banking system and partly through coin issue, the large and accelerated expansion of which has led to a continued pressure on domestic prices and sharp depreciation of the Liberian dollar in the parallel foreign exchange market. The indication, however, is that the rate of growth of money the supply is beginning to slow down and that the inflationary trends which began emerging in 1986 can be halted.

The domestic private sector seems to have succeeded in protecting itself from some of the vicissitudes and adverse effects of the prevailing economic conditions, in part through a thriving parallel market in foreign exchange; private sector confidence seems to have increased recently as a result of a series of symbolic Government gestures relating to the management of the economy. This is a.o. expressed in the growing number of small and medium-scale enterprises.

2.4 Money and banking

One result of the large budget deficits since 1980 was that the Government of Liberia was eventually obliged to finance the deficits by expanding the supply of Liberian coins. Prior to 1983-1985, the United States dollar had circulated as the Liberian currency with Liberian coins used in denominations of one dollar and less at par with the United States dollar. Beginning around 1984, Liberian five-dollar coins were also issued and used both as a revenue supplement and to meet liquidity shortages. By the end of 1986, roughly L$90 million in coins were in circulation. As a result, the regular circulation of United States dollar notes had largely ceased.

At this point, a parallel or extra-legal foreign exchange market emerged where Liberian coins were traded at a discount to the United States dollar. This discount gradually increased until October 1988 when US$1.00 was around L$2.30. Meanwhile the official exchange rate remained one to one, resulting in a de facto dual currency system.

In spite of the problem and distortions in the current money system. the parallel market has served as a source of needed, if more expensive, foreign exchange for importers. Imports have actually icnreased in the period since the parallel market has emerged. Much of the foreign exchange however seems to have been used to buy consumer goods. Manufacturing establishments have encountered the greatest difficulty in obtaining foreign exchange for raw materials.

Since May 1986 exporters are required to surrender 25 per cent of their foreign exchange earnings to the Government of Liberia in exchange for Liberian dollars at the official exchange rate. These regulations are intended to enable the authorities to obtain foreign exchange for official purposes, including debt service.

Because of its linkage with the United States dollar, the official Liberian dollar appreciated substantially in nominal and real effective terms between 1981 and early 1985, severely reducing the profitability of the tradeable goods sector. Since then, however, available statistics indicate a significant decline in the real effective rate, restoring the 1980 level of competitiveness. These calculations are based on the official consumer price index which is believed to seriously underestimate the rate of inflation.

With regard to commercial banking, the Memorandum of Understanding (MOU) of March 1987 between commercial banks and the Government of Liberia is still valid. This MOU had re-established the interbank check clearing process and acceptance of Government checks and also provided that the banks may act as collection points for tax revenue. In September 1988 the Government announced that a portion of the 25 per cent foreign exchange surrender from exporters would be allocated through commercial banks, a move designed to shift foreign exchange transactions from the parallel market back to within the banking system.

2.5 Economic policy making

Public administration is weak. It was not until the 1950s that a civil service and a system of public accounting were established. Neither of them has functioned properly thus far. The Administration's control is further weakened by internal unrest and regular shake-ups among senior officials. Political instability has resulted in capital flight and emigration of skilled manpower.

The Government budget deficit has been increasing over the years while Government ability to collect revenues has declined. In the fiscal year 1986/1987 Government revenue amounted to only L $172.6 million, the lowest level in the last five years. Tax evasion has increased over the years and the Government has found it very difficult to collect taxes especially from major exporters and large estate holders. Capital flight has accelerated and the Government response, the minting of large quantities of Liberian five-dollar coins, has disrupted the monetary system. There is a growing of shortage of United States dollars and an increasing reluctance on the part of traders to accept Liberian dollars. The Government's ability to regulate the flow of credit, e.g. through the manipulation of the interest rate, has become increasingly restricted.

In 1987 the Government set up some 14 cabinet committees on various aspects of public sector management and fiscal reform such as privatization, foreign exchange, tariffs and incentives. On 26 August 1987, the Governments of Liberia and of the United States signed an agreement under which the latter was to provide, on a grant basis, the services of some 17 operational experts to be assigned to the Ministries of Finance and Commerce, the Bureau of the Budget, the Liberian Produce Marketing Corporation and the Liberian Petroleum Corporation. The expectations generated by the arrival of the 17-man OPEX team, and the relative political calm that has prevailed for some time now may be factors contributing to the increased business confidence in the economy.

Development planning, although formally initiated in the 1950s, was not actually implemented on any significant scale until the 1970s. Apart from manpower shortages, lack of experience must therefore be taken into consideration when assessing the likely success of present-day development or recovery programmes.

The 1981-1985 Plan, inter alia, attempted to address such problems as the country's import dependency, export earnings capacity, foreign debt and inadequate infrastructure. The Plan outlined measures to diversify the economy and to encourage viable economic activities in the various counties and regions mainly through a programme of industrialization aimed at increasing production and stimulating economic growth. Such measures included the efficient utilization of existing infrastructure, industrial manpower development and training, diversification of production and export promotion, increased emphasis on industrial production based on the utilization of domestic raw materials and the enhancement of private initiative in industrial development. No assessment of the implementation and the results of the Plan was available. However, most of the targets established by the Second Five-year Plan were probably not met. The strategy outlined in the Plan has by and large been adopted by the Economic Recovery Programme (ERP) drawn up in 1986.

The main objectives of the ERP are as follows:

(i) To improve the economic status of the population and expand employment in the economy;

(ii) To improve the Government's ability to meet its financial obligations, particularly with regard to development objectives;

(iii) To improve the productivity of Liberian farmers in the main food and cash crops (this is in accordance with the Green Revolution Programme launched in January 1986);

(iv) To improve the management of the public sector as a whole and reduce the role of the State in economic activity;

(v) To diversify and expand the industrial base;

(vi) To develop indigenous entrepreneurial capabilities particularly in the small- and medium-scale industries.

Pursuant to the above objectives, the Government will give assurance to the private sector that:

(a) Existing policies governing remittances of profits and investments will continue in line with the liberal policies of the Government:

(b) The legal system and applicable labour laws will protect the legitimate interest of investors, as well as encourage the expeditious disposal of labour disputes;

(c) Agreements and contracts between the Government and private enterprises will be strictly adhered to and implemented in a manner promotive of the effective operation of private sector enterprises; and

(d) The effective implementation of the Investment Incentive Code will not be short-circuited and administrative delays in the approval of projects will be reduced.

The measures for promoting enterprises in the private sector include the provision of economic information to investors, protection against excessive foreign competition and preference to local industries in the Government purchasing programme. Other important components are: entrepreneurship development; improved investment promotion facilities and investment incentives; and increased emphasis on promoting small- and medium-scale enterprises. Table 5 shows the projected distribution of ERP funds among programmes. Foreign sources of finance are expected to cover the larger part of expenditure.

The Government has also begun periodic consultations with businessmen regarding the problems affecting the investment climate.

As with other ERP programmes, much will depend upon political commitment on the part of the Government and upon drastic improvements in its institutional infrastructure. Even if these should materialize, the programme may be well beyond the country's capabilities. A 1988 ECA mission report suggests pilot projects instead of attempts at general restructuring. Reviewing the restructuring effort, the 1988 ECA mission report gives the following comments:

"Given Liberia's structural imbalance, implicit in many things including lack of integration between the monetary and subsistence sectors, we are convinced that, in addition to efforts aimed at the iron ore, rubber and forest sectors - which in the past were the main sources of growth and foreign exchange earnings to the country and are likely to remain so even for some time to come, there is an urgent need for diversification efforts aimed at developing additional exports in the agricultural and agro-industrial sectors and to substitute for many of the exisitng food imports. This is indeed the number one priority. Agro-processing and agro-allied industrial development is at its infancy, and very little has been done so far to hook up agriculture to industry; but this must be done in order to create enlarged demand for the products of agriculture. The re-ordering of food tastes and habits must also be accomplished in order for greater food self-sufficiency to prevail, such that the country will begin to consume what it produces locally.

