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CONSULTANCY SERVICE FOR
THE LIBERIA INDUSTRIAL FREE ZONE AUTHORITY (LIFZA)

LIBERIA

Technical Report *

Prepared for the Government of the Republic of Liberia
by the United Nations Industrial Development Organization

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Vienna

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TABLE OF CONTENTS

REVITALIZATION OF THE LIBERIA INDUSTRIAL FREE ZONE AUTHORITY

A. CONTEXT

1. The Operation of an Industrial Free Zone in Liberia

A substantial number of developing countries have discovered that the establishment of an industrial export processing zone has provided significant employment to the benefit of the national economy, has provided support to the transfer of technology to local industry, and has earned for the economy substantial foreign exchange. The evident success of such zones has led to efforts in many other countries to emulate the program, sometimes without recognizing that the success of the program depends as much on the legislative and economic framework in which the Zone is established, as on the successful administration and promotion of the Zone itself.

2. The Liberia Industrial Free Zone

The Liberian economy is based upon the exploitation of natural resources, particularly mineral (iron ore, gold & diamonds), forestry (the export of round logs is a major source of export earnings) and agricultural (Firestone/Bridgestone operates its largest estate for the production of natural rubber in Liberia). Succeeding administrations in Liberia have determined to promote the industrialization of the nation's economy. During the country's Second Five Year plan (1981-1985) diversification of the economy was a major target to be achived largely through industrialization. The Economic Recovery Programme 1986-1989 has as one of its objectives the diversification and expansion of the industrial base of the economy.

The Liberia Industrial Free Zone Authority was created in 1975 by an Act of the Legislature, with the **objectives of attracting foreign investment, promoting exports, increasing employment, and improving industrial technology** through the establishment and operation of a **Industrial Free Zone.** The Act provides for the Zone to be customs free, and specifically states that **"Customs control will be withdrawn to the fenced-around boundaries of the entire area of the Industrial Free Zone".**

The Zone Authority was established with a substantial degree of autonomy. The Act empowers the Authority;

* to identify, investigate and promote export-oriented industries
* to build, and rent sites or buildings for manufacturing or assembling semi-finished or finished products **basically for export.**
* to provide the utilities required
* to organize common services
* to manage the Zone, both in terms of finance and in administration, to achieve these ends.

The Zone was established on 113 acres of land, in close proximity to the Free Port. Some 40 acres were allocated to industrial use, with another 15 acres for administrative, security and safety service, and approximately 20 acres for roads and parking.

The targets for the year 1989 established for the Zone, at its inception were;

* investment of $12 million
* export sales of $24 million
* construction and use of 40 factory buildings each on 1 acre plots
* the creation of 6000 jobs

These targets have not been met. The primary reason for this failure to achieve significant growth in the Zone has been the lack of consistent government support for the maintenance of a satisfactory investment climate in the country, although the national government has continued to support the Zone Authority itself by meeting annual deficits.

3. Prior Assistance to LIFZA

The development of the Zone was undertaken in two phases. The first was the preparation of an initial 75 acre plot of land to permit implementation of the Zone's objectives in the attraction of industry as quickly as possible. This first phase included not only site preparation, but also the construction of the following facilities:

a) One large factory unit (56,000 sq. ft.)
b) Six small factory units (16,000 sq. ft. each)
c) One warehouse (36,000 sq. ft.)
d) Transportation & Common Services Building (now used as the Administration Building)
e) Security Building

The cost of this first phase was $12.6 million; the Government of Liberia (GOL) negotiated a $3.2 million soft loan from the Arab Bank for Economic Development in Africa (BADEA) to support this first development phase. The terms of this loan required the award of contracts to Liberian and Arab firms, and it is reported that most of these contracts were not performed satisfactorily.

As a result, after the 1980 Coup, when the Authority attempted to recover and renegotiate many of these contracts due to the poor performance of the contractors, it became impossible both to retrieve large advances provided, and to obtain satisfactory completion of the constructions. The result has been that since that time, the Authority has found itself not only with incomplete facilities, but with substandard structures requiring high maintenance costs, in some cases the need to reconstruct facilities. One of the major concerns of the Authority since that time has been to complete the infrastructure development which remains unfinished. It is for that reason that the original request to UNIDO for assistance identified the completion of these infrastructure projects, especially the completion of the sewage system, the full implementation of the water storage facility, and the construction of a further 7 factory units.

Over the past 10 years, the Zone has also received support from EDF and from the UN system for specific promotion of the Zone through missions and exhibits.

