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A Basic Economic Report

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CURRENCY EQUIVALENT

The official monetary unit is the Liberian dollar, with a par value equal to that of the U.S. dollar. Apart from the Liberian dollar, the U.S. dollar is a legal tender in Liberia.

INDUSTRIAL PROSPECTS IN LIBERIA

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SUMMARY AND CONCLUSIONS

1. This volume (a) reviews the industrial development already attained in Liberia; (b) analyses the industrial development strategy being pursued and the incentives which support this strategy; and (c) discusses the strategy and policies which would be likely to facilitate balanced industrial development.

2. Liberia has little manufacturing activity. Manufacturing contributed, on the average, 5.4 percent of the GDP at current factor cost during the period 1969 to 1972. 1/ Liberia is a small country with a small domestic market, the manufacturing sector consists of plants rather than industries, and a large proportion of the manufacturing establishments is owned by foreigners. The Liberian Bank for Industrial Development and Investment has been the main source of long-term loan finance for industrial investment by the indigenous businessmen. The Liberian Development Corporation has not been able to play a significant role in promoting industrial development.

3. Manufacturing development so far in Liberia has been almost wholly for import substitution, and protective policies have been pushed to extreme lengths. Many of the most obvious lines of import substitution have been exhausted. For some of the products such as soft drinks and beer, there would be no more scope for import substitution; for others such as wearing apparel, leather footwear, grain milling products, etc., the scope for import substitution would still have been substantial if the market were large. There is evidence that the import substitution policy, pursued almost exclusively in the past, has not been efficient.

4. An analysis of the performance of 15 firms (representing over 60 percent of total firms in operation in Liberia) carried out by the Bank Mission in March 1973 shows that the average nominal rate of protection is 32 percent. This is not high in comparison with many other developing countries, but the range of nominal rates of protection is from 5 percent for animal feed to 50 percent for toffees. Furthermore, the effective rates of protection are as high as 818 percent for shoes and -141 percent for biscuits; that is, the value added in international prices is negative.2/ The high variability of the rates of protection among these firms reflects (a) the degree of inefficiency of the firms, (b) the highly discriminatory

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1/ See Annex, "The National Accounts and Basic Statistics of Liberia", Report of the Statistical Team of the World Bank Economic Review Mission, January-March 1973.

2/ The concepts of nominal rates of protection and effective rates of protection and their implications are explained in Chapter IV.

nature of granting investment incentives to applicants, (c) the absence of a systematic government policy of protection and (d) lack of adequate regard for the cost of protection to the national economy.

5. Low ratio of value added to output provides another evidence of inefficient and costly import substitution. The share of value added in output for most of the firms (soft drinks, shoes, soap, animal feed, cookies, paint, cement, petroleum, nails and furniture) is less than 50 percent. Three of the four firms that have the lowest ratio of value added to output are also those with the highest rates of effective protection, while the fourth one (cookies) with the lowest ratio of 0.05 has an "infinity" effective rate of protection.

6. The detailed economic analysis presented in Chapter IV and summarized in paras 4-5 above, provides an indication of the failure of the present industrial strategy to facilitate industrial development despite the liberal investment incentives granted under the Code. A continuation of this type of highly protected industrial policy is not likely to lead to any progress in industrial development in the future owing to the inherent weakness of the incentive system as well as the lack of conditions vital to the growth of import substitution industry, namely, a large internal market and/or high per capita income.

7. Thus, there is the need for an alternative industrial policy which would recognize the need: (a) for a balanced development of import substituting and export-oriented industries, and (b) to provide the right type of incentives on an industry basis which would lead to orderly development, efficiency and healthy, normal profits. Export-oriented products, and some of import-substituting products, such as veneer, plywood, living room and school furniture, parquets, window and door frames and doors, semi-processed and manufactured rubber goods (gloves, pillows, cushions, babies feeding bottles, etc.) can be produced in Liberia from Liberian resources. The development of the food-processing industry is also essential both to increase the quantity and variety of foodstuffs available for local consumption and to expand the export diversification program.

8. The successful implementation of balanced industrial development would require:

(a) A revised Investment Incentive Code. The revision of the investment incentive code is currently being discussed. The details are outlined in para 112. For these changes to be effective, complementary

changes affecting the tariff structure, excise duties, income tax structure, encouragement of small enterprises and entrepreneurship management training are also necessary.

(i) Tariff Reform. The present tariff structure requires an overhaul to remove anomalies in the system. It is suggested that a simplified approach would take three tariff "bands" on an industry group basis as suggested in paras 118-120. A low revenue tariff of 10-15 percent is suggested for the first group of industries which include those goods which Liberia does not have the prospects of producing economically in the near future. A moderate tariff rate of 20-30 percent is suggested for the second group of industries which include those import-competing products in which Liberia has a comparative advantage in producing. Tariff rates above 30 percent are suggested for a third group of luxury industries. Equal excise taxes on such goods would of course be necessary as part of the reform of the excise tax structure.

(ii) The new Investment Code would initially limit duty exemptions for raw materials and capital goods to, say, 90 percent of the tariff for a period of five years from the first importation. With a tariff reform such exemption would no longer be necessary. It is also suggested that income tax holidays be limited to profits reinvested in Liberia, and should only be of five years duration. For more detail see paras 114-115.

(b) Small Scale Enterprises. Large scale units are likely to be optimal for much of the processing production for export, while the domestic market is likely to be better served by small enterprises. In the small Liberian market small enterprises are more likely to operate at full capacity than large enterprises. Small enterprises provide the ground for training entrepreneurs who, in future, will manage the Liberian large enterprises. Thus, these enterprises ought to have the same access to credit as larger enterprises. In addition, small scale enterprises will require institutional assistance to provide training courses, workshop practice account, and technical services for entrepreneurs. Some infrastructural facilities through industrial estates may be required.

(c) Administrative Organisation.

(i) The existence of efficient industrial and administrative organisations is crucial to industrial development. Duplication and overlapping of activities among Government ministries and agencies could be avoided. The role of the Liberian Bank for Industrial Development and Investment (LBIDI) should be clearly defined, and an early decision should be taken with regard to the function of the Liberian Development Corporation (LDC).

(ii) The Monrovia Free Port Zone should be enlarged, so that it may be used to attract assembly plants for exports. Changes in the fiscal measures affecting the bond contracts operation and payment of duty by importers could be reviewed with a view to improving the administration of the Free Port. Priority could thus be given to the completion of the survey of the Industrial Park, and to meeting other requirements of prospective industrial exporters.

(iii) The success of Liberia's industrial development is very closely linked to improved agricultural production. There should thus be a strong link between agricultural and industrial development programs. The inter-relation between them could reflect an increasing attention to the development of agro-industrial activities and production.

(iv) Lack of an appropriate infrastructure is also one of the important obstacles to industrial development. Most of the manufacturing firms - especially those already at the site of the Industrial Park - lack adequate water supplies, electricity and access roads. Skilled labor is lacking. This adversely affects the economic and social profitability of industries or firms because of the necessity to hire costly foreign labor.

(v) There is a great need for indigeneous graduates who have completed basic courses in economics, accountancy, business management and marketing, and in technical education in all branches of engineering, motor mechanics, machine workshop and building construction. There are at present no technical colleges and polytechnics for training more advanced technicians. The establishment of such a polytechnic institute should be given priority to facilitate adequate supply of technicians and other grades of skilled labor. There is also the need for improving the content of the courses offered at the School of Business in the Liberian University so as to increase the supply and quality of the first degree graduates in social sciences, accounting and business management.

I. STRUCTURE AND GROWTH OF THE MANUFACTURING SECTOR

Output and Employment Growth

1. Information on output and employment in the manufacturing sector of the Liberian economy is weak and conflicting. 1/ However, recent surveys conducted by the Ministry of Planning and Economic Affairs (PEA) indicated that the gross value of manufacturing output was $19.8 million in 1969, $27.2 million in 1970, $32.3 million in 1971, $37.2 million in 1972, and $39.3 million in 1973, at current prices.

2. The contribution of manufacturing to GDP at factor cost in 1970 was 5.2 percent; this is low by comparison to the more developed African countries. Petroleum products dominate; they accounted for about 45 percent of total industrial output in 1970, and 62 percent in 1971. Intermediate goods, including petroleum products, accounted for nearly 73 percent of total output in 1971. Output of both consumer goods and capital goods declined absolutely in 1971, and there is little evidence of any substantial growth in new industries or product lines since 1970. The manufacturing sector is so small that it consists of plants rather than industries, and the analysis of the sector must be viewed in this light. In consumer goods, for example, the decline in 1971 was due to the drastic fall of over 90 percent in the output of gin and rum. A few large firms including the Liberia Refinery, the Liberia Industrial Development Company, Monrovia Breweries Incorporated, Liberia Industrial Production Company, U.S.T.C. Bottling Plant, and West African Shoes and Rubber factory dominate production.

3. Recorded manufacturing employment in firms employing 20 or more workers, (i.e. the modern manufacturing sector) stood at 1,940 in 1969; it rose to 2,190 in 1970 and then declined as output declined in the subsequent two years to 2,090 in 1971 and 1,970 in 1972 respectively.

4. Only a small proportion of the major manufacturing establishments in the country is owned by Liberians. In 1971, for example, only 5 establishments out of a total of 24 in operation were 100 percent owned of Liberians; 6 establishments were owned wholly by non-Liberians; and the controlling shares of the remaining 13 were owned by non-Liberians.

Financing Manufacturing

5. The commercial banks were the major source of short-term finance for the manufacturing sector of the Liberian economy. Table 4 shows the estimates of the short-term loans by the banks from December 1969 to December 1972. Total outstanding loans made to the manufacturing sector stood at $2.3 million in December 1970, declining gradually to $1.4 million in December 1972. Loans outstanding to the private sector rose from $29 million in December 1969 to $47 million in December 1972 - an increase of 63 percent, which was largely due to loans to wholesale and retail trade establishments

1/ Estimates are available for only two or three years. Those made by the Ministry of Planning and Economic Affairs, moreover, fonflict with those made sporadically by the Ministries of Commerce, Industry and Transportation and Labor and Youth.

6. The Liberian Bank for Industrial Development and Investment (LBIDI) was the major local source of long-term loan finance for the manufacturing sector. Since 1967 the total capital costs of the projects approved by LBIDI have averaged $1.5 million annually; LBIDI supplied about 30 percent of the financing required, while 50 percent was provided by promoters' own funds, 12 percent by suppliers' credits, and less than 2 percent by commercial banks.