The number two priority is rural development. Liberia is basically rural hence the transformation of the rural sector forms an inevitable basis of national development since only a prosperous rural sector can provide a self-reliant base for the economic development of Liberia."

A short survey of agricultural policies is therefore useful as well.

Present agricultural policies are based on the 1986 Green Revolution document. The primary objective of the proposed Green Revolution is the attainment of self-sufficiency, not just food security. The stated goals are to "recreate an awareness of the importance of agriculture to national well-being and to increase agricultural productivity. The overall goal is that Liberia as a nation will feed herself and produce export crops that would contribute to the growth of the national economy."

In implementing the Green Revolution, the following approaches are envisaged:

- Establishment, within each county, of a unit which will provide supervised credit packages to farmers;

- Involvement of agriculturally-trained graduates with a college degree, or its equivalent, as farmers in their county of origin;

- Infrastructural development;

- Development of Nucleus Estates to group crops that are appropriate for the region.

The total estimated cost of the Green Revolution is US$100 million. The Estates' cost, which is US $55 million, is divided into three main components: equipment, building and operating expenses.

Given the present economic conditions in Liberia, some preliminary measures are envisaged during the first year, such as provision of more credit to farmers, strengthening of the extension services of the Ministry of Agriculture; strengthening of the Liberia Produce Marketing Corporation (LPMC); establishment of marketing facilities throughout the country; and initial capital investment for establishing at least two Nucleus Estates while preparation for the establishment of further Estates is being carried out.

Table 5: Economic recovery programme contingency plan - amounts to be allotted

(in millions US$)

Sectors / Projects	1986/1987 GOL	1986/1987 FOR	1987/1988 GOL	1987/1988 FOR	1988/1989 GOL	1988/1989 FOR
Agriculture	9.6	25.8	3.1	25.1	3.1	25.1
Industry	-	1.0	0.2	0.5	0.2	0.5
Energy	-	-	1.0	12.0	1.0	12.0
Transport and communications	4.3	19.0	2.8	19.3	9.8	15.4
Water and sewer	-	5.0	0.4	3.6	0.4	3.6
Regional and urban development	0.5	2.8	0.5	2.8	0.5	2.8
Education and training	1.4	3.1	1.4	9.0	1.4	9.0
Health and social welfare	0.7	9.3	0.4	9.3	0.3	-
Manpower	0.3	2.5	0.6	3.7	0.6	3.7
State enterprise	-	0.5	-	0.5	-	-
Housing[a/]	-	-	-	-	-	-
Total	16.3	69.0	10.7	90.2	17.3	72.1
Contribution to international organizations	1.1	-	1.1	-	-	-
Grand total	17.4	69.0	11.8	90.2	17.3	72.1

Source: Economic Recovery Programme.
a/ Funded by National Housing Authority.
GOL = Government of Liberia contribution.
FOR = Foreign sources of finance.

The development objectives for the agricultural sector in ERP take up the objectives of the Green Revolution. There thus exist two parallel programmes for the agricultural sector. The available documentation does not indicate clearly whether this also implies parallel implementation of measures and projects; duplication and confusion would be likely in that case.

2.6 Foreign debt

Liberia's balance of payments and budgetary difficulties have led to a sharp increase in total external liabilities from US$437 million in 1978 to over US$1.1 billion by the mid-1980s (See Table 6). Long-term debt outstanding to private creditors has remained fairly constant (approximately US$160 million since 1980) while short-term debt has fallen since the late 1970s. Most of the increase is thus attributable to International Monetary Fund (IMF) drawings (suspended since 1986 due to accumulated arrears) and disbursements by official creditors.

Prior to its having been declared ineligible for new IMF funding, Liberia had five IMF agreements in as many years. There was also some rescheduling of external debt in every year between 1980 and 1985. Agreements were also reached with the commercial banks in 1982 and 1985. Arrears have nevertheless continued to accumulate, even before the break with the Fund ruled out further rescheduling. By April 1987 total external arrears were estimated at US $421 million (about 40 per cent of GNP), of which US $165 million was outstanding to the IMF and US $6.5 million to the World Bank.

Table 6: Total external debt
(in million US dollars)

	1980	1981	1982	1983	1984	1985	1986 1/	1987 1/
Total external debt	701.0	815.1	869.3	969.8	1,033.4	1,155.0	1,280.0	1,437.0
Long-term debt	569.0	638.9	640.3	718.2	783.3	879.3	940	1,004
- public and publicly guaranteed	569.0	638.9	640.3	718.2	783.3	879.3	-	-
- private non-guaranteed	-	-	-	-	-	-	-	-
Use of IMF credit	53.0	101.2	164.0	205.6	208.1	225.7	242	264
- purchases	23.9	54.9	68.1	62.0	36.4	-	-	-
-repurchases	3.1	1.5	-	11.0	20.1	7.0	-	-
Short-term debt	79.0	75.0	65.0	46.0	42.0	50.0	-	-
Total debt as percentage of GNP	64.1	75.9	82.8	100.0	105.7	112.0	159.7	169.3

Source: World Bank, World Debt Tables.
1/ IMF.

As a result of estimated deterioration in the terms of trade of more than 10 per cent and substantial increase in recorded imports, external sector development in 1987 was marked by a large swing in the officially recorded current account from surplus to deficit.

Net official capital inflows continued to decline and the overall balance of payments deficit rose to US$168 million. As in previous years, actual debt service payments on external debt were minimal in relation to scheduled obligations. Consequently, external payment arrears continued to accumulate, reaching an estimated US$672 million by the end of 1987, including US$266 million in overdue obligations to the IMF. At the same time Liberia's total external public debt, including overdue interest and charges, amounted to an estimated US$1.6 billion, which equalled 147 per cent of estimated GDP.

2.7 Foreign aid (Table 7)

Liberia's atypical history is reflected in the pattern of aid granted to the country. The United States remains by far the largest aid donor, followed by the Federal Republic of Germany and Japan. Bilateral aid heavily outweighs the multilateral, with United States aid alone averaging over US $65 million per annum in the first five years following the coup of 1980. This has exposed the Liberian Governmen to increase pressure with respect not only to its economic policies but also in its political behaviour towards its opponents. Mounting arrears on previous borrowing led a growing number of donors to suspend disbursements in 1985-1986, while the Doe regime's human rights record and the contested 1985 elections placed the United States Administration under pressure to cut its support. United States aid disbursements (with the exception of food aid) were indeed suspended for a time in 1986. Available information suggests that official development assistance was down to US$30 million in 1987.

During 1987, aid agreements were signed with Romania, Canada and the European Economic Community (EEC) under Lomé III. Aid from the Arab Bank for Economic Development in Africa (BADEA), the IMF and the United States remained suspended, but negotiations were underway for the resumption thereof. The placement of United States experts (OPEX) in the Central Bank and the economic ministries was an important step towards clearing up past arrears and the resumption of aid.