4. Institutional Framework for the Zone

The Zone Authority operates under the terms of a specific Act of the Legislature. The management of the Zone is entrusted to a Board of Directors appointed by the Head of State. The Act provides for the following people to be members of the Board, namely;

* Minister of Commerce, Industry & Transportation
* Minister of Planning & Economic Affairs
* Minister of Finance
* Minister of Justice
* General Manager of Zone Authority
* Managing Director of the National Port Authority
* General Manager of the Liberian Development Corporation
* President of the Liberian Bank for Development and Investment
* Representative of industries using the Zone

With the changes in the GOL which have occurred since the enactment of the Zone Act, these nominations have changed substantially. Early in 1981, the Head of Sate reconstituted the Board to include, among others the following:

* As Chairman, an energetic private businessman
* Deputy General Manager, Liberia-Libyan Holding Corp.
* Minister of Justice
* Director, Building & Grounds, Ministry of Education
* Managing Director of the Zone

Currently, there is only one appointment to the Board other than that of the Managing Director of the Zone; that of the **Chairman who is Mrs. Veronica Diego, Deputy Minister of State for Economic Affairs, a Senior Official in the Executive Mansion.** Mrs Diego has sat on the Board as a member for several years. It was not apparent that the Board had met in recent times, or that it has had any significant role in the current development and management of the Zone. This is likely due to the fact that the current Managing Director, Mr. Bai M. Gbala, is a former advisor to the President, and has an excellent relationship with the Executive Mansion himself.

B. PROJECT JUSTIFICATION

1. The Current Situation

1.1 The Zone and its Current Utilization

Exhibit 1-1 shows the schematic layout of the Zone, on which each of the facilities and factory buildings have been identified to coincide with the following descriptions:

1. Administration Building
This structure houses the Zone staff, and the offices of several small enterprises such as consultants and transport firms who rent office space from the Zone.

2. Security Building

3. Health Centre
Currently not occupied, as the agreement with the physicians providing the service is being renegotiated.

4. Safety Building
Fire services and vehicles are housed here.

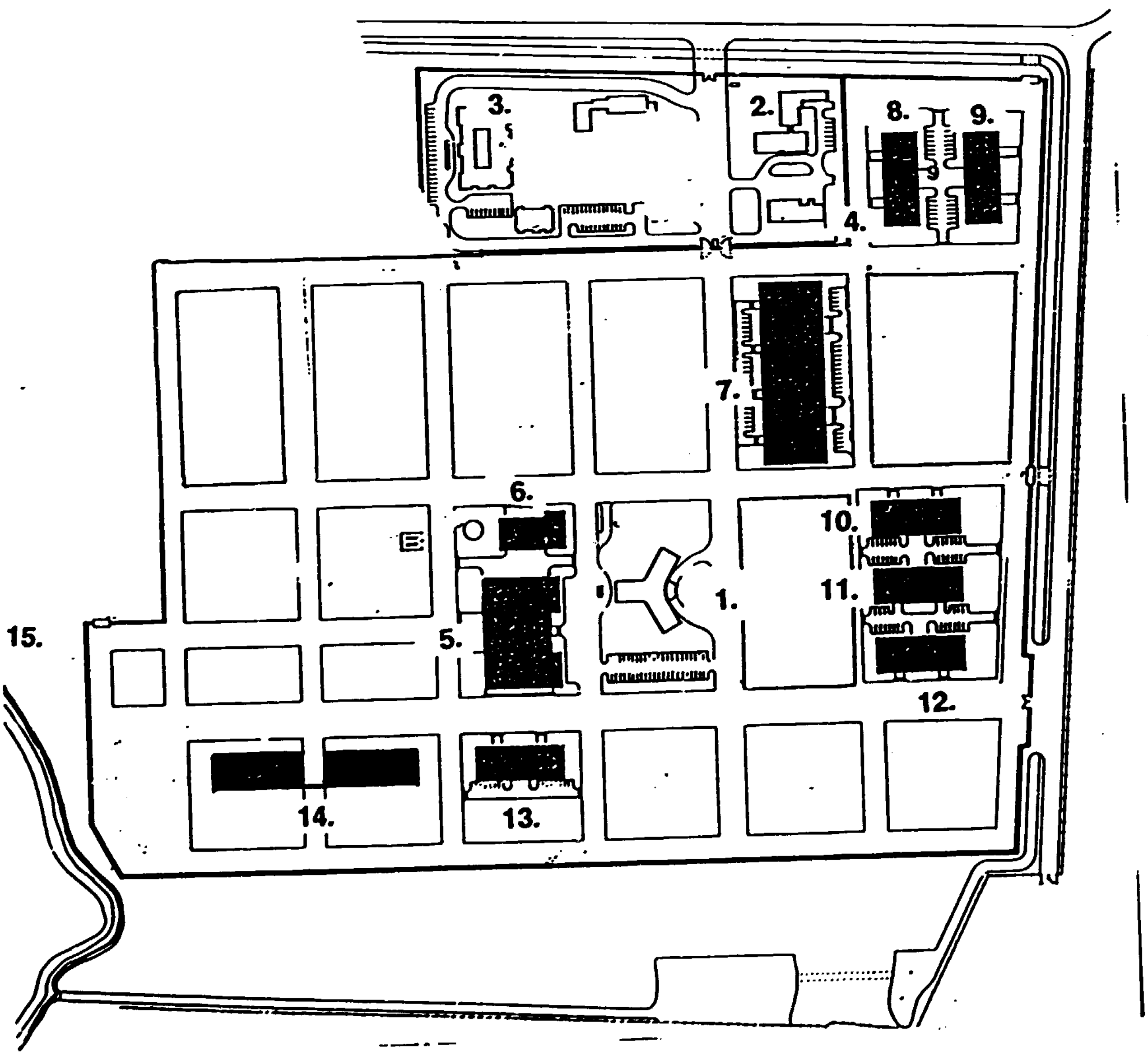
5. Warehouse
This building is relatively well-used, particularly by the operators of duty-free facilities at the airport, and by other organizations wishing to hold goods in security or outside the Liberian customs authority.