7. Although the principal objective of establishing the Liberian Development Corporation (LDC) was to assist other government agencies in promoting industrial development it failed to do so largely because of:

(a) shortage of capital funds with which to promote and maintain viable industrial establishments;

(b) lack of operating funds to hire expert personnel in various fields and pay them competitive salaries; and

(c) wrong signals by Government, leading to poor investment choices.

The result was that by the end of 1971 the LDC held Government equity investments in only three enterprises, namely, the West African Shoe and Rubber Industries, Liberian Iron Ore Limited and LBIDI; in addition, a $50,000 investment in the handicraft industry was under consideration at the end of 1972. In 1973 Chapter 55 of the Executive Law which set up the LDC was amended. The amendment makes a provision for strengthening the LDC to improve its financial and administrative resources.

Trade in Manufactured Goods

8. Exports: Manufacturing for export has not yet been developed in Liberia. Table 5 lists the few export products as well as the export receipts that accrued during the three years 1968, 1969 and 1971. Export earnings from manufactures were less than a million dollars a year, and they accounted for less than a half percent of total domestic exports. Explosives and pyrothenic products accounted for about 95 percent of the export earnings from manufactured products, and "Works of Art" accounted for another one percent of manufactured exports in 1971. Explosives and furniture were the only products to appear in the export market regularly during the three-year period shown in Table 5; the other products were only exported spasmodically. The highly protected home market, offering relatively high profits, discouraged exports of such products as cement, furniture and soap, while the high cost of production of most firms made them uncompetitive in the world market. Thus the bulk of manufacturing plants were producing for the home market to take advantage of protection; those few that ventured into exports were usually operating at a low level of capacity and sought export markets to achieve profitable product levels.

9. Imports: Imports of manufactured goods increased considerably in absolute terms from $72.1 million in 1968 to $116.3 million in 1971, but did not rise as a percentage of total imports. They averaged about 73 percent of total imports during the five-year period shown on Table 6. Manufactured imports reached a high of $92.5 million in 1967 (before declining to $72 million in 1968) partly as a result of increased rubber prices, but also because of an exogenously created demand for capital equipment in mining.

10. Imports of machinery and transport equipment were mainly responsible for the increases in the overall imports in the last three years, and within this category the following product groups constituted the bulk of the imports:

SITC		$ million 1969	1970	1971
71	Machinery other than electric	20.5	26.0	30.2
72	Electrical Machinery, apparatus appliances	4.5	10.5	7.3
73	Transport Equipment	11.5	13.5	16.6
732	Road Motor Vehicles	10.2	10.6	14.5

Since most of these imports went to concessionaries, the increase in imports had little direct impact on the non-enclave sector of the economy.

II. CUSTOMS TARIFF ADMINISTRATION

Structure and Administration of Customs Tariff

11. The present tariff schedules came into operation in 1966; the few changes made since then are shown in Appendix 1. The schedules for classifying the goods that are subject to tariff control are based on the Brussels Tariff Nomenclature (BTN). The range of *ad valorem* tariffs is from 0 percent to 80 percent, and only in a few cases are tariffs specific. Commodities attracting *ad valorem* rates of 50 percent and above are mainly luxury goods as indicated below:

50%	Sugar Confectionery not containing Cocoa
50%	Roasted Chicory and other Roasted Coffee Substitutes
58%	Pocket Watches, Wrist Watches
60%	Studs and Cuff Links
60%	Mechanical Lighters
60%	Cigar and Cigarette Holders
65%	Imitation Jewellery
65%	Articles of Jewellery
70%	Perfumery, cosmetic and toilet preparations
70%	Jewellery valued at 1 percent or more each
73%*	Alcoholic beverages
108%*	Tobacco
148-162%*	Beer

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* These rates are obtained by calculating the ratio of tariffs to imports (See Table 8). In the case of beer, and tobacco, the rates obtained from this calculation appear to be higher than the rates given in the Tariff Schedules. The discrepancy may be due to inconsistencies on the part of the customs officials in applying the tariff rates on imports.

12. However, other luxury goods, such as motor cars, pay only 28 percent duty irrespective of size, so that the purchase of large luxury cars is not discouraged.

13. Tariffs on final goods are sometimes lower than tariffs on inputs, making for negative protection for some products. For example, the tariff on matches is 17 percent while that on wooden sticks, paper, gum and glue (all inputs) is 40 percent. The duty on insecticides is 5 percent while that on the inputs (labels, and pyrethrum, etc.) is 34 percent.1/

Consular Fees

14. Consular fees are imposed on all exports consigned to Liberia. The rate is 1 1/2 percent ad valorem and it is paid to the Consular Division of the Liberian Embassy situated in the country in which the exports originated. If an exporter by-passes the Liberian Consular Division, an additional rate of 1/2 percent, making a total of 2 percent, is imposed when the goods land in Liberia. These fees must be added to the nominal tariff rate to determine the actual level of tariff rate imposed on imports.

Excise Duties

15. Excise duties are imposed on domestically produced goods in Liberia. Subsections 1205 to 1209 of Chapter 47 on Excise Tax, April 26, 1972, provide that:

> "There shall be levied and imposed an excise tax on either the production, sale or consumption of all products manufactured within the Republic of Liberia. The rate or amount of such tax may be established either by agreement with the Government and the manufacturer or by special legislation."

Appendix Table II shows a list of the products in which excise rates were imposed together with the rates levied. Excise taxes are paid in lieu of import duties; that is, they are paid by some of those firms which have been granted import duties exemptions under the Investment Incentive Code. However, the excise tax rates are not as high as exempted import duties.

16. The excise tax rates lack uniformity. Some products are exempted from excise tax; other products such as batteries pay rates as high as 27 percent. Some firms are granted a tax holiday of up to 5 years before beginning to pay excise tax, while other firms pay excise taxes as soon as they go into production. The levels of effective protection are, of course, influenced by such taxes and the investment incentive code is thus discriminatory.

1/ The way in which exemptions from import duties are applied to increase the effective protection given to some favoured firms is discussed in Chapter III.

Quantitative Restrictions

17. The importation of some products, such as cement (except white cement), car batteries, matches and petroleum products is banned completely, thus giving infinitely high protection to domestic producers. As these producers are all monopolists by the nature of the market, they are able to operate profitably, charging high prices. There is no effective price control. The excessively high level of protection given under this system should be reconsidered in the context of a revision of the incentive system.

Business Registration Fees

18. Liberia does not impose export and transaction taxes. However, it levies two other fees known as Business Registration Fees and Consular Fees (already discussed). Business Registration fees are paid by a corporation before filing its certificate of incorporation with the Secretary of State. In addition, annual fees of the same amount as the initial registration fees are paid by each company or individual as shown below.1/ The fees were first imposed on May 12, 1960, and were revised in February 1972. Before the amendment in February 1972, the schedule of both the initial registration fees and annual fees was as follows:

(a) For each $1000 par value stock authorized

Value of Stock	Fee per $1,000 par value
Through $125,000	$2.00
Over $125,000 through $1m.	$0.50
Over $1m. through $2m.	$0.25
Over $2m.	$0.10

(b) For each authorized share of stock without nominal value

Value of Share	Fee per Share
Through 1,250	$0.25
From 1,251-10,000 shares	$0.05
10,001-20,000 shares	$0.025
Over 20,000 shares	$0.001

1/ This system is also used for international registration in Liberia not only for shipping but also for other companies. It is understood that about 4,500 non-shipping international companies register annually, paying a total revenue of more than half a million to the Liberian Government.

19. From February 1972 the fees were based on the type of corporation and no longer on the value of the stock. The schedule is as follows:

By Sole Proprietorships	$100
By Partnership	$150
By Corporations	$200

Both before and after February 1972, the incidence of the fees was regressive because the burden was proportionately heavier on individual, sole proprietors than on the bigger corporations. For example, the proportion of the fees paid on a capital value of $125,000 was 0.2 percent while that paid on a value of stock of $2 million was 0.01 percent. Those paying the fees of either $100 (as sole proprietors) or $2.00 per each $1,000 of $125,000, are largely the Liberian small business enterprises whose expansion should be encouraged by appropriate policy measures.1/ It is suggested that small enterprises be exempted from these annual fees following on the practice of the Ministry of Commerce, Industry and Transportation in granting such exemption.

III. INCENTIVES FOR MANUFACTURING

20. The investment climate of Liberia lacks the conditions important to potential investors, namely: large internal market and/or a high per capita income, a developed infrastructure and skilled manpower. The Government,has nevertheless, focussed on foreign and domestic private investment as the crucial element to industrial development. It therefore not only welcomes foreign private investment, but stimulates investment through very liberal investment incentives. However, investment incentives are not enough to stimulate industrial development in Liberia's situation. The "tailor made" nature of the incentives makes it difficult to identify the Government's goals and priorities in particular investment sectors, and between import competing and export products. The decline in the volume of applications for investment incentives since November 1971 could be perhaps partly due to (a) the decision of the investors to wait and see the outcome of the new investment incentive code which is now under consideration, and (b) the downward trend in production activity generally.

The Current Investment Incentive Code

21. The Investment Incentive Code of the Republic of Liberia, which was approved in 1966, provides various incentives to encourage private capital investment in Liberia. The incentives include: (1) income tax exemption and relief for varying periods of years; (2) import duty exemption on both capital and raw material goods, and (3) remittance of profits

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1/ For example, one small entrepreneur interviewed by the Mission indicated that she was going to close down her business because she could not afford to pay the next year's registration fee of $100.

and capital guarantees. Additional benefits include (4) provision of facilities for lease of land and for securing loans and equity capital.

Income Tax Exemptions

22. The Code provided exemptions from taxes on income derived from an approved new investment project for a period of five years from the first year of marketable production. For projects involving substantial investments, with prospects of large direct benefits to the Liberian economy, exemption could be granted for a period up to 10 years from the first year of marketable production. In the case of agricultural projects, special consideration was given to the length of the period required to reach production, as well as the size of the investment.

23. The income tax exemptions provided in the Code appear to have been unnecessarily generous. There is ample evidence to suggest that tax holidays do not greatly influence foreign investment.[1/] Income tax exemptions are generally more important to local investors, but they have to learn, as they have in other countries, that paying taxes is a condition of doing business.

Import Duty Exemption

24. The Investment Incentive Code provided for additional tariff protection on final products and for import duty exemptions on inputs. Exemptions were granted from customs duties, tax levies and other charges - except consular fees on construction materials and supplies - and on raw, semi-processed or processed materials required in the manufacture of articles in respect of which the new investment project had been approved. The exemption was given for five years from the first day of importation. The Code, in addition, provided for import bans on specific products.