Table 7: Gross official development assistance
(in million US dollars)

	1980	1981	1982	1983	1984	1985
Bilateral	72.3	95.5	88.0	94.1	113.1	67.7
- United States	33.0	66.0	63.0	57.0	89.0	54.0
- Federal Republic of Germany	13.3	17.0	11.5	21.0	12.2	8.1
- Japan	13.9	2.5	7.1	6.1	3.8	1.6
- United Kingdom	0.8	3.5	1.7	4.3	2.1	1.4
Multilateral	28.7	19.8	22.6	30.4	25.8	26.5
- International Development Association	4.9	5.9	7.5	10.8	14.7	12.2
- African Development Fund	-	-	-	2.9	3.7	3.7
- European Community	4.4	4.0	3.1	3.8	1.9	2.3
Total	101.0	115.2	110.5	124.5	138.8	94.2
of which grants	46.6	69.1	69.4	62.9	88.5	63.1

Source: IMF.

3. The manufacturing sector

3.1 Overall characteristics

Data on the manufacturing sector are scarce and not always reliable. Value added data, at the sector and branch level, for example, were not available when this document was drafted. The following sections should be seen as a sketch of the sector rather than an exact description.

During the 1960s and 1970s the manufacturing sector grew rapidly, stimulated by the Government's import substitution strategies. Manufacturing output tripled in value during the 1960-1973 period. The average annual growth rate for the 1970s was 7 per cent. This figure was higher than that of any other sector of the Liberian economy. Per capita MVA increased from US$34 in 1970 to US$43 in 1979.

During the 1980s, a serious decline took place. According to UNIDO data, the sector's share in GDP decreased from 10 per cent in 1979 to 7.5 per cent in 1984. According to data of the Ministry of Planning and Economic Affairs, the 1986 share was 7.1 per cent. The same source gives a 1981 share of 6.7 per cent. Even if the latter figures are more correct, the sector will still have contracted in absolute terms, as a consequence of the general collapse of the economy (see Chapter 2). Apart from the factors that caused the overall decline - low raw material earnings and internal unrest - the incompetent management of some key manufacturing parastatals in the 1980s should be mentioned as a cause for the present state of the sector. Although imports remain modest as foreign exchange is scarce, their recent liberalization, which exposed Liberian manufacturers to a greater measure of competition, appears to have caused a further decline. Per capita MVA was estimated at US$43 in 1975 and US$29 in 1984, and has probably decreased even further since.

Table 8 shows employment and gross output in 1984 and 1985. The branches on which no data are available do not appear to make a significant contribution to manufacturing. Although the country is a major rubber producer, virtually all rubber is exported after primary processing. The country's oil refinery contributed a large share of gross output during the 1970s, but the plant has been closed since 1983. The figures only cover large and medium-scale industries.

By far the most important branch is beverages. The branch accounted for almost one-third of total manufacturing employment and some 45 per cent of gross output in 1985. The branch is dominated by a few enterprises that are large-scale and capital-intensive by Liberian standards. Two firms account for one-half of total employment in the branch.

Until recently, the next branch in order of importance was non-metallic mineral products, accounting for approximately 9 cent of manufacturing employment and 22 per cent of gross output in 1985. The branch is presumably dominated by a single plant, the Liberian Cement Corporation (CEMENCO), which had to suspend production in 1988. Inability to procure sufficient foreign exchange for imported inputs (clinker) and low earnings (a consequence of unrealistic retail prices set by the Government) are mentioned as the major reasons for the shutdown.

Table 8: Employment and gorss output, 1984 and 1985
(output in US$'000)

	Employment 1984	Employment 1985	Gross Output 1984	Gross Output 1985
3000 TOTAL MANUFACTURING	2,066	2,202	63,976	60,451
3110 Food products	248	307	3,936	6,933
3130 Beverages	681	708	29,262	27,322
3140 Tobacco	68	68	3,937	...
3210 Textiles	...	...	...	...
3220 Wearing apparel, except footwear	...	...	...	...
3230 Leather products	...	...	...	...
3240 Footwear, except rubber or plastic	...	28	...	165
3310 Wood products, except furniture	158	...	954	...
3320 Furniture, except metal	246	296	4,400	2,911
3410 Paper and products	14	14	433	413
3420 Printing and publishing	77	76	945	830
3510 Industrial chemicals	28	14	701	289
3520 Other chemicals	202	262	5,931	4,584
3530 Petroleum refineries	...	...	...	...
3540 Misc. petroleum and coal products	...	...	...	...
3610 Pottery, china, earthenware	...	...	...	...
3620 Glass and glass products	25	27	653	368
3690 Other non-metallic mineral products	207	193	11,131	13,283
3710 Iron and steel	...	...	...	...
3720 Non-ferrous metals	...	...	...	...
3810 Fabricated metal products	53	139	659	2,540
3820 Machinery, except electrical	17	19	211	215
3830 Machinery electric	30	39	655	455
3840 Transport equipment	...	...	...	...
3850 Professional & scientific equipment	...	...	...	...
3900 Other manufactured products	...	...	...	...

Source: UNIDO data base.

The other important manufacturing branches, in 1985, were food products, other chemicals (mainly consumer goods such as paint and soap), wooden furniture and metal products (mostly construction materials). In contrast to the branches that dominate the sector, these branches largely consist of medium and small-scale enterprises (SMEs) using relatively labour-intensive technologies. This type of enterprise is more typical of Liberial manufacturing than the large-scale type.

The overall picture of fast growth until the late 1970s, followed by decline in the 1980s, is reflected at the branch level in Table 9. Until 1984, beverages, tobacco, wooden furniture, non-metallic minerals and metal products still displayed growth. By 1985, decline had also set in in the beverages and furniture industries. As mentioned above, the cement plant is now closed. Such information as is available on the tobacco industry shows that it has a record of strongly fluctuating output. At present, the only Liberian tobacco products factory on which data were available appears to be performing relatively well, with output rising continuously over the past years.

The present state of the industrial sector is illustrated by the low capacity utilization rates of medium and large-scale factories in the Monrovia area. Table 10 lists 44 of these enterprises. This must be considered a large sample, and it contains enterprises from virtually all branches. It therefore probably offers a good picture of the overall situation in the sector. The average rate was 36 per cent. A number of factories were not operational at all.

While the overall collapse of the economy, accompanied by shrinking domestic markets and a lack of confidence among entrepreneurs, is the major cause for the decline of industry, it is possible to identify a number of more specific reasons for low capacity utilization:

- Frequent power cuts without any warning, during the three to four months of the dry season, resulting in wasted materials and man-hours, and in a lower output.

- Shortage of raw materials due to the lack of foreign exchange and the increasing difficulty experienced in arranging payments for imported raw materials. This was the most frequently mentioned problem facing management and could well be the cause of further shut-downs.

- The banking system is inadequately developed and not functioning properly, resulting in inefficiencies and lack of liquidity. Overdraft facilities which most businesses need in order to utilize their capital resources to the full are not available, even when warranted.

- Lack of or inadequate budgetary control, production planning and control, product costing, marketing forecast, break-even point analyses, etc.

- Limited market possibilities, non-realization of export potential due to either poor conception of projects or a change in economic circumstances. The market is also lost in some cases to competition from imported goods.

- Poor maintenance of equipment, absence of preventive maintenance and lack of spare parts. This is sometimes aggravated by overloading and/or abuse of the equipment.

- tariff and tax regulations which suffer from internal inconsistencies. Inconsistencies are also found in the implementation of the regulations.