6. Garage

7. Major Industrial Building
This building houses a re-rolling steel mill, under the name of Atlantic Steel Works, a subsidiary of Third World Shipbreakers. The firm was established as a Pakistan/Liberian joint venture to re-roll scrap steel from ocean vessels, but is now in receivership. The collapse of the firm has left the Zone with a substantial uncollectible receivable.

8. Factory Space (2)
These two facilities are leased to Liberian firms who undertake sporadic production in the Zone. One produces plastic bags for the domestic market, and the other roasts coffee and repackages coffee and tea for sale on both the domestic and export markets.

EXHIBIT 1 - 1 SITE PLAN - LIBERIA INDUSTRIAL FREE ZONE



9. Factory Space
This space has been leased to a Korean/Liberian joint venture for the production of uniforms for Liberia. The operation represents the interest of senior government officials and thus is likely to proceed into production in early 1990. Machinery is currently being installed.

10. Factory Space
This space housed a furniture company specializing in wicker furniture. It has now moved out of the Zone.
The space has been leased as warehousing space.

11. Factory Space
This space was occupied by a soap manufacture, Rainbow Industries, who moved out of the Zone claiming that the costs of doing business in the Zone were too high to warrant continued operation. Their complaints emphasized that high utility rates, combined with the 1% LIFZA fee (to cover import, administration and export trade promotion costs), when related to the fact that their export markets had disappeared, meant that they would be better off outside the Zone.
The building is now being prepared for Monrovia Tobacco who have expressed solid interest in moving into the Zone.

12. Factory Space & Associated Land
This space is being used now by the contractors who are building the new palm oil refinery for the National Palm Oil Corporation. There has been some site work undertaken for this announced major investment of this important National enterprise, but current difficulties with the contractor (FINEX, UK) suggest that this project will be delayed and renegotiated.

13. Factory Space (2)
The two spaces in this building are currently occupied. One is used by Agromachines Ltd., probably the first investor in the Zone. The firm manufactures agricultural machinery, which it exported during the first years of operation, but which has seen a rapid decline in its export markets recently. Although the facility was open during the consultant's visit, only maintenance and repair activities were evident.
The other space in the building was leased as warehousing.

14. Factory Space (2)
These two buildings (one of specialized construction) house the facilities of Atlantic Oxygen, (a firm apparently related to Atlantic Steel Works/Third World Shipbreakers). The firm expected to supply oxygen to the steel mill, but continues to operate in the supply of the gas to Monrovia.

15. Shoreline Space
Hamil Marine Products Corp., a Korean investment is constructing a fishing vessel on the shoreline contiguous to the Zone. This is the second vessel built by the wholly Korean labour force (6). The firm does emplcy some other Liberians as support staff. Both vessels have been sold to Korean fishing enterprises operating off the coast of Liberia. Nc transfer of technology was apparent to the consultant.

Exhibit 1-2 shows in tabular form the current situation regarding employment and export sales generated by the industries within the Zone, as reported in 1988, and as found in December 1989 at the time of the consultant's visit.

It is evident that the Zone has not achieved its targets in terms of either employment or the generation of export sales. At the time of the visit, only 20 persons could be counted as employed by the industries active in the Zone, although the completion of the one clothing manufacturer will provide substantial increased employment.

1.2 The Management and Administration of the Zone

The Zone is managed by a Managing Director, Mr. Bai M. Gbala, a former advisor to the President, who was appointed to the post within the past two years. He is supported by a Deputy Managing Director, Edwin W. Walker, a trained forestry engineer who has worked in Zone administration almost since the completion of his university studies. The Managing Director is also assisted by an Administrative Assistant, Mr. Edwin K. Soper.

There are four departments which report through the Deputy Managing Director to the Managing Director, each of which is headed by a senior manager. These are:

* Administration -
  also concerned with
  - Personnel administration and recruitment
  - Employee relations
  - Training

* Technical services -
  also concerned with
  - Infrastructure development
  - Maintenance
  - Security
  - Safety