25. The combination of tariffs on finished products and import duty exemption on inputs stimulates import replacement without consideration to economic costs and without recognition of the inherent conflict between the rising domestic prices which inefficient import substitution inevitably brings, and Liberia's potential for the export of manufactured goods. Availability of a large internal market is an essential factor for a successful import substitution policy that would lead to an efficient use of economic resources. Unfortunately, Liberia has not this large internal market, and even the proposed Liberia/Sierra Leone/Ivory Coast market would not change the situation significantly for most products.

1/ See United Nations, "Foreign Investment in Developing Countries" (New York, 1968) p. 21; also H. Hughes and You Poh Seng (eds), "Foreign Investment and Industrialization in Singapore" (Canberra 1969) pp. 212-213.

26. Import duty exemptions on approved imports of machinery and equipment make capital cheap in relation to labor, with the result that the employment of machinery becomes more profitable in private terms than the employment of people. As capital is a scarce resource, while there is unemployment, social profitability is not maximized. The exemption on raw materials discourages the substitution of local raw materials for imported ones. Entrepreneurs become dependent on the import exemptions, and cannot operate without them after the expiration of the initial five-year term. There is a considerable, and by no means necessary, revenue loss through granting such incentives.

27. The case for granting low import duty or import duty relief can be considered on two grounds. First, where the raw materials are a component of production for export, it is reasonable and appropriate to argue that they may be granted duty free import. Second, where it is necessary to import a product as a component of a manufacturing process utilizing a substantial quantity of locally produced raw materials, low import duty might be socially desirable.

Foreign Exchange Policy

28. Because Liberia uses the US dollar as currency and has no central bank, there is a complete freedom for capital movements. This means that investors may:

(a) remit profits to their countries of origin;

(b) repatriate the net proceeds belonging to an investor upon partial or total sale of liquidation of his investment;

(c) repay interest and foreign loans contracted by enterprises; and

(d) remit savings of foreign personnel employed in enterprises to their countries of origin.

While this policy ensures investor confidence in the nation, the difficulties of checking such flows make tax evasion easier than in most countries and lessen the Government's ability to channel profits into reinvestments. The currency stability of Liberia (for foreign investors from US dollar areas) lends further evidence that the present investment incentives of the Government may have been overly generous.

Issue of Monopoly Growth

29. The Code also dealt with firms rather than on an industry group basis. High effective protection granted on a firm basis together with a controlled licensing of productive enterprises, could lead to the establishment of high profitable monopolies. High prices and hence relatively high labor costs would be the outcome of the establishment of such monopolies.

Lack of Incentives for Exporters

30. The current Investment Incentive Code lacks incentives for exporters. Export markets are clearly more competitive than the protected domestic markets. Unless export products are entitled to drawbacks of taxes on inputs into exported goods, the firms cannot export. Any discrimination against export industries should be avoided. Because export industries are directed to markets with far greater growth potential, it is desirable to make them benefit from a relatively better rather than worse set of incentives than domestic market oriented industries. It is suggested that exports be granted drawbacks of all import duties on inputs and reduction of income tax based on the amount of exports after the expiration of the income tax relief period.

Proposed New Investment Code

31. The Ministry of Commerce, Industry and Transport has proposed amendments to the 1966-72 Investment Incentive Code in order to take the above comments into consideration.

The changes in the investment incentive system are intended to:

(a) encourage industrial exports;

(b) encourage the growth of industries which: (i) employ the fullest Liberian skills and which also provide for the development of further skills by on-the-job training; and (ii) utilize to a mazimum extent domestic resources both for domestic and export markets;

(c) encourage the diversification of industries including a fair distribution between Monrovia and the counties; and

(d) encourage Liberian enterprise and employment, with a particular emphasis on creating new opportunities for both small and large entrepreneurs.

32. The new Code moves away significantly from the import substitution strategy embodied in the previous Code. In particular the draft Code.

(a) eliminates the clause promising high tariffs;

(b) reduces import duty exemptions on raw materials and captial goods to 90 percent. This would facilitate coordination with a reformed tariff;

(c) eliminates income tax holidays for domestic producers except for reinvested profits;

(d) grants a five-year income tax holiday to exporters, plus drawbacks on indirect taxes for a one-year period;

(e) places all investment proposals under $2 million of capital investment under the jurisdiction of an inter-Ministerial Investment Committee. Previously, the limit was $150,000; and

(f) puts the responsibility for implementing the Code clearly in the Ministry of Commerce, thus eliminating the confusion with LDC and other agencies.

33. Thus if the new Code were put into operation it is expected that:

(a) the high tariffs would be lowered;

(b) the import duties exemptions would also be lowered; and

(c) the income tax exemptions would be reduced.

34. Even though the monopoly for the firms still remains, the overall situation is healthier than previously. There are, nevertheless, two more important aspects of incentives which have to be considered in the new Code. These are additional incentives to exports and to small scale industries.

Providing Incentives for Small Enterprises

35. Liberia has a small domestic market and hence small enterprises are in a better position to develop as import substitute industries than medium and large enterprises. This view is supported by the results of the inquiries made into the output capacity of the fifteen firms 1/ interviewed by the Mission. Only four of these firms were working at full capacity in 1971, while the rest worked from 7 percent to 73 percent of total capacity. The situation of the matches and bleach firms was the most serious, producing only 15 percent and 7 percent of total capacity respectively. In the matches factory one machine, on the average, was lying idle daily owing to lack of sufficient demand. In such situations smaller enterprises would be more efficient and more profitable socially than large enterprises.

36. Moreover, the entrepreneurship argument also supports an emphasis on small firms. There are as yet very few Liberian entrepreneurs who would be able to manage medium and larger scale industries in Liberia. The bulk of such existing industries are managed largely by foreigners who also were intrumental in initiating them. Even in the small scale sector an overwhelming number of the proprietors are non-Liberians. Thus there is the great need for the Government to assist in training a large number of Liberian small scale enterpreneurs who would acquire the experience necessary to assume eventually the management of medium and large industries.

37. Small enterprises, however, cannot borrow from commercial banks and other financial intermediaries because they cannot meet the security requirements of these institutions. Thus, they do not have access to these

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1/ Out of a total of 25 manufacturing firms. See Chapter IV below for details of the sample.

institutions nor even to the LBIDI. It is therefore desirable that the Government should grant these enterprises same facilities for securing loans and equity capital as it grants to medium and large enterprises.

IV. LEVELS OF PROTECTION IN LIBERIA'S MANUFACTURING SECTOR

38. The extent of import substitution for different parts of the manufacturing sector is indicated in Table 7, which includes only those products (or groups of products) for which adequate data are available.

39. The share of imported goods (including duty paid on them) in the total domestic supply 1/ of industrial products is shown in column (8). The greater the import share the greater is the scope for import substitution; putting it differently, the lower is M/Z 2/ the greater is the extent of import substitution in the Liberian economy. Grain milling products, wearing apparel, leather footwear, soap and cosmetics, tires and tubes offer good examples of products where the scope for import substitution would still be considerable if the market were large enough for economic production, while petroleum products and cement represent those cases where import substitution has reached an advanced stage. In soft drinks, no more scope exists since all the domestic needs are satisfied by local production. Although beer, gin and rum, paints and varnishes, plastic products, wood and furniture were borderline cases in 1970, by the end of 1972 import substitution in some of them (such as paints and varnishes and beer) had reached an advanced stage. For those products for which import substitution has reached a high level, the implication is that any future growth in the industries concerned must arise from the growth in domestic (or foreign) demand.

40. Column (10), indicating the share of imported intermediate input in total output, F/X, shows a very high proportion for soap and cosmetics and petroleum. For soap and cosmetics, this abnormal result (136 percent) suggests three things. First, the manufacturers may have understated the total output of these products. Second, that there was a discrepancy in the import figures; some of the local inputs or inventories migh have been recorded as imports. Third and most likely, that some imports were in reality finished products. In the case of petroleum products a high proportion (0.72) is expected since most of the inputs have to be imported. 3/ The last column, X/Z, indicates the share of domestic output in total domestic supply.

1/ Total domestic supply is defined as the value of domestic production plus the value of competing imported products less any exports, i.e., X+M-E = Z.

2/ M/Z indicates the ratio of imports including duty (M) to total domestic supply (Z).

3/ The proportion would be greater than 0.72 if skilled labor inputs were included in the calculation.

41. Although import substitution has reached an advanced stage in some industrial products, the efficiency of the import substitution also has to be examined. Thus it appears that not only is the total industrial value being created by these import replacing activities small in absolute terms, but it is even smaller in relation to the expected growth of the industrial sector. Scale economies are an important determinant of plant size and unit costs, and in Liberia the market for most types of consumer, intermediate and capital goods is too small now (and will continue to be so for many years) to justify a plant that comes close to the minimum efficient scale of output.

Level of Protection

42. The average of nominal tariffs on 20 industrial products shown in Table 8 was 24.4 percent in 1970 and 30.5 percent in 1971.[1/] This does not appear high when compared with many other developing countries. However, the average rate of taxation of either 24 or 31 percent does not accurately measure the height of a country's protective system. To know the degree of protection actually afforded the domestic producers of a particular product by the tariff system, it is necessary to calculate the percentage increase in the domestic price (net of all taxes) over the c.i.f. price of an identical imported good. The result obtained is described as the nominal rate of protection as distinct from the nominal tariff. The nominal rate of protection may be less than the nominal tariff, but if exchange control, import licensing or import restrictions exist, the nominal rate of protection may well exceed the nominal tariff rate. In Table 9 the average nominal rate of protection (32 percent) afforded the 15 products shown is less than the average nominal tariff rate (33.5 percent). The difference is, however, marginal, indicating that the effect of non-tariff barriers is minor.

43. Furthermore, the protection afforded to individual industries is also affected by tariffs based on material inputs such as fuels, other utilities, parts and components, and industrial materials. These tariffs reduce the extent of protection accorded to a particular industry by increasing the cost of material inputs. In fact the tariffs can be regarded as a tax on the processing of such inputs. This leads us to the concept of effective rate of protection, which represents the excess of value added at domestic price over value added at world price expressed as a

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1/ These figures exclude excise taxes paid on some of the products. The increase in 1971 over 1970 was due to the *ad hoc* changes in tariffs made in that year and also in later years.

percentage of world value added. Whereas the nominal rate of protection indicates the level of protection by ranking products according to the percentage excess of domestic over foreign prices, the effective rate of protection shows the percentage excess of domestic value added (obtainable by reason of the imposition of tariffs and other protective measures) over world market value added. In short, the former refers to a product protection while the latter refers to production process protection.