Table 9: Industrial output by branch of manufacturing, (selected years)
(L$ '000)

	1973	1977	1984	1985
3000 TOTAL MANUFACTURING	...	...	...	...
3110 Food products	5,170	9,300	3,936	6,933
3130 Beverages	5,859	11,980	29,262	27,322
3140 Tobacco	1,090	68	5,937	
3210 Textiles	...	...	...	...
3220 Wearing apparel, except footwear	...	...	...	...
3230 Leather products	...	...	...	...
3240 Footwear, except rubber or plastic	513	715	...	185
3310 Wood products, except furniture	694	3,658	654	...
3320 Furniture, except metal	564	876	4,400	2,911
3410 Paper and products	...	...	433	413
3420 Printing and publishing	...	...	946	830
3510 Industrial chemicals	...	...	701	285
3520 Other chemicals	3,814	13,330	5,931	4,585
3530 Petroleum refineries	20,293	...	...	...
3540 Misc. petroleum and coal products	...	...	...	...
3550 Rubber products	...	...	...	...
3560 Plastic products	168	773	653	365
3610 Pottery, china, earthenware	...	...	...	...
3620 Glass and products	...	...	168	143
3690 Other non-metallic mineral products	2,425	6,087	11,131	13,283
3710 Iron and steel	...	...	...	...
3720 Non-ferrous metals	...	...	...	...
3810 Fabricated metal products	251	502	659	2,540
3820 Machinery, except electrical	...	...	311	215
3830 Machinery electric	...	...	655	455
3840 Transport equipment	...	...	...	...
3850 Professional & scientific equipment	...	...	...	...
3900 Other manufactured products	...	...	...	...

Source: UNIDO data base.

Table 10: Capacity utilization rates in Liberian manufacturing enterprises, 1985

Establishment	Capacity utilization rate
J.B.T. Carpentry Shop, Tubman Blvd., Monrovia	20 per cent
Nimba Wooden Industrial Co., Congo Town	20 per cent
BADDOO Poultry, Somalia Drive	Nil
LEVAN Steel, Somalia Drive	40 per cent
Parker Industries Ltd. (Paints)	33 per cent
Liberia Glue and Latex Foam Industries Inc.	Closed
LP Industries (PVC pipes)	25 per cent
Mesurado Oxygen and Acetylene Plant	Closed
Mesurado Soap Plant	Closed
Mesurado Detergent Plant	Closed
Mesurado Aluminium Fabrication Plant	No activity
Mesurado Garment Industries/Domestic Appliances	Closed
MODALCO - Food Processing	Closed
M.I.C.	20 per cent
Mesurado Fishing Compound and LIFAICO	10 per cent
LIPCO	45 per cent
METALUM	80 per cent
MEZBAU	70 per cent
Liberian Steel Products Corporation	70 per cent
National Food Manufacturing Corporation	80 per cent
Metalloplastica (Liberia) Ltd.	50 per cent
Industrial and Chemical Corporation	25 per cent
LIMACO (Match Manufacturers)	80 per cent
Liberia Battery Manufacturers Corporation	40 per cent
Monrovia Breweries 1 shift (capacity 3 times higher)	70 per cent
ERA Industries Complex Inc.	50 per cent
MANO Mfg. Co. (MANCO) (Bleach, candles, insecticides)	60 per cent
LIPLAFCO - Liberia Plastic Footwear Corporation	45 per cent
Liberia General Industries (costmetics and soap)	40 per cent
MOTIFCO - Tile Factory	70 per cent
LUNA Nail Factory	No activity
Monrovia Tobacco Corporation	60 per cent
UNIPAC Corrugated Carton Manufacturers	40 per cent
VAANG-AHN Enterprises Ltd. (toilet paper and napkins mnfrs)	50 per cent
CEMENCO Liberia Cement Corporation	40 per cent
Monrovia Slaughter House	40 per cent
Italian-Liberian Fishing Enterprise	60 per cent
C.F. Wilhelm Jantzen (Furniture) Ltd.	50 per cent
Union Glass Corporation	-
Rainbow Industries	40 per cent
Firestone Rubber Plantation, Latex Plant	...
Firestone Brick Manufacturing Plant	...
A.Z. Corporation Cube Sugar Plant	-
Average	30 per cent

Source: UNIDO, Management diagnosis and industrial rehabilitation in Liberia.

3.2 Small and medium-scale industry

Small and medium-scale industries are known to play an important role in the sector. As many of these enterprises are not registered and/or do not keep formal records, it its difficult to estimate their actual contribution. The 1986 Development Plan for Small and Medium-Scale Enterprises mentions the existence of 560 SMEs in Monrovia, and 360 in the rest of the country. Most of these are likely to be retail shops, but - as a 1985 UNIDO survey of the country's Southeastern Region shows - a considerable number of small-scale cottage industries and repair shops would also be found among these. The available information suggests that food processing, tailoring and furniture-making may be the most important manufacturing activities.

SMI development has been constrained by lack of skill resources - both financial and managerial. Access to institutional credit remains very limited as do linkages to large-scale enterprises within the manufacturing sector. Criteria for credit eligibility are strictly enforced by governmental and financial institutions. Most SMIs remain dependent on the informal money lenders and face serious problems in ensuring regularity in supply and in developing business contacts with the formal sector for dependable marketing arrangements. Marketing of SME products on a truly commercial scale is difficult due to the absence of effective procedures for quality control and product standardization.

Despite these problems there is general recognition both within Liberia and among the bilateral and multilateral agencies involved in extending technical co-operation to that country that SMIs have an increasingly important role to play in industrial regeneration in Liberia. SMIs represent a potential reservoir of entrepreneurial talent. Domestic resource content of production within this sector is relatively high and the sector is - at least potentially - more resistant to foreign exchange shocks than the larger enterprises. Moreover, the development of the SMIs is of importance in stimulating integration between the rural and urban sectors, a clear policy priority of the present administration. The SMIs have a key role in providing agricultural tools and in processing agricultural products, particularly for the local market.

While many of the large-scale enterprises had to be closed down in recent years, the number of registered SMEs has expanded by 90 during the first half of the 1980s. This would be additional proof of the better ability of SMEs to function under difficult economic circumstances; on the other hand, it should be kept in mind that many of these enterprises were probably retail businesses, and that the long-term survivial rate may be low.

3.3 Linkages

Backward linkages are weak. Iron ore, rubber, cocoa and coffee are only processed to the extent necessary for shipping. Wood is processed by the furniture and match industry, but the amount is insignificant when compared to the quantities of logs exported overseas. The formerly important cement industry had to rely on imported raw materials, in the absence of sufficient domestic deposits of the right kind. Most food crops are consumed locally, and if marketed are usually sold directly to the urban consumer, not to factories. Palm oil is used in local soap. Meat and fish products are based on local raw materials, but this is a small industry, just as rice milling. Tobacco products are also based on domestic raw materials.

Forward linkages are usually directly to the consumer. The available material contains few clear references to domestically produced intermediates or equipment used by other industries. Sawmills are among the few industries supplying other manufacturers. The foreign-controlled mining and rubber companies appear to rely almost wholly on overseas imports of the manufactured goods they need for their activities.

A new joint venture (Pakistani-Liberian) in the metal industry has strong potential for linkages. The firm will supply scrap from ships (these will be broken up locally) to a new steel rolling mill in Monrovia. This mill, located in the Free Zone (see Section 3.4), could again be a supplier of the domestic metal products industry.

3.4 Location of manufacturing enterprises

Few details are available on industrial location. With the possible exception of such processing facilities as exist at the iron ore mines and the foreign-owned rubber plantations, all major industrial establishments appear to be located in Monrovia county. The advantages of Monrovia for industrial location are obvious: it has the best physical and institutional infrastructure, and it is the largest market. Harper and Greenville seem to be the only other locations where larger-scale manufacturing firms are found.