EXHIBIT 1 - 2 CURRENT SITUATION IN THE LIBERIA INDUSTRIAL FREE ZONE

LOCATION REFERENCE	COMPANY	PROPOSED INITITIAL INVESTMENT	SITUATION AS OF THE END OF 1988 EMPLOYMENT LIB	EMPLOYMENT EXP	COMPANY SALES DOMESTIC	EXPORT	SITUATION IN DECEMBER/89 EMPLOYMENT LIB	EXP
13.	AGROMACHINES LTD.	$650,000	2	1	$99,200	N.A.	2	1
8.	ACE HOLDINGS INC.	$500,000	1	1	$108,478	$0	1	1 *
11.	RAINBOW INDUSTRIES INC.	$500,000	90	3	$1,318,213	$0	0	0 **
10.	ABC FURNITURE COMPANY	$609,000	22	13	$49,898	$0	0	0 **
8.	LMC/INTERNATIONAL COFFEE & TEA	$553,300	2	0	$3,637	$27,631	2	0 *
7.	THIRD WORLD SHIPBREAKERS/ ALTANTIC STEEL WORKS INC.	$810,000	132	9	$1,253,808	$0	0	0 **
14.	ATLANTIC OXYGEN CORP.	$600,000	13	0	$64,500	$0	13	0
15.	HAMIL MARINE PRODUCTS CORP.	$466,500	2	4	N.A.	$0	2	6
9.	LIBERIAN-KOREAN UNIFORM CORP.	$500,000					100	2 ***
	NEW INVESTORS:							
11.	MONROVIA TOBACCO CO.	?			$9,842,000		56	1
12.	NATIONAL PALM OIL CORP.	?					?	
	TOTALS (excluding last 2)	$5,188,800	264	31	$2,897,734	$27,631	120	10
	TARGETS FOR 1989 (set in 1980)	$12,000,000				$24,000,000	6000	

* Sporadic production
** Moved out of Zone
*** Not yet in production

* Operations also concerned with	Investor enquiry Zone promotion Occupant administration
* Comptroller	Financial administration

The number of employees working on Zone administration, operation and maintenance number 124 people at the moment. The largest number of these employees work in the Technical Services Department, with 57 persons employed in the Security and Safety sections, and another 26 persons in other sections of that same department.

1.3 The Financial Situation of the Zone

Exhibit 1-3 provides a comparison of the Annual Financial Reports for the Zone for the years 1982, 1985, 1987 and 1988. These are compared to projections for the fiscal year 1990. For the first 3 years shown, the end of the Zone's fiscal year was June 30th, but the end of the fiscal year was changed to December 31, in 1987.

Exhibit 1-4 identifies the request made to the GOL by the Zone for the 1990 calendar year, showing these in comparison to the same figures for 1989.

The request to GOL for support for the coming year has also identified other specific projects for which the Zone needs funding, but which are not integral to its continued operation. These are shown in Exhibit 1-5

The increase in the administration budget of the Zone which is reflected in the forecast for 1990, particularly with reference to the increases in salaries and wages, is a demonstration of the difficult circumstances under which Zone management must operate. The employees of the Zone are regarded as government employees, and as such, their salaries are established by the National Government. Due to severe economic restrictions which the GOL faced in 1985, all government salaries were reduced that year by 25%. In early January, 1989, the President announced that 10% of this reduction was to be added back effective that date. On November 21, 1989, the President made an important address to the nation outlining "A New Liberian Economic Order", which defined a current economic recovery programme for the Republic of Liberia. The plan announced that government salaries would be increased by 3 increments, varying from 25% for the lowest paid employees to 10% for the highest. These two announcements have increased the likely 1990 salary expenditures by 30%.

Exhibit 1-6 is a forecast of the projected Zone revenue expected in 1190,

EXHIBIT 1 - 3 COMPARISON OF ANNUAL FINANCIAL RESULTS - LIFZA

	FISCAL 1982	FISCAL 1985	FISCAL 1987	FISCAL 1988	PROJECTIONS CALENDAR 1990
REVENUE					
Zone operations	$92,366	$387,375	$340,252	$293,954	$387,731
Sundry other income	$36,471		$85,431	$25,089	$4,000
Sub-total	$128,837	$387,375	$425,682	$319,043	$391,731
EXPENDITURES					
Salaries & Wages	$542,115	$649,423	$538,449	$536,470	$785,083
Water & Power	$27,769	$26,233	$27,974	$28,421	$37,000
Fuel & Lubricants	$76,301	$36,348	$66,733	$43,548	$40,000
Zone promotion	$61,395	$8,462	$5,787	$40,757	$17,000
Maintenance	$41,153	$36,950	$42,906	$42,366	$80,471
Other expenditures	$477,719	$125,600	$221,034	$177,896	$301,500
Sub-total	$1,226,452	$883,016	$902,883	$869,458	$1,261,054
Deficit on Operations	($1,097,615)	($495,641)	($477,201)	($550,415)	($869,323)
Government subsidy	$750,000	$769,683	$730,000	$630,000	$869,323
BALANCE SHEET					
ASSETS					
Fixed Assets	$5,215,936	$11,482,188	$12,084,413	$11,651,169	
Construction in Progress	$6,670,680	$547,073			
Other assets	$1,646,832	$1,166,085	$55,346	$163,211	
Sub-total	$13,533,448	$13,195,346	$12,139,759	$11,814,380	
LIABILITIES & GOL EQUITY					
GOL Equity Contributions	$12,580,196	$12,157,205			
Accumulated deficit		($3,231,851)			
Other liabilities	$953,252	$4,269,992			
Sub-total	$13,533,448	$13,195,346	$12,139,759	$11,814,380	

All figures in current Liberian Dollars
For years 1982, 1985 & 1987 fiscal year end was June 30th
Current fiscal year end in December 31.