44. Estimates of effective rates of protection provide information on the structure, as well as on the cost of protection. They also provide a measure of the cost of protection and reveal those instances in which import-substitution activities bring negative returns in terms of world market prices (or c.i.f. prices). Thus we shall now proceed to apply these concepts in analysing the structure and cost of protection of the Liberian import-substitute industries.

45. Looking at Table 9, we find considerable variability in rates of nominal and effective protection for individual firms. The rates of nominal protection range from 5 percent for animal feed to 50 percent for toffees; the rates of effective protection range from 818 percent for shoes to -141 percent for biscuits. The high variability of the rates of protection among the Liberian firms reflects the highly discriminatory nature of granting incentives to applicants under the Code.1/ It also reflects the degree of inefficiency of the firms. High variability in rates of effective protection for individual firms or establishments also reflects the absence of a systematic government policy of protection, as well as lack of adequate consideration of the cost of protection for the national economy.

46. Table 9 shows that highly protected industries appear in all sectors. Regarding the effective rate of 60-90 percent as 2/ the point of distinction between highly protected and less highly protected industries, we see from Table 9 that in the consumer goods sector there firms (beer shoes and furniture) are among the highly protected group; in the intermediate goods sector, three firms (paint, petroleum and nails) are highly protected.3/ In the consumer goods sector also biscuits and toffees have their effective rates as infinity because they have negative value added when their inputs

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1/ For instance, some establishments were granted incentives for a two-year period and others for a seven-year period.

2/ The effective rate of 60-90 percent is not a standard measure. For most countries this range might be regarded as high. But for Liberia this is considered appropriate in view of the fact that the country does not impose exchange controls which constitute another form of protection to industries.

3/ Paint and furniture are marginal cases, however.

and outputs are valued at international prices. Four firms (soft drinks, soap, animal feed and matches) in the consumer goods sector and three (bleach, cement and tiles) in the intermediate goods sector could account for effective rates of protection less than 60 percent. That is, seven firms only fall within the sector of less highly protected industries.

47. It can be observed from Table 9 also that nominal and effective rates of protection tend to move pari passu across the establishments or industries, although it cannot be argued that the nominal rate is a reliable indicator of the level of effective protection in all cases. For instance, the nominal rate of protection for soap is one of the highest, while its effective rate of protection is one of the lowest.

48. Another characteristic of the levels of effective protection among Liberian firms is that the two industries (wood and furniture and cement) in the sample that have exported products in the last few years have relatively low rate of effective protection.

Relating Protection to Efficiency

(1) Value Added Criteria

49. For policy-making purposes, it is desirable to know how the protection afforded the Liberian firms has been employed (a) to increase value added; and (b) to raise profits. These two aspects - increasing value added and raising profits - are both connected with the way in which protection facilitates (or otherwise) an achievement of efficiency or inefficiency by protected industry. In other words, a high rate of effective protection can be associated with either an efficient industry making high profit or an inefficient industry making low profits. Looking at the analysis from another angle also, a low rate of effective protection can be associated with high or low values added by an industry. Let us consider the latter first.

50. From Table 10 it is seen that it is only in four firms (beer, matches, bleach and tiles) that the value added to output ratio exceeds 0.50. With the exception of beer, these firms also belong to the category of less highly protected industries with the rate of effective protection less than 60 percent. Furthermore, those with the highest rates of effective protection (shoes, petroleum and nails) have the lowest ratios of value added to output. The lowest ratio of 0.05 belongs to the biscuits and toffees firm, whose rate of effective protection is infinity. Thus, in the Liberian manufacturing sector, we can associate (with the minor exception of beer industry) industries with low rates of effective protection with high value added, and industries with high rate of protection with low value added.

51. The biscuits and toffees firm represents a special case. The value added to output ratio of 5 percent is far too low to justify the rate of protection afforded the industry. Compare the nominal rate of protection of 39 percent given to the industry with the value added ratio of only 5 percent.

This implies that it is costing the community $39 out of every $100 spent on imports of these products to protect the industry which adds only $5 in return. Value added by the firm does not justify the heavy protection being given to it. In other words, it is being over protected and the same argument applies to nails, petroleum, soap, and shoes. In the case of cement and animal feed, although the ratio of value added to output is not high, it nevertheless compares favorably with the level of protection given.

(2) Level of Protection necessary to earn a Normal Return on Capital

52. The next stage is to determine that level of protection which would be necessary for each firm to earn a normal return on capital. This is another way of finding out whether the beneficiaries of protection are efficient or inefficient. Here an accounting rate of return of 15 percent, measured as the ratio of the annual cash flow (profits including taxes, interest payments and depreciation) to total assets (at original cost) is taken to correspond to an internal rate of return of approximately 10 percent. The required effective rate of protection(RERP) is defined as the level of effective protection necessary to provide a 15 percent accounting rate of return. After calculating the RERP, it is then compared with the actual rate of protection shown in Column (3) so as to determine whether adequate/inadequate or excessive/inexcessive returns to total assets are being earned by the firms.

53. The calculated RERP are shown in Table 9. About seven firms appear to be currently receiving a sub-normal rate of return, and all (except matches) fall into the category of highly protected firms with beer, shoes, and nails exhibiting the highest rate of effective protection. If the relatively high protection which they are enjoying already does not make them efficient, then further increases in protection are less likely to make them be efficient. Of these seven firms, matches is the only one which appears to have a genuine case for an increased effective rate of protection to enable it to earn a normal rate of return. It is already one of the most profitable firms with the highest ratio of value added to output with effective rate of protection as low as 11.5 percent. The others might be encouraged to close down after their legal protection period expires.

54. Two firms (soap and bleach) have rates of return about twice the normal rate, while paint has more than four times the normal rate. It is of interest to note that the firms with accounting rates of return of 15 percent and above have low actual rates of protection and are among the more efficient firms in the sample.

V. ORGANIZATION ASPECTS

The Ministry of Commerce, Industry and Transport:

55. The Ministry of Commerce, Industry and Transport (MCIT) is one of the main institutional organs involved with initiating and implementing industrial policies in Liberia. The other institutions are the Ministries of Finance, Planning and Economic Affairs, and Agriculture; the Liberian Development Corporation and the LBIDI.

56. For operational purposes the MCIT consists of three Divisions; Bureau of Trade and Commerce, Bureau of Industrial and Resource Development, and Bureau of Transportation. The Bureau of Trade and Commerce has the responsibility for regulating and controlling commodity and trade standards, as well as promoting overall development of foreign commerce. The Bureau of Industrial and Resource Development is responsible for promoting and administering the development of local industries. It is also the responsibility of this Division to follow up commitments made under the concession agreements and to induce concessionaires to broaden their commitments to the Liberian economy. These two Divisions (Bureau of Trade and Commerce, and Industrial and Resource Development) are under the management of an Assistant Minister. Each Division is headed by an economist - a civil servant - supported by about a half dozen other junior graduate economists, most of whom have very little or no experience in applied economics. Nevertheless, it is on these inexperienced staff that the responsibility for promoting and administering industrial development falls.

57. The Ministries of Finance, Planning and Economic Affairs, and Agriculture, together with the Ministry of Commerce, Industry and Transport are members of the Investment Incentive Committee, which examines all applications for incentives and reports its findings to the Secretary of Commerce and Industry in respect of manufacturing projects, and to the Secretary of Agriculture in respect of agricultural, logging and fishing projects. Under the current Investment Incentive Code, where the total fixed capital required for a new project exceeds $150,000 the Secretary of Commerce and Industry or the Secretary of Agriculture, as the case may be, is required to submit the application for an Investment Incentives Contract to the National Planning Council for approval. If the total fixed capital is less than $150,000 the Investment Incentives Committee can approve or disapprove the application itself. Under the proposed new Code, the limit has been raised from $150,000 to $2,000,000.

58. Thus active cooperation (or lack of it) among these four Ministries is crucial in promoting (or retarding) industrial development. Where the relationship among them is cordial and free of rivalry and some aspects of unnecessary competition that could lead to duplication and overlapping of activities, much progress could be achieved through speedy and judicious consideration of applications for incentives contracts. But where there are clashes among personalities from various Ministries coupled with the tendency to duplicate activities, there is bound to be a stalemate in the process of initiating and implementing industrial policies. Unfortunately, the latter appears to be the situation currently prevailing in Liberia.

The Liberian Development Corporation

59. The LDC was set up in 1961 by an Act of the Legislature, and became an independent agency of the Government in 1967. When it was created in 1961, it was charged with the responsibility:

(a) for financing Government equity participation in business development enterprises;

(b) to identify, investigate, and promote the establishment of viable business enterprises whose creation is in keeping with the objectives of national economic development and the purposes of the Corporation;

(c) to provide technical assistance to the Liberian Bank for Industrial Development and Investment;

(d) for providing assistance to other Government Agencies and Departments in the area of encouraging industrial development, and in the implementation and administration of investment incentive legislation of the Republic of Liberia.

(e) to issue loan guarantees subject to collateral reserve guarantee provisions as set forth in the 1961 Act;

(f) to purchase securities and obligations of any public corporation, boards and commissions, set up by the Liberian Government or any political body of that Government;

(g) to establish and maintain viable business enterprises, on its own initiative or in association with private or other Government entities; and

(h) to hold all of the right, title and interest of the Republic of Liberia in and to the enterprises initiated, established, and maintained by the Corporation, including all funds, powers, stocks, bonds, membership, certificates, or other evidences of indebtedness therefore of control or ownership therein, subject to all obligation and encumbrances, legal or equitable, with which the same may be burdened.

60. There was provision for a Board of Directors composed both of private citizens from the business community and Cabinet-level officials with the Minister of Commerce, Industry and Transportation as the Chairman.

61. The Corporation was ill-equipped for the responsibilities entrusted to it. It lacked not only the funds with which to participate in development enterprises, but also those for hiring and retaining the qualified personnel necessary to establish and maintain viable business enterprises. Although, it sought and obtained technical assistance from UNIDO, the assistance was not adequate, and hence one of the vital issues with which the LDC was expected to concern itself was neglected - the development of an industrial park. In addition, there was an overlapping of functions of (a) the LDC and the Bureau of Industrial and Resource Development (BIRD) of the MCIT, (b) the LDC and the LBIDI, and (c) the LDC and some sections of the Ministry of Planning and Economic Affairs. Thus, there arose a coordination problem in initiating and implementing policies on industrial development. In short, the LDC was unable to embark upon meaningful projects and now holds equity investments in only three enterprises (see para. 7).