A Free Zone has been established at Monrovia. In early 1988, six medium/large-scale enterprises were located in the zone. In contrast to free zones elsewhere, the Monrovia Free Zone partly produces for the domestic market. The main export-oriented activity is low-grade coffee and tea processing. The Free Zone's partial failure is due to lack of co-ordination among authorities involved in the operation of the Zone, and refusal to actually grant the promised financial incentives.

Smaller-scale enterprises are spread more evenly throughout the country. In 1985, for example, 71 tailors were found in the Southeastern Region. Sawmills, usually medium or small-scale enterprises, are found wherever both a reasonably developed road infrastructure and sufficient forest reserves are found. Secondary wood processing (furniture) is mainly found in the Monrovia area.

3.5 Ownership and investment

Private ownership is dominant in the manufacturing sector, just as in the economy in general. Most medium- and large-scale firms appear to be foreign-owned, with Lebanese investment probably dominating. Present legislation and development planning attempts to strengthen the role of domestic entrepreneurs.

Public ownership mainly appears to have taken the form of joint ventures. The range of industries is limited. The most important Government-managed group of manufacturing enterprises, a group that was of key importance to the sector, was the Mesurado group. The great majority of the group's plants has been closed down (see Table 3.3), partly as a result of mismanagement. Some of these plants were suppliers of inputs to other industries, which therefore suffered as well.

A recent IMF report states: "Concerning public enterprises, information on their financial inflows and outflows (both in terms of domestic and foreign currency) is far from comprehensive, while the effective influence of the authorities on their operations has been very limited. However, many enterprises are in an extremely precarious financial position."

Although Section 3.1 has made it clear that many private enterprises are experiencing extreme difficulties as well, the available material gives the impression that private sector enterprises are far better managed than those in the public sector. In other words, the private firms appear to suffer less from internal problems.

There are few signs of increasing investment in manufacturing. If anything, capital outflow is increasing (according to IMF reports). The only notable exceptions, among larger scale industries, are the shipbreaking/steelrolling complex referred to in Section 3.3, and the new rubber processing equipment installed at the Firestone plantation. Whether the latter should actually be called an investment in the manufacturing sector is debatable: as pointed out above, rubber processing only takes place to enable shipment of the product.

Details on investment in manufacturing under Government development plans are to be found in Section 3.7.

3.6 Trade in manufactures

Liberian manufacturing products are mainly sold in the domestic market. Their share in total exports is very small, and has declined during the first half of the 1980s: while the 1981 share was 4.2 per cent, the 1984 share was 3.1 per cent. More than 80 per cent of the country's export earnings are provided by two products: iron ore and rubber.

The most important manufactured exports are palm oil and sawn timber.

Manufactured goods make up more than half of the country's imports; if energy products are included, three-fourths of the country's imports consists of manufactures (Table 4). The country imports virtually all its industrial equipment, and most of the intermediates used in manufacturing production.

The major partners in export trade are the USA, the FRG and Italy. The USA and the ECOWAS countries, along with the FRG, are the major sources of imports. The available sources indicate that ECOWAS countries are among the more important suppliers of petroleum, wood and possibly textile products.

Illegal imports and exports are probably considerable, and would influence the performance of the manufacturing sector. Considerable amounts of manufactured goods are smuggled into the country from neighbouring countries to be sold against US$ in Liberian markets; the malfunctioning of the Liberia Produce Marketing Board and low official prices for controlled crops, on the other hand, are known to result in smuggling of crops (potential industrial raw materials) to neighbouring countries where prices are higher.

3.7 Manufacturing and policy-making

Several Government institutions are involved in the formulation and implementation of industrial policy. These include:

- Ministry of Planning and Economic Affairs, for matters relating to the preparation and implementation of plans, policies and programmes for industrial development;

- Ministry of Commerce, Industry and Transportation, for trade and general industrial policies in support of the manufacturing sector;

- Ministry of Finance, for matters relating to sources of financing and investment control;

- Ministry of Agriculture, in relation to the efficient utilizationof agricultural production nd agricultural waste by small and medium enterprises to meet the demand for processed food products, energy and other needs, as well as the provision of agricultural tools and implements and other inputs to agriculture;

- Ministry of Rural Development, for matters relating to creation of employment and industrial investment opportunities in the rural areas;

- National Bank of Liberia (NBL), the Small Enterprises Financing Organization (SEFO), the Liberia Bank for Development and Investment (LBDI), the Agricultural and Co-operative Development Bank (ACDB), the National Housing and Savings Bank (NHSB), on all matters relating to industrial financing;

- Monrovia Vocational Training Centre (MVTC) and other training institutions, for all matters relating to the training of entrepreneurs and workers for industrial development.

One of the key institutions for industrial policy-making and implementation is the National Investment Commission (NIC). It was established by legislative act in 1979 and is concerned with the promotion of industrial growth and the provision of technical and financial assistance to Liberian entrepreneurs to ensure their greater participation within the manufacturing sector. An SME Department has been created within NIC to mobilize financial resources for small-scale investors and to assist at the pre-investment as well as at the operational stages. This Department provides a range of extension services to SME.

Within the context of the Economic Recovery Plan, the overall objectives for the industry sector are:

(a) To arrest the decline in the rate of development of the private sector and to broaden the range of goods produced;

(b) To improve balance of payments and thus develop an appropriate mix of import substitution and export-oriented industrial production;

(c) To promote greater Liberian participation in, and a wider spread of, ownership of the enterprises, as well as to ensure development of experienced entrepreneurs;

(d) To develop linkages of the small-scale sector with large-scale enterprises; and

(e) To generate employment opportunities throughout the country with particular emphasis on the rural areas.

The sector's projects and programmes under ERP are: financing small and medium enterprises (SME) projects; development of growth centres; establishment of a technological centre for metal casting; study of potential rural industries based on local resources; study of the supply of machinery for hire-purchase to SMEs. Table 11 gives a breakdown of planned expenditure.

In September 1988, a UNIDO IDDA National Workshop on Industrial Strategy was held in Monrovia to formulate recommendations for policies and measures based on the ERP. Suggested action included:

- a detailed study of the country's natural resources;
- feasibility studies on domestic resource-based industries;
- (sub)regional market surveys;
- manpower studies;
- revision of industrial legislation especially with regard to investment incentives and tariffs;
- stimulation of private domestic entrepreneurship;
- assessment of technologies currently used and ways to disseminate information on technological innovation;
- mobilization of domestic savings;
- expansion of the role of the National Bank;
- encouragement and expansion of private banking;
- infrastructural improvements;
- re-examination of SME support;
- environmental protection;
- improvement in the policy formulating process.

The latter would include strengthening the National Planning Council by estbalishing an Industrial Co-ordinating Committee.

The present Administration has reverted to the laissez-faire policies of the 1960s and 1970s. Confiscated units have been returned to former owners. The Government has also sought to reduce and simplify and procedures for licensing, import control, taxation and the allocation of credit to manufacturing enterprises. During 1986 the procedures involving appraisal of projects for financing through the International Development Association (IDA) were simplified. This led to a significant reduction in the time-lag between project preparation and approval. Most administrative procedures have in the past developed without reference to developmental needs. A further rationalizaton of these procedures and controls is a necessity.

The attempt to rationalize administrative controls has been accompanied by measures to attract private sector and foreign direct investment to Liberia. The principal legal instrument covering investment inducements is the Investment Incentive Code (see Annex), which came into force in 1977. It was revised in 1982 and is currently undergoing further revision.