EXHIBIT 1 - 4 SUMMARY OF REQUESTS FOR SUBSIDY MADE TO GOL BY LIFZA

ITEM	YEAR 1989	YEAR 1990
REVENUE:		
1. Government contribution to operations	$660,000	$869,323
2. Government contribution to infrastructure	$100,000	
3. Revenue forecast from Zone	$310,250	$391,731
Sub-total - revenue	$1,070,250	$1,261,054
EXPENDITURES		
1. Personnel costs	$637,858	$785,083
2. Operating Expenses	$458,211	$395,500
3. Capital expenditures	$486,000	$80,471
Sub-total - expenditures	$1,582,069	$1,261,054

EXHIBIT 1 - 4 (A) COMPARISON OF EXPENDITURE PATTERNS - LIFZA

ITEM	YEAR 1989	YEAR 1990
Salaries & Wages	$601,925	$785,083
Power and water	$30,000	$37,000
Fuel and lubricants	$45,000	$40,000
Insurance - Life and hospital	$20,000	$23,000
Insurance - equipment	$10,000	$10,000
Social security (EIF)	$20,000	$20,000
Social security (PF)	$22,000	$24,000
Maintenance - buildings	$10,000	$10,000
Maintenance - equipment	$17,000	$15,000
Zone promotion - foreign	$40,000	$17,000
Zone promotion - local	$6,000	$2,000
Publicity & Advertising - local	$2,000	$2,000
Associational fees - local & foreign	$4,500	$4,500
Stationery	$15,000	$25,000
Communications & Postage	$18,000	$18,000
Audit fees	$10,000	$8,000
Legal & notary fees	$5,500	$4,000
Consulting services (admin. & techn.)	$15,000	$3,000
Medical services	$5,000	$8,000
Local training	$2,000	$3,000
Foreign training	$15,000	$10,000
Board fees	$10,000	$2,000
Sporting activities	$7,000	$4,000
Employees transportation	$26,500	$25,000
Vehicle hire	$3,000	$3,000
Entertainment	$5,000	$2,000
Contribution to charity & Development	$10,000	$10,000
Casual workers	$20,000	$20,000
Cleaning & Conservation	$5,000	$7,000
Financial charges	$2,000	$3,500
Senior staff fringe benefits	$36,711	$42,000
Local travel	$2,000	$2,000
Vehicle licenses	$6,000	$5,000
Compensation for damages	$3,000	$3,000
Participation in conferences	$10,000	$5,000
TOTAL	$1,060,136	$1,202,083
AMOUNT REQUESTED FROM GOL FOR OPERATING COSTS	$660,000	$869,323

EXHIBIT 1 - 5 SPECIFIC ADDITIONAL SUPPORT REQUESTED BY LIFZA OF GOL

ITEM	YEAR 1990
Renovation of factory space & warehouse	$35,000
Vehicle for Operations Manager	$22,000
Uniforms & accessories	$6,000
Replacement of office equipment & fixtures	$7,971
Second-hand vehicle (utility)	$9,500
TOTAL PROPOSED CAPITAL EXPENDITURES	$80,471

ALSO NOTED AS NEEDED BUT NOT BUDGETTED

Foreign promotion	$50,000
Completion of the sewer project	$225,000
Completion of 2 more factory buildings	$150,000
Rehabilitation of the dining hall	$125,000
Water storage project completion	$125,000
Purchase of 2 buses for employee transport	$150,000
Partitioning of the warehouse	$20,000
Repair of the 20 ton lift crane	$25,000
TOTAL NEEDED CAPITAL EXPENDITURES	$870,000

EXHIBIT 1 - 6 PROJECTED SOURCES OF REVENUE - LIFZA - 1990

SOURCES	YEAR 1989	YEAR 1990
Duty Free Sales (warehousing)	$13,800	$13,800
Agromachines	$13,800	$13,800
Bong Mining (warehousing)	$21,060	$21,060
Consultant International (MRS)	$8,650	$8,650
LMC Coffee & Tea Int'l	$13,800	$13,800
Printz Development Corp. (warehousing)	$41,740	$18,000
Liberia Wood Management (warehousing)	$10,000	$8,680
Ace Holding	$13,800	$13,800
Hitlar Richards (office space)	$4,200	$4,800
H.C. Brown & Assoc. (office space)	$1,200	$1,680
Internal Business Machines (office space)	$3,600	$3,600
Lindsay Haines & Associates (office space)	$2,400	$2,400
GETRAC Inc. (warehousing)	$16,800	$16,800
Atlantic Oxygen	$10,000	$10,000
C & M Enterprises (warehousing)	$13,800	$13,800
Belco-Liberia Inc. (office space)	$1,800	$1,800
Wedgedin Liberia Inc.	$13,800	$25,000
Coastlog Industries (warehousing)		$10,000
M.S. Bhatti & Sons (warehousing)	$13,800	$13,800
Hanil Marine Products	$4,046	$4,046
Manden Int'l (warehousing)		$2,875
Junious Int'l (warehousing)		$7,500
Luso Liberisa Logging (warehousing)		$8,000
Luis Pires (office space)		$1,800
Equipment rental fees		$6,000
New investors (Monrovia Tobacco)		$27,000
New investors (National Palm Oil)		$14,000
New investors (others)		$15,000
Storage of vehicles & equipment		$5,000
TOTAL	$222,096	$306,491

compared to that received in 1989. As in past years, Zone income will not reach 50% of it operating costs. The Zone has consistently operated with a GOL subsidy. This continuing deficit position does little to encourage the GOL to invest in further infrastructure of the Zone, although the existing structures now show signs of age.