62. In an attempt to end the overlapping of the functions of the LDC and BIRD, and to avoid some other handicaps from which the LDC suffered, a proposal to merge the Corporation with BIRD was made in November 1972. The legislation giving effect to this merger has however not yet been passed. It is becoming doubtful whether the legislative approval for the merger will be sought, in view of the current views of some Government officials that the LDC be separated from the MCIT and set up autonomously. The crucial issue in this respect is not whether the LDC operates autonomously, whether it is part of MCIT, or whether it is directly responsible to the President. A more important issue to consider is that any institutional change affecting the LDC is not worthwhile until the constraints and problems facing it are solved. It is only by doing so that the LDC would be in a position to serve as an investment promotion agency.

Liberian Bank for Industrial Development and Investment

63. The LBIDI was set up as a statutory corporation in 1961 (the same year as LDC) but it did not formally open for business until November 1965. The purpose of establishing LBIDI was to

(a) assist in the establishment, expansion and modernization of private productive business and industrial enterprises in Liberia;

(b) encourage and promote the development of internal and external private and public capital availabilities in the financing of such enterprise;

(c) encourage, sponsor, and facilitate private establishment, acquisition or ownership of productive business and industrial investment, share and securities.

To be able to achieve these objectives, LBIDI was empowered to make medium or long-term loans, suscribe to equity capital, act as guarantor, underwrite, supply technical assistance and undertake promotional activities.

Volume and Locus of Financing

64. LBDI's outstanding investments of about $2 million represent roughly 20% of total outstanding bank credit to the manufacturing, tourism, forestry, fishing, and agriculture 1/ sectors combined LBDI's importance in the Liberian context is underscored by the fact that it is the

1/ Excluding an $8 million increase in outstanding commercial bank loans to agriculture which occurred in the fourth quarter of 1973, due to shifting of an account of a single client from a foreign bank to its Liberian subsidiary.

only national institution in Liberia providing long-term loans and equity financing for productive enterprise. For a number of reasons, however, LBDI has been slow to build up to its potential in terms of volume of business. After having built up a net investment port-folio of about $1.6 million in its first three years of operation, LBDI's volume of business was very low in 1970 and 1971 and as a result, its total assets have not increased since 1969. The first Bank loan was made to LBDI in June 1972 because the company appeared to be beginning to operate more aggressively and effectively. Indeed in 1972 operations improved, and in 1973 the company finally achieved and surpassed its long-targeted goal of $1 million of annual approvals. 1/

65. With aggressive new management installed in September 1973 and an expanded scope of activities LBDI now seems to be well on the way to a satisfactory level of operations. Approvals of loans and equity investments rose from $576,000 for 23 projects in 1972 to $1.3 million for 34 projects in 1973. Another $1.5 million for 12 projects was approved during the first four months of 1974. Commitments rose from $289,000 in 1972 to $885,000 in 1973. Disbursements were $477,000 in 1973 compared to $141,000 in 1972. LBDI has experienced a low rate of cancellation of projects after Board approval.

Strategy for LBDI

66. LBDI faces a number of challenges in developing its future business and impact. These include: (1) limited investment opportunities and capable, interested project sponsors; (2) LBDI's low earnings which allow it little room in its budget for costly promotional efforts; (3) LBDI's multi-sector involvement, which is beneficial to development in that LBDI's long-term financing is needed in these sectors, but which makes it difficult for LBDI to play much more than a role of financier in any particular sector; and (4) LBDI's own equity, which limits the size of project it can finance with acceptable risk; and (5) limitationsin the number and abilities of its staff.

67. In spite of these difficulties LBDI has made good progress in the past year or so and the strategy it is presently following is to expand the scope and volume of its financing, to improve its stance in the community as an active development agent, and to improve its profitability. In the last year, LBDI has begun financing agricultural cooperatives and retail enterprises. Also, LBDI is obtaining a change in its Act to enable it to finance public projects. It will limit such financing to 30% of its portfolio. This is a constructive development since it will enable LBDI to contribute its advice regarding the formulation of such projects. Recently, LBDI has been actively seeking to participate in larger industrial projects in Liberia. It has been able to do this without neglecting the small scale sector which has taken most of its attention in the past. LBDI also intends to do more financing and sales of equites. Financing larger, longer-term projects, and taking a more active role regarding equities, should help LBDI attain an adequate level of profitability, which in turn would enable it to increase its assistance to the small-scale sector. LBDI needs to establish satisfactory profitability and pay attractive dividends before it will be able to raise a new share capital.

1/ This, and the following three paragraphs are from the IBRD appraisal of LBDI, October 1974.

Monrovia Industrial Park

68. In 1963 the Government of Liberia expropriated 1,100 acres of land located in Gardenersville to be used as an industrial park. The site is approximately 3.5 miles from the Freeport of Monrovia and about 6 miles from the center of the city of Monrovia. This is a strategic location, for the new Kakata Highway cuts through an area previously inaccessible to commercial and industrial traffic. The purpose of the Government in establishing this part was:

(a) to assist potential industrialists with solving such initial problems as buying and preparing a site for putting up industrial buildings and securing the essential utilities and services required to keep production going;

(b) to offer the Liberian entrepreneurs in particular an opportunity to benefit from a variety of technical services which would be available at the park;

(c) from the point of view of expenditure, it would be far more economical for the Government to provide the utilities and infrastructure facilities to an industrial park than to scattered industries; and

(d) the establishment of an industrial park could have spread effects on other sectors of the economy; the increase in employment and income which might be generated by the economic activities in the park could lead to the liberalization of loans for building purposes, thus resulting in the solution of housing shortage and in the improvement of sanitation.

69. It was also envisaged that the industrial park would accommodate all types of industries - small-scale industries, light industries, and heavy industries - and would also provide facilities for an administration and operation center, house workers, provide a traffic and transportation system, utilities and bonded warehouses.

70. Unfortunately, the industrial park project has not got off the ground; only a part of the Phase I of the project, involving a number of engineering surveys and studies to enable the preparation of detailed plans has been completed. The cost of completing Phase I of the project covering only 115 acres out of the 1100 acres was estimated at $1.88 million, of which 66.8 percent would be contributed by the Liberian Government and 33.2 percent by UNIDO/UNDP. This Phase I of the project was originally envisaged to be completed in 1972. At present only three firms are located in the park, namely, West Africa Shoes and Rubber Industries, Ltd. (WASRIL), Metalloplastica (a plastic plant) and the Liberian Refinery Company. These firms have incurred high costs on infrastructural development due to lack of sufficient funds by the Government to develop the proposed industrial estate. Other firms are hesitating to move to the park because of the high developmental costs which the other three firms have incurred. The site for the Park was badly chosen because

it was situated in a swampy area. Thus the industrial park project appears to be at a standstill, and the contribution that it is expected to be making towards industrial development is not materializing. In retrospect, it is clear that the three firms attracted to the park did not require Government assistance in location, and their employemt potential has been limited. For the future, zoning combined with utility planning may be a more effective and cheaper spatial tool.

Free Port of Monrovia

71. The main purpose of establishing the Free Port of Monrovia was to create an environment that would facilitate industrial activities which would supplement the nation's industrial effort. The Free Port Zone would attract export industries using duty free raw materials and capital goods imports in manufacturing production. The products manufactured by the industry in the Free Port Zone would be for export and no excise duties (or export taxes) were to be paid. But if the products were withdrawn and put into the commercial stream of the country, they would pay duty. In this way manufacturing production for exports and for domestic consumption would be encouraged by the free establishment of Free Port Zone.

72. Another aspect of the Free Port Zone operation which concerns industrial development is that sometimes machinery equipment exported, say from England or the USA, may be shipped to Monrovia's Free Port and stored there as a regional distribution center from which trans-shipment could later on take place for other West African ports. Meanwhile, only normal port charges (not duties) and handling charges are paid to the Liberian National Ports Authority. The greater the volume of such trans-shipment cargoes taking place at the Free Port Zone the larger are the revenues derived from port charges and handling. In addition, increased activities at the Free Port Zone would imply an increase in employment opportunities.

73. However, the Free Port concept has run into a number of difficulties. First, the area covered by the Free Port Zone is too small to absorb all the factories that have applied for a building space. The Free Port Administration is inadequate and there is no land utilization policy aimed at the efficient allocation of the Free Port Area. The result is that at the present, no permanent leasing of space within the Free Port Zone is allowed. New industries operate on a rental basis. The World Bank has been approached by Liberia's NPA to assist in carrying out a feasibility study to determine the optimum size of the Free Port area that is capable of satisfying the internal and external needs of the Free Port Zone concept.

74. Recent changes in the fiscal aspects of the Revenue and Finance law which came into effect in 1972 have had adverse effects on the working of the Free Port concept. The changes in the Revenue and Finance law provided for payment of duty by importers as they withdrew their goods from the warehouse. This was in conflict with the previous practice whereby the importers were allowed a period of six months within which to pay the duties. The purpose of introducing the changes was to prevent the importers from withholding government revenues collected from duties (by depositing them in the bank to earn interest) for a long period before paying them. However, the

fiscal changes had the effect of reducing the volume of imports (including raw materials and capital equipment meant for industrial investment).

75. Furthermore, another change was made by the Customs Department last year on the operation of bond contracts. The Department required an extension of the bond contracts in respect of goods withdrawn from the Port of Monrovia for transportation by the overland route to the neighboring countries of Guinea, Ivory Coast and Sierra Leone. The object of this extension of bond contracts was to ensure that the goods withdrawn from the Port for these neighboring countries actually got to those countries without finding their way into the hands of Liberian importers who may escape payment of import duties. However, the "extension of a bond contract" requirement was misunderstood by the agents of the shipping lines who regarded this order as an interference in the Free Port concept. This again affected transshipment of goods through the Free Port of Monrovia in 1973 and early 1974; the revenue collection from port charges and handling also declined in 1973 and during the first quarter of 1974. (See the annex on transportation for the other effects of the extension of the bond contracts on the Liberian economy).

Market Integration

76. Proposals for market integration and greater economic cooperation between Liberia, Sierra Leone and Ivory Coast have been made by the Heads of Governments of these countries. The total population of these three countries is approximately 10 million, and the average per capita income in 1971 was roughly $230. The integration of these countries would not result in any marked improvement in economies of scale. The "diversification of exports" argument would also not be a justification for the proposed market integration, because diversification could still take place now while the countries are separate. Even now some exports from one country to another are discouraged by high tariff walls and some also are completely banned. Biscuits and toffees provide a good example of this type of import restrictions imposed by these countries.

77. However, it is possible that cooperation in research and training schemes together with the pooling of technical information could enable the three countries to reduce their dependence on foreign skills. But is it not only by integration that such cooperation could be promoted. It could be promoted even now that they are separate countries. Also joint transport and communications programs could be launched now. We would therefore suggest that an improvement in transport and communications networks among these countries should be considered as one of the prerequisites to market integration.