Although the Code has been in existence for over 15 years, no institutional machinery has been established within the Government to monitor its impact. Nor does it appear to ascertain the actual granting of privileges by the relevant authorities or the extent to which companies adhere to their commitments as stipulated by the Code.

Table 11: ERP manufacturing sector expenditure
(million US$)

Programme in order of priority	Source	1986/87	1987/88	Total
1. Small and medium scale	GOL	0.4	0.4	0.8
Enterprise financing	FOR	1.3	2.0	3.3
	TOT	1.7	2.4	4.1
2. Development of two growth	GOL	0.1	0.3	0.4
centres	FOR	0.2	0.7	0.9
	TOT	0.3	1.0	1.3
3. Establishment of a	GOL	0.1	0.2	0.3
technological centre	FOR	0.2	1.0	1.2
for metal casting	TOT	0.3	1.2	1.5
4. Study on development	GOL	0.2	0	0.2
rural industries based on local	FOR	0.6	0	0.6
resources	TOT	0.8	0	0.8
5. Study on the supply of machinery	GOL	0.1	0	0.1
for hire purchase to SMEs	FOR	0.1	0	0.1
	TOT	0.2	0	0.2
Total for the five priority	GOL	0.9	0.9	1.8
programmes and projects	FOR	2.4	3.7	6.1
	TOT	3.3	4.6	7.9

Source: Economic Recovery Programme.

4. Industrial regeneration issues

4.1 The macro-environment

Most of the country's foreign exchange revenue is from ship registration fees, crude rubber and iron ore exports. Income from these sources has decreased considerably, although the decrease has slowed down recently, and export earnings may have stabilized during 1988. This is mainly due to higher rubber prices, and higher prices for logs. There is, however, uncertainty about a clear and strong long-term improvement in raw material prices and it would be unwise - economically and ecologically - for Liberia to rely too much on increased rubber and timber exports to compensate for lower earnings elsewhere. With regard to shipping fees, it remains to be seen whether the reduction of these will halt the downward trend in total earnings: there is considerable competition in the "flag nation" business.

The country is not in a position to exercise much influence over these sources of foreign exchange. A diversification of foreign exchange sources, is therefore required, just as a reduction of foreign exchange needs. The Government's Economic Recovery Programme and the Green Revolution, with their emphasis on intensified explanation of a wider range of domestic resources, can be seen as a basis for such a reorientation, and for a reorientation of the economy as a whole.

Reorientation of the domestic economy faces a number of serious problems. The huge debt (relative to the country's economic potential), the mounting payment arrears and political instability have eroded the confidence of international donors and other sources of finance. With one year to go under the ERP, development aid has dwindled to US$13.7 million, according to the available information on the 1988 budget. The amount of foreign assistance received during 1987 appears to have been of the same order of magnitude. Disbursements of IMF and World Bank loans have been suspended.

The ERP, however, expects foreign financing to cover more than 80 per cent of the total amount of US$278 million needed. For the industrial sector programme, the projected foreign share is lower, but still close to 60 per cent.

It is obvious that all goals of the ERP cannot be met, given the deterioration of the country's ability to attract external funds. Improved relationships with major creditors will be a sine-qua-non for any large-scale attempt to reverse the economic decline.

A minor positive sign is the improvement in Government revenue performance, due to administrative reforms and more efficient internal revenue collection. It is unclear whether the increase in domestic revenue is only due to the presence of the US OPEX team, or whether the team's presence has actually triggered an overhaul of the administration which will have more widespread and longer-term positive effects.

In the face of decreasing availability of external funds, improved domestic resource mobilization is obviously essential. The fact, however, that two-thirds of the population virtually lives outside the monetized economy, and that there is widespread poverty among wage earners, severely limits such revenue collection.

The 25 per cent foreign exchange surrender scheme (see Section 2.4), at least, has improved the Government's foreign exchange position somewhat. Any programme would, however, have to take account of a very serious foreign exchange shortage. Much of what the surrender scheme supplies will have to be used for debt payments. And it is very much the question whether the foreign exchange retained by exporters is always used for productive purposes.

Even if the overhaul of the administration is successful, much remains to be done to create a capable, efficient civil service. The shortage of competent manpower is illustrated by the repeated Government appeals to expatriate Liberians - including those in political exile - to return and take part in the development process. Continued support to strengthening the institutional infrastructure would be an essential element in any regeneration programme.

4.2 The manufacturing sector

The rather unfavourable prosepcts for the economy as a whole imply that industrial regeneration and rehabilitation programmes are confronted with certain limits:

- a small market for industrial products;
- lack of foreign exchange;
- shortage of capable managers and of domestic entrepreneurs[1] willing to invest in manufacturing;
- weakly developed institutional infrastructre;
- insufficient repair services;
- underdeveloped transport, energy and water infrastructure.

These impediments to industrial development will be facts of life for years to come. ECOWAS could provide a larger market for Liberian manufactured exports, but progress in regional trade has been slow, so far. The Mano River Union is virtually defunct, as a result of lack of funds and political motivation. Even if recent attempts to revive the Union are successful, it will be years before the positive impact of co-operation will be felt. The shortage of capable personnel and the lack of interest in industrial investment is very much the result of political and economic instability, and a solution of these problems will depend on a return to stability. Meanwhile, the "brain-drain" continues. As to physical infrastructure, even under more favourable circumstances its qualitative and quantitative improvement would be a long-term process.

On the other hand, industries that function or can be made to function under these unfavourable circumstances, can be major contributors to renewed growth of the sector, and of the economy in general.

The industries to be selected for regeneration and rehabilitation efforts at the present time should therefore be of a relatively unsophisticated kind, demanding little capital and high-level personnel. If possible, they should not only be foreign exchange savers, but also foreign exchange earners.

1/ Lower-level skills do not appear to be a serious problem. The country's literacy rate is relatively high and there is a network of vocational schools - which admittedly has many shortcomings.

The ERP's emphasis on small and medium-scale industry, and on expanding the exports of processed palm oil, wood and rubber from domestically-owned plantations, shows that the Government of Liberia is pursuing an industrial strategy that takes account of the country's potential and of the limitations of the present economic situation.

The ERP however is not sufficiently detailed to give a clear impression of how this industrial regeneration strategy is to be implemented. The question of financing the programmes has already been touched upon. Another general problem is the lack of detailed and accurate information on the sector; this alone makes it difficult to formulate sound regeneration programmes. The wide range of other activities and measures to be undertaken to create a favourable climate for industrial growth has been indicated by the UNIDO/IDDA Workshop (see Section 3.7).

Turning to individual industries, it is also unclear what the ERP means by wood and rubber processing, two of the major industries to be stimulated. Plywood manufacturing is mentioned, but the ERP indicates that most wood will continue to be exported in the form of logs and timber. The domestic value added content of wood products will in that case remain low. Although a 1983 National Investment Commission made a detailed analysis of the problems and potential of the wood products industry, little account seems to have been taken of this report in subsequent policy formulation. Furniture and wood-based construction materials industries could be much larger savers and earners of foreign exchange than they are at present, and the cost to the natural environment would probably be lower than that of the logging industry.

With regard to rubber processing, there is a major difference between the very simple processes used to prepare rubber for overseas transport, and the actual manufacture of rubber products for end use. Although this is obviously an industry with considerable potential, there is no evidence that the latter type of manufacturing has ever been important in Liberia, and it is not clear that the ERP envisages its expansion. It is not unthinkable that the dominant position of foreign rubber producers in the country is an obstacle to the domestic rubber products industry.