The continuing operation with substantial deficits has resulted in the commitment of financial resources to staff and general maintenance, and has limited any investment in Zone promotion and marketing. This has meant that very few new investors have approached the Zone from outside of Liberia. The most likely new tenants have originated from within the country, seeking the available industrial space, and welcoming the security of Zone operation.

The management has also been aggressive in obtaining clients interested in warehousing on the site. Much of the open space in the Zone has been used by logging firms, storing logs prior to export.

During the interviews conducted by the consultant with government officials, it appears likely that the GOL will meet the requests of Zone management for the operating subsidy, and there is even discussion of the provision of further capital funding to complete the water supply project.

1.4 The Economic/Government Environment for the Zone

Liberia, as has been noted above, is well endowed with natural resources. Yet the economy has been in continuous decline since 1980, with 1987 being the 7th consecutive year in which the economy registered a decline in the GNP. Whereas, once the US dollar circulated freely as legal tender, (the National bank of Liberia originally could only issue coins) it is no longer freely available except on a parallel market. Now that the Bank does issue the Liberian currency, the US dollare remains a prized currency, whereas inflation and continual issuance of new Liberian currency have resulted in the money supply being out of control. Since 1985, there has been a serious flight of capital from the country.

In a report prepared for USAID on Liberian Small and Medium Enterprises, the consultants identified the following 3 characteristics of Liberian economic policy;

1. The economy suffers from "economic policy making that results in a proliferation of regulations which are often determined hastily, not well implemented and are often abrogated with the help of government officials."

2. The goverment offers an "open door policy which has allowed much foreign access to economic opportunities but has also allowed capital flight"

3. The business climate suffers from "the lack of an effective judicial system to uphold business contracts and agreements which increases the risk of doing business in Liberia."

Economic policy making is the domain of the Executive Branch of the GOL. This means that the Zone has been subject to a variety of policy decisions over the eyars which have hampered its ability to offer consistent incentives and terms to overseas investors. The following is a record of some of these decisions:

1985 The incentives offered foreign investors by the National Investment Commission were reduced by 50%, which rendered the NIC in the eyes of potential investors as powerless to assure investors of consistent incentives.

1986 Exporters including Zone investors, were required to surrender 25% of their foreign exchange earnings to the GOL in exchange for Liberian currency on a US $1 to Liberian $1 basis. This did not reflect the current parallel rate.

A comprehensive Economic Recovery Programme (ERP) was announced which called for:

* reduced government expenditures (5%0
* increased efficiency in revenue collection
* control of public expenditures in the future
* a priority list of debts to be paid
* audited accounts for all publis sector companies

According to the USAID Report referred to above the "**implementation of ERP was far from satisfactory**"

1987 The duty free exemptions offered new investors and concessionaires (90% exemption for equipment) was revoked, and then re-established a few months later at the 50% level.

1989 An executive degree required all exports to be paid for by a letter of credit, to enforce the collection of the 25% surrended (see above) and although subsequent legislation was passed, it was never enforced.

Such circumstance make administration of a Zone under consistent rules difficult. Foreign investors seek consistency in the application of regulations above all else.

In the financial sector of the exonomy, the major concern is the lack of sound credit and monetary system. Indeed, the country is currently passing through the most severe foreign exchange crisis in its history. The President of the nation, in a recent speech, noted that by the end of 1987, "Liberia's external debt, including overdue interest, exceeded US$1.6 billion, or about 150% of GDP. Total debt service payments due in 1988 were estimated at slightly over US$200 million." Such payments would require 50% of the nation's export earnings in foreign exchange.

Currently the banking system also suffers from an acute shortage of cash liquidity, resulting in the erosion of the acceptability of cheques. Interest rates at commercial banks, when credit is available, range up to 24%

With reference to labour, although the nation has chronic unemployment (it is estimated that 50% of the urban population of Monrovia, estimated to be 550,000, is unemployed), there is a major shortage of skilled workers and managers. UNIDO estimates that the Liberian labour force was 1.15 million in 1985, and that is has grown annually by an average rate of 3%. There are estimated to be 35,000 new entrants to the labour force every year. This number is expected to increase to 48,000 annually by the year 2000.