78. The proposal for integration is "inward" looking rather than "outward" looking. It envisages a highly protected common market of only 10 million people which would not provide any solution to the development problems of these countries. It ignores totally the question of what is the most sensible strategy that these countries would pursue to become economically viable.

VI. POLICY RECOMMENDATIONS

Strategy Re-orientation

79. The policies pursued so far by the Liberian authorities have not been compatible with a vigorous industrial development strategy. The Government has followed a policy of import substitution protected by a liberal incentive system but without incentives to exports. It has been noted above that Liberia is a small country not only in geographic size, but also in terms of per capital income per head. Thus there is little scope for industrial development based on import substitution. Executive capacity is small and coordination within the administration is weak. Furthermore, export production is concentrated on a few primary products which are normally vulnerable to fluctuations in the international market.

Export-Oriented Strategy - Resource-based Industries

80. The case for export-oriented policy concentrated on a selected group of resource-based industries rests on the necessity to find ways of diversifying Liberia's sources of foreign exchange earnings. At present there are two such sources (apart from foreign loans and grants) namely: iron ore exports and tree crop exports. These two sources cannot be relied on on a long-term basis because:

(a) Liberia's iron ore deposits face great competition from other deposits in other parts of the world, and it therefore seems possible that the capacity of Liberia's deposits that are economically productive could be exhausted by the 1980s; and

(b) the opportunities for expanding tree crop production through increased acreage and higher productivity are constrained by the long run relatively inelastic demand and highly competitive supply for these products as well as by the less buoyant world outlook.

81. An export development strategy should be centered on those resource-based industries in which Liberia has a comparative advantage. Timber-based and rubber-based industries are two prominent candidates for consideration. A few other raw material processing (agro-based) industries could also be considered, particularly those with labor intensive production potential which create employment.

(1) Wood Based Products

82. The timber industry offers a good example of an industry that satisfies home demand and also produces for the export market, thus linking up the import-substituting section with the export section. It indicates

a desirable orderly development of the various stages of manufacturing production, from the processing to full manufacturing stage.

Production for Export

83. Processed wood products such as sawn wood, plywood and veneer can be exported at competitive prices. About 98 percent of Liberia's wood products exports are in the form of logs, leaving only 2 percent for processed products, that is, sawnwood, plywood and veneer. Thus the first prerequisite for viable manufacturing wood based industries that would satisfy both home and export demands is the development of an efficient and viable wood processing industry. An abundant supply of processed wood products would facilitate a gradual and smooth transfer into the manufacturing stage. The processing stage should be labor intensive so as to provide employment opportunities for Liberians.

84. The case for an establishment of a viable and large-scale wood processing plant in Liberia rests on other issues apart from the fact that it would be a steady source of supply for the manufacturing stage. The consumption of tropical sawn timber in Western Europe continues to expand and this implies a continuation of demand for exports of processed wood products. There is the need for diversification of log wood exports and exports of processed wood products would provide this diversification. Sawn wood imports into Europe are now becoming very important and they are exceeding, by far, the imports of log wood.

85. Export of manufactured components of various types of timber based products including furniture, building materials such as window and door frames, parquets,prefabricated wooden houses and standardised wooden containers for packing trimmed and bottled products,would be the next stage following export of processed products. Several studies undertaken by the International Trade Center (ITC) in Geneva indicate that there are promising markets in Europe for these components of tropical wood products provided that careful attention is paid to delivery terms, grading rules and requirements plus rationalizing of packaging. There are several "do-it-yourself" centers in Europe that would be interested in buying made-in-Liberia products.

86. The production of window frames and panes, as well as doors and door frames and furniture legs can be done in Liberia in accordance with designs from partners and consumers in Europe. Although exports of components of furniture, building materials and other end-use products on a large scale are not feasible at the initial stage, but once a good start is made and customers become aware of this source of goods, exports would increase in later years.

87. One other advantage which would be gained by exporting packaged furniture goods and the component parts of other wood-based products is that the difficulties arising from exporting bulky and heavy products are avoided. Heavy and bulky products are difficult to pack and transport, and also transportation costs are high. A small developing country like Liberia cannot afford to compete in bulky and heavy exports in the international market with bigger and more developed countries.

88. Prefabricated Wooden Houses: Provided that some good designs are supplied some of the parts for this type of houses can be produced in Liberia and exported to the European partners who would supply the remaining parts and do the entire assembling. The manufacture of prefabricated wooden houses provides a favorable demand outlet for tropical wood in Europe. Advantages of this type of houses lie in their short construction period, the dry method of construction and their relatively favorable price, particularly in mass production. The number of such houses in the Federal Republic of Germany alone increased from 3,500 in 1961 to 10,000 in 1965. About nine-tenths of all the prefabricated buildings are made of wood, particularly sawn wood.

89. Parquets: The production of parquets for exports is another stage that could be pursued in the export orientation program. The parquets produced for exports from sawn wood can take the form of parquet blocks, parquet strips and mosaic parquet. Parquets manufacturing is not complicated, and packing and transportation overseas are simple. Liberians can easily produce and export these products. All that are required are good designs from European partners and efficient marketing organization.1/ The raw material for manufacturing parquets is sawnwood and this underlines once more the importance of an efficient sawnwood processing factory in Liberia that can supply the sawnwood required for various manufacturing timber-based products.

90. As experience and skill are accumulated after some years, full production of all parts and complete assembling of certain furniture in Liberia can be attempted. Other aspects of timber-based products such as pulp and paper production can be considered. As furniture production develops, foam rubber based upholstery, using indigenous textile patterns could be developed as a complementary labor intensive manufacturing activity.

1/ The importation of sawn floor strips and ready parquets into the Federal Republic of German totalled 1.3 million M^3, of which the share of tropical wood species was estimated at 11.3 percent. Export of parquets has a significant advantage over log exports; the freight charge for logs and sawn wood is proportionally much higher than in the case of sawn floor strips and parquet transportation.

91. Production for Domestic Market: The timber products can be utilized in the building industry as well as the furniture industry for domestic consumption. The secondary timber species can be used for building residential houses in Liberia. There is a substantial housing shortage in Liberia, particularly in Monrovia, and the use of timber that is well treated against white ants can be used to put up low-cost houses. Alternatively, the use of Kusia - a very hard Liberian wood - for building houses could be encouraged.

92. The production of furniture using Liberian wood for domestic consumption should be pursued vigorously. Liberia imports about half of a million dollars worth of furniture each year. Thus the furniture industry could be a very important export industry as well as an important substitute industry. All the concessionaires, including the timber ones, use their duty free import concessions to import metal and wooden furniture into the country, and thus do not bother to set up furniture industries to use the local resources. A development such as this is not in the best interests of the economy. Liberian timber could also be used to produce school furniture. Also wooden crates for packing beer and soft drinks could be produced in Liberia. It is necessary to have an increasing domestic demand for the timber-based products because this helps to provide broad support and stability for the export production industries discussed above.

93. Contacts with Foreign Experts: Since Liberia lacks the technical skill and know-how required for undertaking and organizing the stages of production (from the processing stage to the full manufacturing stage) outlined above, it is thus suggested that business contacts be made from the very beginning with the industrialists from Korea, Taiwan and Scandinavian countries who are well experienced in the production and marketing of similar products. The Scandinavian industrialists could assist in training the Liberians in marketing and also serve as business partners in Europe. They could arrange for the Liberians to obtain the designs of various component parts of furniture and other products for manufacture in Liberia. They could also arrange for the firms in Europe that would do final assembling of the parts and transport the finished products to the consumers. Alternatively industrialists from Korea and Taiwan could provide the technical know how required for the wood processing and for manufacturing the component parts according to European designs. It is hoped that a joint venture form of business organization with experienced firms from these countries would facilitate transfer of technical skill and expertise to the Liberians, and also ensure that Liberian ownership, control and management would grow with the industry.

(2) Rubber Based Products

94. The bulk of Liberia's rubber production at present is exported in crude form including smoked sheet, latex and crepe. Only a small proportion - less than one percent - is exported in semi-processed form

which is technically known as Standard Malaysian Rubber. In view of the great advantages which semi-processed rubber products have over crude rubber exports, it is desirable to set up rubber processing in the country. Semi-processed rubber products have a much higher value added than crude rubber exports and they also assist to reduce the economy's dependence on crude rubber exports. 1/ Some of the indigenous rubber producers are interested in further rubber processing both for exports and for home consumption.

95. As in the case of wood processing, semi-processing would be the first stage, then followed by the manufacturing of rubber products.

Manufactured Products

96. In addition to semi-processed rubber exports, Liberia could explore the possibilities of producing and exporting light manufactured products based on crude rubber. Latex based products appear to be one of the first candidates to consider. These include:

(a) foam rubber products such as cushions, pillows and upholstery;

(b) deep rubber products including gloves, contraceptives, babies feeding bottles and hot water bottles;

(c) rubberized materials such as spray equipments, rubber bands, erasers and soles;

(d) cast products particularly rubber gum and paste and wall paste.

97. Although mattresses are foam rubber products, they could prove too bulky to transport overseas. However, the production of mattresses for domestic use is quite feasible even though foam deteriorates badly in the tropics. All that is required are a few trucks that will transport and deliver them to the buyers within the country or across the border to the neighboring countries. The production of foam rubber cushions, pillows and upholstery could be considered along with furniture production during the advanced stage of manufacturing production as discussed above.

1/ Semi-processed rubber products have other advantages such as: avoidance of crystalizing, better control of viscosities, presentation of standard packs, good presentation and elimination of gut and foreign matter.

98. As in the case of wood-based products, it is suggested that business contracts be established by the Liberians with other developing countries' businessmen; in this case Malaysians are experienced in the production of rubber-based goods. The main purpose would be to get the appropriate technical guidance in production technique and in export arrangements and marketing outlets 1/

99. Three new minor export industries whose establishment is worth considering are cut flowers, Liberian-made African clothing and cassava chips. The cut-flower industries of Colombia (Latin America), Guatemala and Mexico (Central America), Jamaica, Kenya (East Africa) and Israel are expanding rapidly. Liberia has surplus fertile land up-country that can be easily turned into gardens for growing flowers for exports to U.S.A. Plane-loads of cut-flowers from Monrovia to New York, Chicago and other big cities of U.S.A. could be a regular feature of a new type of business link between Liberia and U.S.A. if proper planning and investment are made for this venture. The key to this could be an express road transport service from up country to Robertsville, followed by a fast air connection between Robertsville and New York.