The palm oil industry is to become a larger foreign exchange earner as well. The industry is also a major supplier of the domestic food products market, and provides raw materials to the domestic pharmaceuticals and consumer chemicals (soap, paint) industries. An expanding supply of palm oil would help the latter industries to increase their capacity utilization. Other industries processing agricultural products would, for the present, have to rely on available plantation crops as well: as indicated above, most Liberians are subsistence farmers, and relatively little produce is marketed by them.

A food industry with some potential is fish processing. The country has rich ocean fish resources. Much of this is at present exploited by foreign fishing/processing vessels. Successful processing plants are in operation, but the industry's most important plant (part of the Mesurado group) is suffering from severe equipment shortages and maintenance problems. The country's dependence on imported fish could be drastically reduced if this plant were rehabilitated.

An industry not specifically singled out in the ERP is metal working. A 1986 UNIDO report identified a number of metal products manufacturers, most of them construction materials producers. Now that a domestic supply of steel is ensured (through the scrap-based rolling mill in Monrovia), it would be worthwhile to assess the possibilities of these industries diversifying into the production of simple tools. Such domestic equipment manufacturing as already exists can also benefit from the more secure raw material supply. A considerable amount of foreign exchange could be saved that way.

4.3 UNIDO projects

UNIDO's recent projects include:

IO/IIS/INFR Mr. Hisakawa	J12105	TF/LIR/84/001*	Associate expert (Mr. de Pascale) (multifund to DP/LIR/87/007)
IO/IIS/INFR Mr. Hisakawa	J12105	SI/LIR/85/803	Assistance to the National Bank of Liberia in support of the small-scale industries (under completion)
IO/IIS/INFR Mr. Hisakawa	J12105	TF/LIR/87/001	Associate expert (Ms. van Oijen) (multifund to DP/LIR/87/007)
IO/IIS/INFR Mr. Hisakawa	J12105	DP/LIR/87/007**	Development of small and medium-scale enterprises (phase II) (continuation of DP/LIR/80/007)

Three of these projects concern associate experts. Comments were therefore only available on:

SI/LIR/85/803: Assistance to the National Bank of Liberia in support of small-scale industries

The project was formulated to provide assistance to two activities of the Project Analysis Department of the National Bank of Liberia: a) reviewing of project proposals received by NBL from various banks and b) reviewing of the Credit Gurantee Scheme that is being administered by NBL. This project complemented UNDP/UNIDO project DP/LIR/87/007 (see below). Unfortunately, the financial resources to finance small and medium entrepreneurs were strongly reduced at the same time that the capabilities to prepare project proposals were improved. The new Credit Guarantee Scheme might contribute to mobilizing additional resources and recycling already disbursed funds. The project was completed in July 1988.

DP/LIR/87/007: Strengthening the institutional infrastructure for the promotion and development of small- and medium-scale enterprises phase II[1/]

The project started in January 1987 and will last to December 1989. It was designed as Phase II of DP/LIR/80/007 (Extension services to small-scale industries). The objective of the project is to strengthen the capability of the National Investment Commission to support small and medium-scale entrepreneur development. Progress was made in strengthening the capability of:

- the technical cell
- the information exchange programme
- the product design introduction programme

* Large-scale project (= total allotment $150,000 or above)
** Total allotment $1 million or above

- the skill improvement workshop programme
- the area and growth centre studies
- the creation of a network of small and medium enterprises financing mechanisms
- the small enterprise financing organization and
- the National Bank of Liberia

Resource and external constraints may in future lead to concentration on the task of developing NIC's capability to support existing enterprises.

In October 1987 UNIDO fielded mission to identify and formulate new technical assistance projects for UNIDO's execution in the industrial sector. The mission's work was based on the Economic Recovery Programme 1986-1989 and was within the framework of the new orientation in UNDP country programming. The mission identified and prepared 22 project formulation framework/concepts which, if implemented, would assist the government in the realization of one or more of the objectives of the ERP (see Annex Table 5). One project, the Workshop referred to in Section 3.7, has meanwhile been implemented. Project 10, ("Preparatory assistance to a selected enterprise for improved plant operations") is the only obvious potential rehabilitation project.

It should be noted that AREA/AFR in co-operation with the relevant branches in DIO is now engaged in preparing full project documents for some of these projects. Annex Table 6 gives an overview of the pipeline projects.

4.4 Rehabilitation study projects identified during the preparatory mission

During the November 1988 preparatory mission for the present project, a number of plants were suggested by Liberian authorities as candidates for in-depth UNIDO rehabilitation studies. The criteria established for the final choice, to be made by the full mission, were:

1. The plant should have a potential for rehabilitation (i.e. the plant should not require totally new investment).

2. The plant should be attractive to outside (European, US, etc.) investors.

3. The plant must be in a strategic industry.

4. The plant should be largely Liberian owned. If not, the plant must be able to give a good demonstration effect to Liberian entrepreneurs. That is, Liberians should be able to learn from the management and performance of this plant to some significant degree.

5. The plant should use, or have the potential to use, domestic based raw materials or other resources.

6. The plant should exhibit significant backward linkages to agriculture and forward linkages to other important industries/sector.

7. At least one of the four plants chosen should be in the private sector.

8. The plant should have the potential to save foreign exchange and reduce import dependence.

The plants identified were:

Chamber of Commerce candidates

Liberian Steel Products Corp.
Atlantic Steel Works
Rainbow Industries
Parker Industries
Mezbau
Liberia Cement Corporation
Industrial and Chemical Corp.
Liberian Logging and Wood Processing
Liberian Matches Corp.
National Milling Company

Ministry of Commerce candidates

Rainbow Industrial
Monrovia Breweries
Top Seed Inc.
Robert Bright and Sons and Bright Farms
Madak Poultry Farm
Agro-Machinery Corp.
Moldaco
National Palm Oil Corporation
Decoris Palm Oil Corporation
Mesurado Fishing Company
Pinewood Logging Company
Best Wood Enterprises
Liberia Coffee and Cocoa Corporation
Liberia Palm Products Corporation

Most of the firms given on the Chamber of Commerce and Ministry of Commerce lists did not meet the mission's criteria for suitable plants. Most of the proposed plants required totally new investment and not rehabilitation; others were doing well, or belonged to an industrial category not covered by the REG project.

The only firms which possibly meet the mission's criteria are:

Decoris Palm Oil Corporation (Harper City)
Mesurado Fishing Company (Monrovia)
Moldaco (Monrovia)
Lilsuco [Sugar Corporation] (Harper City)
Liberia Rubber Corporation (Greenville)
Sinoe Rubber Corporation (Sinoe)
Agro-machinery Corporation (Monrovia)

It must be stressed that the above list is based on information obtained through interviews which may well be faulty and subjective. The final selection of plants, therefore, must await the harder information which has been requested from the firms. These have been asked to pass on 2-3 page summaries of their plants' histories and any additional information to the UNIDO JPO in Monrovia. In addition, the mission has asked the JPO to follow-up and ensure that the firms send the promised information in the near future. As well as from the firms themselves, additional information has been promised from the Ministry of Commerce, EEC and the National Investment Commission.