Exhibit 1-7 lists the contributions to the Gross Domestic product by each sector of the economy for the two years, 1972 and 1986. One should note that although the manufacturing sector has increased the contribution which it has made to the GDP in the period identified, it is estimated that manufacturing employment, in the period 1981-85, contracted by 36% (UNIDO Industrial Review Series; Liberia). Indeed the same report notes that productivity and efficiency levels have also been falling. The report continues "output contraction has been significantly greater than contraction in employment".(Ref. UNIDO Liberia report-pg. 17)

There are two other characteristics of the Liberian business environment that should be mentioned. One is "rent-seeking' or as it is referred to in Liberia "cold water". Again, to quote the USAID report, "The cost of rent-seeking to private enterprises can be approximated according to the size of the firm. Starting a new large enterprise used to cost an estimated $15-20,000 in unofficial payments before 1980. Now it is estimated to require at least $100,000.."(pg. 36). The practice exists at all levels of government and business.

The other characteristic is that regulatory policy is based upon the "concession" approach. It is expected that each major economic actor will undertake to negotiate the best deal that can be made for himself, in direct discussions with the GOL. Thus, when a new policy is announced, each economic agent then meets with the GOL, and depending upon his particular importance or range of interests, negotiates with the GOL to limit the negative implications of the policy, or enhance the positive ones.

EXHIBIT 1 - 7 CONTRIBUTIONS BY ECONOMIC SECTORS TO GDP - LIBERIA

SECTOR	1972 PER CENT	1986 PER CENT
Agriculture, forestry & fishing	10.1	36.1
Mining & Quarrying	37.5	10.3
Manufacturing	4.4	7.1
Electricity & Water	1.9	2.6
Construction	4.4	2.9
Wholesale/retail/hotels	14.7	5.7
Transport/storage/communications	8.2	7.8
Financial/insurance/real estate	7.4	9.5
Social & personal services	3.4	3.1
Producers of government services	8	14.9
TOTAL	100	100

1.5 The Economic Recovery Programme of November 1989

On November 21, 1989, Dr. Samuel Kanyon Doe, the President of Liberia spoke to the nation on the current economic crisis facing the country. Highlighting the difficult circumstances which Liberia faced in terms of the lack of foreign exchange, the President announced that the "Liberian economy has now reached a crisis point of profound proportions." In order to meet this crisis, the President announced a series of extraordinary measures whose implications are still not fully understood in the economy. These measures are identified as **"A New Liberian Economic Order"**.

The primary objective of the programme is to win the support of the IMF and the World Bank, so as to permit the negotiation of an new IMF package, hopefully including a structural adjustment loan. Such a start to negotiations would also encourage the African Development Bank to lift its sanctions, and USAID to rebuild its programme.

The goals of the programme are to restore budgetary and fiscal discipline, simplify governmental regulations **"so as to encourage the private sector to conduct its activities through the formal sector"**, revalue key economic variables, and implement government procedures to discourage waste and corruption. The new rules of economic activity are to be based upon 4 operating principles;

1. Efficiency
2. Consistency
3. Transparency
4. Market orientation

The measures are to be implemented on 2 phases, the first being of an immediate and emergency nature. The President established an **Emergency Fiscal Control Programme** under the Ministry of Finance which requires that all government spending be undertaken only by the Minister of Finance.

Also announced, and of special significance to LIFZA, was the **suspension of all duty-free privileges, and tax exemptions. "All government agencies and parastatals, and all commercial and business houses and concessionaires are hereby required to pay duty on all imports without exception." All bonded warehouses were to lose their bonding privileges and status by December 31, 1989, and be closed.**

At the same time, the GOL established a single rate of import duty of 20% ad valorem applicable to all imports, and to be paid **in hard currency through the Liberian banking system.** A wholesale tax of 5% ad valorem in local currency was also imposed on all goods imported.

Another important element of the new Economic Order has been monetary policy reform. Measures included the reaffirmation of the official exchange rate as $1US to $1Liberian, the continuation of the US dollar as legal tender, and the imposition of the requirement on all foreign visitors to declare their foreign currency on arrival, to exchange US$100 on arrival, and to pay for all hotel bills and air tickets in foreign currency.

A tax of $1 Liberian for each US dollar (or equivalent) of foreign exchange purchased from the National Bank either directly or through the commercial banking sector, has also been levied.

In order to ensure that foreign exchange earnings from exports return to the national economy, all exports will require prior approval by the National Bank to ensure the maximum return. Exporters will be provided foreign exchange **"according to criteria to be devised and approved by the financial authorities of Government"**

The President also announced increases in the price of rice, and petroleum (to L$3.50 per gallon). In order to limit the impact of these price increases on employees, salaries were increased as of January 1, 1990 varying from 25 % to 10% dependent on current salary levels. The income tax structure was changed to be replaced by one universal Earnings Tax at a rate to be announced.

For LIFZA, the announcement of these measures has thrown into confusion the actual incentives which the Zone can offer, as well as raise uncertainty as to the support which the Zone can continue to expect from the GOL. The statement of the President, withdrawing all duty-free concessions, also includes the following sentences:

"No country has successfully achieved rapid economic growth while financially estranged from the rest of the world. Economic growth comes from looking outward and integrating the national economy with the world economy."