100. Certain types of African clothing made in Liberia could be exported to the U.S. markets. A 1972 survey of the demand for such clothing in the American market showed that there was sufficient demand for the products provided the low quality of the finishing of the clothing was corrected. Cassava chips could also be exported as an animal feed. All these industries are labor intensive and thus would have favorable impact on employment.

101. We have discussed above the necessity to establish new industries exporting resource-based wood products, rubber products, clothing and cut-flowers, which can be done from Liberia. The necessity for the availability of technical assistance and efficient marketing organization has also been mentioned. But there are other prerequisites which are necessary to ensure successful development of these export industries. There must be the willingness of the Liberian and foreign investors interested in the manufacturing sector to be export-oriented. At the moment it seems that most of these investors are concentrating on production for the domestic market largely because of the monopoly profit that results from the liberal incentives given for domestic production.

1/ "The Report on the Processing of Raw Rubber in Liberia" by J. O'Connell in January 1973, also recommended the establishment of shoe firms using Liberia's processed rubber to produce low cost type of footwear. It also recommended increased manufacture of retreaded compound using local rubber, and thus, it suggested the establishment of a second retreading factory. It encouraged the formation of Liberian enterprise to process raw rubber for export.

102. The other essential factors reflect the need to provide appropriate and adequate incentives for the export industries to enable them to compete effectively in the international markets. There is the need in Liberia for an increase in the incentives for exporting relative to the incentives for domestic sales in order to implement an "outward looking" strategy.

103. In Liberia there are about five furniture manufacturing establishments in operation in 1973.1/ Most of these produce metal furniture and thus import most of the raw materials and, of course, capital equipment duty free, but some of them like the Liberian Metal Company Inc. produce a mixture of metal and wooden furniture. Of these five firms, the Liberian Industrial Production Company and the Monrovia Industrial Company are the ones that have been granted investment incentives. They were granted duty free privileges on raw materials, machinery, equipment and supplies, and also income tax relief, for a five-year period. The Liberian Metal Company Inc. has applied but has not been granted incentives.

104. None of these firms is export-oriented at present. One metal company indicated that it would have gone into the export business, starting first with entry into the markets of the neighboring West African countries, if the Government had given it adequate export incentives as listed in the next paragraph. The company produces a wide range of household, office and school furniture of comparatively high quality. It is most likely that if given appropriate incentives, the products can compete effectively in the neighboring countries' markets. For exports to Europe the Company (and any other one interested) can make the foreign contacts suggested above.

105. The following incentives for the export industries are suggested. A drawback on all indirect taxes (import and export duties and excise taxes on inputs and on final goods) should be granted to manufactured goods destined for export. Secondly, exporters should be granted a special tax holiday treatment. That is, income tax holidays lasting for a period of five years should be granted to profits on processed and manufactured exports. Thirdly, purchases of inputs into export production should be granted to exporters regardless of any import restrictions that might otherwise apply. However, successful implementation of these would require efficient administrative arrangement.

106. Arrangements are going on at present for the construction of four wood processing plants at Greenville in Liberia by Vanply of Liberia. The plants would be producing plywood out of certain species of Liberian wood for both domestic consumption and exports. A saw-milling factory is also being established by another company for production of sawn wood. The decision of the Government to impose a 3 percent export levy on all

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1/ These are: Girandi Metal Industry Inc., Liberian Metal Company Inc., Monrovia Industrial Company; Liberian Industrial Production Company and Monrovia Construction Company.

processed timber (sawn wood, plywood, and veneer) exports is very premature and is likely to have harmful disincentive effects on wood processing export firms. An imposition of an export levy of 3 percent discriminates against these export firms in favor of those producing for the domestic market. This kind of discrimination should be avoided. A moderate levy on log exports could be imposed instead, and it could be increased as the processing capacity grows.

Promotion of Small-Scale Enterprises for Import Substitution

107. The growth and expansion of small enterprises in Liberia should be encouraged by the Government because these industries are better able to satisfy the Liberian small domestic market than the medium and large enterprises. From the empirical point of view, domestically oriented medium and large enterprises operating in a small market lack the scope to exploit scale economies. Small enterprises, therefore are expected to operate more effectively in such a situation where the scope for economies of scale are lacking.

108. Most of the processing and manufacturing activities discussed in Chapter IV (except the refinery and cement) can only be undertaken economically on a small scale. They have an excess capacity problem because they are operating at a scale greater than the demand warrants. Encouraging small enterprises provides the opportunity to develop Liberian entrepreneurship, management ability and technical skills. The incentives provided for manufacturing for the domestic market should also be directed at achieving the purposes of Liberian entrepreneurship and management training.

109. There are many ways of encouraging small enterprises. First, by establishing special institutions that provide various types of training courses covering commercial and management skills, accounting and workshop practices. Secondly, by providing for them access to capital on competitive terms. To provide credit to small enterprises on the same terms of interest rate as for large enterprises would imply a subsidy element necessary to cover the high costs of administering small loans and the comparatively high risks involved. The subsidy element could be provided by the Government. It might be necessary therefore to open up a second "window" at the LBIDI or create a special institution for small manufacturing enterprises. Such a "window" could serve the needs of small agricultural and service enterprises.

110. Third, by providing hire-purchase or leasing facilities which would enable the small enterprises to borrow fixed capital investment. This has the advantage of not requiring financial security for the loan. The working capital needed for operating the fixed capital can be provided through the second way suggested above. Fourth, by establishing industrial estates through which the essential infrastructure facilities are provided.

111. Fifth, production licensing (i.e. business registration fees discussed in paras 18-19) should be limited to the medium and large enterprises where the economies of scale are significant. Small enterprises should become formally exempted from the annual fees because these fees, together with the professional fees which the Government has just introduced, discriminate against small businessmen. The benefits provided under the investment code should not be allowed to favor the large enterprises disproportionately.

Implementing the New Investment Incentive Code

112. In implementing the new proposed investment incentive code discussed above, careful attention should be paid to an achievement of the following objectives:

(a) stimulating the growth of efficient low cost and low price producing import-substitute industries;

(b) promoting the growth and expansion of competitive export industries:

(c) ensuring that the growth of (a) and (b) above would result in the development of indigeneous Liberian enterprise and employment with particular emphasis on creating new opportunities for both small and large entrepreneurs;

(d) that the industrial strategy for Liberia should be based on those products for which Liberia has the comparative advantage; in so doing domestic resources would be utilized effectively both for domestic and export markets.

113. To supplement the objectives outlined above in respect of the proposed Code, complementary changes affecting the tariff structure, excise duties, income tax structure, production licensing, foreign exchange, banking controls, training opportunities for Liberians, and the encouragement of indigeneous entrepreneurship and ownership are required. The Investment Incentive Code should limit duty exemptions for raw materials and capital goods to say 90 percent of the tariff for a period of five years from the first importation. The 10 percent duty payable would represent the revenue tariff.

Income Tax Incentives

114. The current 5 to 10-year tax holiday provisions in the present Code involves a transfer of revenue from the Liberian Government to the Governments of the foreign investors because foreign investors operating in Liberia often do not benefit from these income tax incentives where their home governments do not have "double tax agreements" with Liberia. There have been cases of some Liberian entrepreneurs transferring windfall profits from income tax holidays abroad rather than reinvesting them in Liberia.

115. It is suggested that income tax holidays be limited to profits reinvested in Liberia, and they should only be of 5 years duration. Profits realized from processed exports should however be entitled in full to five years tax holiday. Loss carry forward provisions of limited duration, say two years over the five-year tax holiday period, should be allowed. As the present law provides, income tax returns should be submitted by all firms beginning with their first year of operation. All firms in an industry regardless of size should be entitled to the limited income tax holiday. Freedom to repatriate capital and dividends should continue to be allowed to the foreign investors.

Tariff Reforms

116. The present Liberian tariff structure, which covers both revenue and protective purposes, is overdue for reform.

117. There are three ways of improving the tariff structure. The best would be to determine a tariff rate on all products and inputs which would result in a uniform effective tariff for all products. This method requires detailed and complex investigation on the lines indicated in Chapter IV. The second best would be to aim as much as possible at uniform nominal tariffs. The third method would be to reduce and simplify the tariff structure over a period of years depending on revenue needs.

118. Let us, by way of illustration, outline a practical approach to tariff revision. First layer of say 10-15 percent on those goods for which Liberia has no potentially economic domestic market, i.e., where it has no prospects of economic production in the near future. Moderate tariffs, say 20-30 percent would be not only for consumer goods but also for those other products for which Liberia has the potentialities of future economic production. The third layer of more than 30 percent would be for those goods that are considered as luxury goods. It is suggested that the tariffs be arranged in broad "bands" by industry groups with a uniform nominal tariff for each "band". A reduction of tariffs would take time and could be achieved by stepping down tariffs progressively over four to six years. This would provide sufficient time to warn domestic manufacturers and enable them to increase efficiency and also look to foreign markets for the surplus over the domestic requirements.

(i) The Tariff Bands by Industry Groups

119. The tariff structure suggested above would correspond to three broad bands of industry groups. The first group would include such industries as iron and steel, most capital goods, etc. A low revenue tariff of 10-15 percent has been suggested for this group. The second group would comprise all the existing import-competing industries plus thos that are likely to be set up in the future such as lumber products for which Liberia

has a potential economic domestic market. For this group moderate tariffs of 20-30 percent have been suggested of which 10-15 percent would be the revenue component while 10-15 percent would be the protective component of the tariff. The third group would consist of all those goods which are not considered as necessities whether as consumer good or as capital and intermediate goods. A much higher rate of 30 percent and above is suggested for this group. Examples of some industries falling within each group are shown below:

Industries

1st Group	2nd Group	3rd Group
Iron and Steel	Toilet and Laundry Soap	Motor Vehicles
Aircraft	Pharmaceutical	Jewelry
Chemical Fertilizers	Footwear	Musical instruments
Pulp, Paper and Paper Board	Processed products	Watches and rings
Glassware	Fertilizers	Liquor
Tractors and other agricultural machinery	Furniture	Tobacco, cigars and cigarettes
Bicycles	Cement	Perfumery and Cosmetics
Typewriters	Rain clothing and umbrellas	Photographic equipment
Clocks	Food processing	Televisions, Radios and records
Printing and Publishing	Soft drinks and other non-alcoholic beverages	
Metal Products	Building materials: Files and nails, paints	
	Drapery	
	Dairy products	
	Sugar	
	Textiles	
	Battery	
	Matches	

120. The desirable nominal rate of protection for the 15 firms interviewed by the Bank Mission (discussed in Chapter IV) which fall within the second group of industries range from 1.5 to 50.0 percent, with an average of 25.9 percent. Thus our suggestion of 20-30 percent tariff for the second group is quite reasonable.