A N N E X

- Annex Tables
- The Investment Incentive Code

Annex Table 1: Liberia: Employment by major sectors, 1984-85

	1984		1985	
	Numbers	Percent	Numbers	Percent
Agriculture	584,500	79.3	584,500	84.3
Monetary	67,500	9.2	67,500	4.7
Nonmonetary 1/	517,000	70.1	517,000	74.6
Industry	34,766	4.7	34,074	4.9
Mining	24,010	3.3	23,534	3.4
Construction	4,450	0.6	4,360	0.6
Manufacturing, and arts and crafts	6,080	0.8	5,959	0.9
Electricity, gas, and water	226	—	221	—
Services	118,264	16.0	74,798	10.8
Government, public service	46,828	6.3	42,145	6.1
Transport	6,923	0.9	6,704	1.0
Business	1,533	0.2	1,502	0.2
Commerce, hotels, and restaurants	54,904	7.5	49,280	7.1
Other services	8,076	1.1	17,312	2.5
Total employment	737,530	100.0	693,372	100.0

Sources: Ministry of Planning and Economic Affairs; and Ministry of Labor.

1/ Includes fishing and forestry.

Annex Table 2: Liberia: Indices of volume and prices of major exports and terms of trade, 1981/82-1986/87

(1980/81 = 100)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87 Prel. Est.
Volume							
Iron Ore	100.0	99.5	85.9	80.7	83.7	80.1	70.7
Rubber	100.0	94.6	92.6	111.1	115.7	143.0	133.8
Logs and timber	100.0	97.6	88.4	82.2	91.3	119.3	176.4
Diamonds	100.0	158.2	134.2	86.5	81.1	75.4	67.0
Coffee	100.0	87.4	84.9	71.6	79.0	104.2	48.2
Cocoa	100.0	105.6	92.4	113.6	118.4	82.9	43.1
Prices							
Iron ore	100.0	98.7	103.8	96.5	98.2	92.6	93.1
Rubber	100.0	77.7	69.0	84.2	72.4	61.8	65.2
Logs and timber	100.0	101.3	93.9	88.9	80.1	74.9	78.9
Diamonds	100.0	77.7	61.9	61.9	46.2	35.0	26.1
Coffee	100.0	88.9	89.2	100.6	93.7	88.1	82.3
Cocoa	100.0	101.7	87.7	120.4	99.7	96.4	88.2
Terms of trade	100.0	91.8	94.3	98.3	97.5	89.8	86.8
Import prices	100.0	98.8	95.2	92.1	89.6	90.0	94.0
Export prices	100.0	90.7	89.7	90.5	87.4	80.9	81.7
Change in terms of trade		-8.2	2.7	4.2	-0.8	-7.9	-3.3

Sources: Data provided by the Liberian authorities; and IMF staff estimates.

Annex Table 3: Regional distribution of forest area, 1985

Region	Million acres
South-eastern area (Maryland, Sinoe, Grand Gedeh)	6.80
North-western area (Bong, Grand Bassa, Nimba)	3.00
Northern area (Loffa, Grand Cape Mount)	2.05
Other	0.15
Total	12.00

Source: Second National Socio-Economic Development Plan, July 1981-June 1985, MPEA, p.80.

Annex table 4: Estimated agricultural production, 1977-1985
(thousand tonnes)

	1977	1978	1979	1980	1981	1982	1983	1984	1985
Rice (paddy)	256	244	249	243	260	250	250	250	252
Cassava	180	295	300	310	315	320	320	320	320
Palm kernels	13	9	8	7	8	8	8	8	8
Palm oil	25	25	26	27	25	30	30	34	34
Rubber (crude)	70	73	75	78	78	68	65	76	81
Coffee	9	9	10	12	13	12	8	12	10
Pineapples	7	7	8	8	7	7	7	7	7
Bananas	67	73	72	74	75	77	78	79	80
Sweet potatoes	16	16	17	17	16	16	17	17	18
Cocoa	...	...	4	4	7	5	6	6	6

Source: EIU, Sierra Leone, Liberia Country Report, 1986-1987, p.33 and 1987-1988, p.33.

Annex Table 5: List of projects identified

Title		Estimated cost
1.*	Strengthening the capacity and capabilities of the Maritime Training Institute at Marshall	302,000
2.	Strengthening of training capacities of small size coastal industries	32,000
3.	Training programme on consultancy development through establishment of joint venture	to be determined
4.	Training programme in the field of packaging	85,000
5.**	Assessment of manpower and industrial training needs of the Monrovia Vocational Training Institute	-
6.	Establishment of a fruit-processing pilot plant to produce concentrates	110,000
7.	Assistance in fish-processing	113,000
8.*	Processing of agricultural crops - (cassava)	235,000
9.	Pilot production programme for pumps and spare parts	398,000
10.	Preparatory assistance to selected industrial enterprise for improved plant operations	37,000
11.*	Preparatory assistance for the establishment of Metal Working Common Service Facility	21,000
12.*	Rehabilitation of parts and components through metal spraying	-
13.*	Assistance to the Liberian Wood Working and Carpentry Industry Association	237,600
14.*	Charcoal production using portable steel kilns	13,500
15.*	Liberia Industrial Free Zone Authority Revitilization Study	72,000

* Pipeline project - see Annex Table 6.
** Pipeline project not included in Annex Table 6.

Title		Estimated cost
16.	Assistance to the National Housing and Savings Bank for Small-scale Industry Development	62,000
17.	Preparation of project packages for selected types of small-scale enterprise projects	31,000
18.	Strengthening the Burea of Standards	-
19.	Promotion of small- and medium-scale industries with involvement of commercial banks	64,500
20.	Production of wooden ware houses for storage at ports	to be determined
21.	Feasibility study for pulp and paper production	-

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* Pipeline project - see Table 2.

Annex Table 6

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PIPELINE PROJECTS - REPUBLIC OF LIBERIA

PROJECT	TITLEX	TOTBUDGETS	ESTAPPR
SI/LIR/88/XXX	LIBERIAN INDUSTRIAL FREE ZONE AUTHORITY REVITALIZATION STUDY	72000	88/09
XX/LIR/88/XXX	PREPARATORY ASSISTANCE FOR THE ESTABLISHMENT OF METALWORKING COMMON SERVICE FACILITY	21000	UN/KN
XX/LIR/88/XXX	ASSISTANCE TO LIBERIAN WOOD AND CARPENTRY INDUSTRY ASSOCIATION (LWCIA)	237600	UN/KN
XX/LIR/88/XXX	PROCESSING OF AGRICULTURAL CROPS (CASSAVA)	235000	UN/KN
XX/LIR/88/XXX	CHARCOAL PRODUCTION USING PORTABLE STEEL KILNS	40500	UN/KN
XX/LIR/88/XXX	STRENGTHENING CAPACITY AND CAPABILITIES OF THE MARITIME TRAINING INSTITUTE AT MARSHALL	302000	88/12
XX/LIR/88/XXX	REHABILITATION OF PARTS AND COMPONENTS THROUGH METAL SPRAYING	205000	UN/KN

The Investment Incentive Code

The Code seeks to establish and encourage the establishment of industrial units which:

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

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

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

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

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

(f) contribute to a wide distribution of employment opportunities all over the country.

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

Conditions for the award of an investment incentive contract

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

(a) falls within the overall priority as established by the government;

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

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

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

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

Incentives

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

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

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

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

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

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

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

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

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

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

(b) Support in securing loans and/or contribution to equity capital of pertinent government agencies with priority given in this respect to smaller entrepreneurs;

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

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

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

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

Obligation under the investment incentive contract

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

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

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

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

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

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

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

      (ii) A copy of the latest balance sheet;

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

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

2. All reports submitted in accordance with paragraph (e) of the preceeding subsection shall be considered confidential and inviolate.

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