The implications of this New Economic Order on the operation of the Zone offer an opportunity as well as a concern. There is considerable flexibility in the development of regulatory policy at any time in Liberia, but especially so at the moment. The Zone management has the opportunity to demonstrate to the GOL that the reaffirmations of specific concessions to the Zone, based upon current world economic conditions, and with the support of external resources, can result in increased investment from enterprises able to contribute to the national economy, especially in the earning of foreign exchange. It is with that intent that this project has been defined.

2.0 The Proposed Project

2.1 Project Objectives

The objective of this proposed project would be identify a reasonable number of prospective foreign investors, and arrange for their visit to the Zone to examine the opportunities which it could offer them as a platform for the production of goods for export.

The Zone must demonstrate to the GOL that it can be an important instrument in the production of employment opportunities and in the generation of foreign exchange. This can only be done if overseas investors actually visit the Zone, and make the necessary commitments to invest. The Zone has adequate infrastructure to offer modest facilities to investors; what is does not have is the assurance that there is a consistent GOL policy to support the incentives which it must offer to compete with other EPZ's in the world, nor the financial resources to implement a programme of Zone promotion, and investor identification which would throw up prospective clients for the Zone.

2.2 Project Beneficiaries

The primary purpose of this project would be to provide significant employment opportunities for unskilled labour in the Monrovia urban region, and to bring to that region those industries which would have the capacity to train workers thus increasing the worker skill level in the nation. A secondary benefit would be the generation of foreign exchange for the national economy.

2.3 Project Strategy

It is proposed that this modest project be implemented in 3 phases, primarily to make certain that economic policy-makers in the GOL are fully supportive of the programme and of the Zone concept over the medium term future. If such support is not certain at any stage of the project, further implementation could be stopped. **It must be re-emphasized to GOL policy-makers that the implementation of an effective Export Processing Zone programme, places the Liberia Free Zone into an unrestricted and open world market, and forces the Zone to operate in a highly competitive situation.**

Phase 1.

Using the services of an international consultant, the project proposes that documentation be prepared identifying the actual economic benefits offered by LIFZA, and comparing them to those available in competing Zones. This would include the comparison of manufacturing and assemblying inputs which are now faced by clients in competitive Zones with those they would likely face in LIFZA.

From this research, a document would be prepared for LIFZA management. The document would identify the basic concessions and incentives which the Zone would need to offer foreign investors if it is to be competitive. It would also highlight comparisons of significant cost elements, such as utility rates, fuel costs, and labour rates, those determining factors influencing the selection of an EPZ manufacturing platform.

Phase 2.

With the support of the consultant, Zone management would present the results of this research to GOL policy-makers so as to identify the economic benefits which effective support of the Zone, through specific concessions to Zone occupants, would bring. Such a document, and its presentation would give the GOL policy-makers a full understanding of the role an EPZ can play in economic development, as well as emphasizing the need for consistency in maintaining a regulatory climate for foreign investment.

It would be expected that the Zone would ask for specific assurances on the part of GOL policy-makers that the concessions and regulations requested could be offered to foreign investors with complete assurance that such a regime would be supported by the GOL over the near future.

Phase 3.

Having received the assurance of the GOL that a competitive framework of concessions and regulations was re-established for the Zone, the next phase of the project would be to undertake an effective promotion of the Zone and the opportunity it represents. This would involve market research into likely investors from Korea, Taiwan, Hong Kong, and Europe, and would concentrate on the manufacturing sectors of;

* garment production
* food processing
* furniture component manufacture

* light manufacure (jewellry, toys, etc.)
* simple electronic sub-assembly

Preliminary market research would be undertaken by the consultants, who would provide Zone management with basic marketing profiles on selected firms. Zone management would then be expected to follow-up with the individual firms to invite their interest in the Zone.

This phase would also include two missions from the Zone, one to Europe and the other to Southeast Asia (the countries specified above), to enable Zone management to gain experience in the presentation of the Zone, and in the attraction of specific investors.

2. 4 The need for UNIDO Assistance

The current management of the Liberia Free Trade Zone has demonstrated strong capability in the management of the Zone under trying economic circumstances. It has shown that it is able to keep the Zone operating, and to continue earning revenue, even though few foreign investors have shown any interest in the Zone.

However, the continued operation of the Zone in a deficit position for so many years, has reduced any interest on the part of the GOL to support marketing and promotion, even though this represents the only way to revitalize the Zone. Thus, if the GOL is willing to demonstrate that it is prepared to continue the operation of a Zone, external resources are necessary to complete the revitalization by supporting its external marketing and promotion. Thus, the support of UNIDO is essential to such a programme of revitalization.

3.0 Inputs and Skeleton Budget

The following are preliminary estimates of the costs in US dollai ıecessary to implement such a project as described above.

Phase 1

Consulting services	$ 15,000
Travel & Per diems	$ 6,000
Miscellaneous (printing, etc)	$ 1,000

Phase 2

Consulting service	$ 5,000
Travel & per diems	$ 6,000

Phase 3

Consulting services	$ 45,000
Mission costs - Asia (4 persons)	$ 30,000
- Europe (4 persons)	$ 15,000
Zone Promotion	$ 25,000

Project Total	$148,000

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