121. The four broad objectives which the Liberian customs policy should seek to satisfy are:

(a) the revenue needs of the Government

(b) the allocative efficiency of domestic resources versus the necessity to give protection to infant industries

(c) equity in taxation, and

(d) provision of investment incentives.

A reform of the tariff structure should also take into account the need to provide protection not only on the final cost of manufactures but also on the value added.

(ii) Uniform Effective Rate of Protection under Revenue Tariff

122. It has been noted above that one method of achieving a tariff structure that would facilitate allocative efficiency is by calculating the desirable rate of effective protection. This is shown in column (2), Table The required effective rate of protection shown in Column ( ), Table ranges from 1.5 percent to 1118.4 percent. Because most of these firms are inefficient, the desirable or required effective rate of protection for them is very high. Taking into account the need to give temporary protection to infant industries on the understanding that they would be potentially efficient in the future, it is suggested that the desirable level of effective protection be in the range 70-90 percent. This is quite close to the 111.2 percent average of the desirable rates of effective protection for 15 firms shown in Table 13, column 2. These rates of effective protection are based on the uniformed nominal rate of 30 percent for all the firms.1/

Problem of Dumping

123. It is feared that if Liberia reduces tariffs on those products for which it has a potentially economic domestic market (that is, the second group of industries), dumping might take place. In consequence,

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1/ The difference between the Required Rate of Effective Protection shown in Cols. 8 and 9 of Table and the Desirable Rate of Effective Protection shown in Table 13, Col. 2, is that the former is based on the actual nominal rate of protection shown in Col. 2 of Table 11, while the latter is based on a uniform nominal rate of 30 percent for all firms.

it is argued therefore that duties have to be imposed at a very high rate to protect industries from dumping. However, if the tariff reform on the basis of either a uniform nominal tariff or the proposed equality of effective rates is to be made acceptable, the Government should consider various ways and means of counter-vailing dumping. Industrialists should also be assured that the Government would protect them against dumping if it occurred.

124. An "Anti-Dumping Committee" could be set up to investigate representations received from manufacturers in respect of dumping. If a prima facie case against an imposition of dumping is established, the Committee could recommend to the Ministry of Finance for an imposition of an Anti-Dumping duty or for a prohibition of imports of the goods affected. A counter-vailing duty or a prohibition on imports could be imposed for a limited period of about one year or less, and could be extended from time to time. These duties or prohibition could be applied to imports of goods from all countries or to goods from particular countries or region, if it is discovered that the dumped goods are from those countries or region.

Table 1

Gross Output of the Manufacturing Sector
(in US$1000's) /a

Product Group	1970	1971	% Change in 1971
Consumer Goods			
Bread	370	539	45.6
Footwear	402	604	50.2
Ice Blocks	77	90	16.8
Scarves	296	251	-15.3
Umbrellas	47	126	168.1
Gin and Rum	2,486	238	-90.4
Beer	1,952	1,902	- 2.6
Soft Drinks	706	1,744	147.0
Laundry Soap	237	329	38.8
Clothing	221	84	-62.0
Drapery	188	147	-21.8
Plastic wares	181	178	- 1.7
Furniture and Upholstery	856	869	1.5
Total Consumer Goods	8,019	7,101	-11.4
Petroleum Products	12,184	20,216	65.9
Paint	378	422	11.6
Tiles	108	101	- 6.5
Nails	125	138	10.4
Hydromax	3,048	1,429	-53.2
Amex (AN/FO)	650	625	- 3.8
Shot Shells	444	346	-22.1
Cement and Cement Blocks	2,042	1,964	- 3.8
Total Intermediate Goods	18,979	25,241	33.0
Durable Consumer and Capital Goods			
Concrete Pipes	5	3	-40.0
Total Durable Consumer and Capital Goods	5	3	-40.0
Grand Total: Manufactured Output	27,003	32,345	20.0

Percentage Share

	1970	1971
Consumer Goods	29.7	22.0
Intermediate Goods	70.3	78.0
Durable Consumer and Capital Goods	*	*
Total Manufactured Output	100.0	100.0

a/ All figures in dollars through out this study refer to U.S. Dollars. The data provided here differs from those contained in The National Accounts and Basic Statistics of Liberia prepared by the Bank Mission to Liberia in March and April 1973.

* Negligible

Table 2

Employment Size of Manufacturing Establishments
(4th Quarters 1970 and 1971)

Size of Establishment a/	4th Quarter 1970		4th Quarter 1971	
	Number of Establishments	Employment	Number of Establishments	Employment
All Sizes	24	2,049	24	2,354
20 - 49	9	309	13	450
50 - 100	8	357	3	173
101-300	5	683	7	1,144
301 - 1,000	2	700	1	587

a/ For establishments employing 20 and above.

Source: Republic of Liberia, Ministry of Planning and Economic Affairs: Quarterly Statistical Bulletin of Liberia (Summary for 1971) Monrovia, pp. 60-61.

Table 3

Ownership of Manufacturing Establishments (1970) a/

Establishments	Percentage of Ownership	
	Foreign %	Liberian %
Bakery		
1. Heins & Maria	99	1
2. Italian Bakery	99	1
3. Monrovia Bakery Production	99	1
Furniture		
4. Giraudi Metal Industry Inc.	99	1
5. Liberian Metal Company Inc.	90	10
6. Monrovia Industrial Company	90	10
7. Liberian Industrial Production Company	92	8
8. Monrovia Construction Company	92	8
Breweries		
9. Liberia Industrial Development Company	0	100
10. Edgar Mitchell & Sons	0	100
11. Monrovia Breweries Inc.	60	40
12. U.S.T.C. Bottling Plant	100	0
13. Canada Dry (Liberia Ltd.)	100	0
Others		
14. Liberia Refinery	85	15
15. Parker Industries Inc.	0	100
16. Liberian Cement Factory	60	40
17. West African Shoes Factory	85	15
18. Liberian Cold Stores	0	100
19. Bharwancy Inc.	100	0
20. Metalloplastica	100	0
21. C.F. Jantsen Ltd.	100	0
22. Providence Concrete W/C	0	100
23. Liberian Garment Factory	100	0
24. West African Explosives and Chemicals	N.A	
25. Elephant Blue Soap	90	10

a/ Establishments employing 20 or more persons.

Source: Quarterly Statistical Bulletin of Liberia, May 1971.

Table 4

Short-term Loans to the Manufacturing Sector

	Dec. 1970		Dec. 1971		Dec. 1972	
	$m	% of Total	$m	% of Total	$m	% of Total
Manufacturing	2.3	6	2.2	6	1.4	3
Total (All Sectors)	36.2	100	38.6	100	47.4	100

Source: Quarterly Statistical Bulletin of Liberia, Summary 1971, pp. 16-17.

Table 5

Manufactured Exports in Dollars

SITC	Export Product Groups	1968	1969	1971
554	Soaps, Cleansing Polish, etc.	101	101	-
571	Explosives and Prothenic Products	153,331	523,069	963,215
661	Manufactured Goods: Cement	-	12,000	3,120
692	Metal Construction Storage	-	12,000	-
8	Miscellaneous Manufactured Articles	7,859	8,016	15,566
821	Furniture	493	3,226	885
841	Clothing	-	-	155
892	Printed Matter	-	800	-
896	Works of Art, Antiques	-	3,081	14,111
899	Manufactured Articles NES	-	-	415
	Total Exports	161,291	555,186	981,901

Source: Republic of Liberia, Ministry of Planning and Economic Affairs; External Trade of Liberia Exports.

Table 6

Imports of Manufactured Goods
($ millions)

SITC	Import Product Groups	1967	1968	1969	1970	1971
5	Chemicals	6.8	7.6	7.8	9.7	11.5
6	Manufactured Goods classified by material	29.2	24.1	29.0	37.9	35.2
7	Machinery and Transport Equipment	36.0	29.4	36.5	50.1	54.2
8	Miscellaneous manufactured articles	20.5	11.0	14.5	12.7	15.4
	Total Imports of Manufactures	92.5	72.1	87.8	110.4	116.3
	% Share of Total Imports	74	66	77	74	72

SITC as % of Total

	1967	1968	1969	1970	1971
5	7.4	10.5	8.9	8.8	9.9
6	31.6	33.4	33.0	34.3	30.3
7	38.9	40.8	41.6	45.4	46.6
8	22.1	15.3	16.5	11.50	13.2
	100	100	100	100	100

Source: Republic of Liberia; Ministry of Planning and Economic Affairs; External Trade of Liberia, Imports.

Table 7

The Pattern of Import Substitution in 1970
($ 000)

Industry Product	Gross Value of Output (X)	Imports (c.i.f.)	Duty Paid on Imports	Imports Including duty (M)	Exports (f.o.b.) (E)	Value of Total Domestic Supply (Z)	Imported Intermediate Input (F)	M/Z	E/Z	F/X	X/Z
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Consumer Goods											
Beer	1,952	591	957	1,548	-	3,500	86	.44	-	.04	.56
Soft Drinks	706	-	-	-	-	706	20	-	-	.03	1.00
Grain Milling Products (Bread)	370	748	224	972	-	1,342	n.a.	.72	-	n.a.	.28
Alcoholic Beverages (Gin & Rum)	2,486	1,455	1,055	2,510	0.5	4,995	154	.50	.00	.06	.50
Wearing Apparel	221	3,589	1,003	4,592	-	4,813	n.a.	.95	-	n.a.	.05
Leather Footwear	11	199	43	242	-	253	n.a.	.96	-	n.a.	.04
Soap and Cosmetics	237	1,367	378	1,745	-	1,982	322	.88	-	1.36*	.12
Plastic Products	441	540	53	593	-	1,034	n.a.	.57	-	n.a.	.43
Wood and Furniture	802	797	173	970	27.0	1,745	467	.55	.02	.58	.45
Intermediate Goods											
Paints and Varnishes	378	805	41	846	-	1,224	76	.69	-	.20	.31
Fertilizers and Pesticides	358	519	0.5	520	-	878	7	.59	-	.02	.41
Petroleum Products	12,184	3,943	130	4,073	-	16,257	8,721	.25	-	.72	.75
Tires, tube & rubber products	140	3,430	201	3,631	-	3,771	n.a.	.96	-	n.a.	.04
Capital Goods											
Cement and Lime	2,042	379	5	384	0.5	2,425	n.a.	.16	.00	n.a.	.84

* The ratio should not be more than 1.00. The discrepancy could be due to an understatement of total or verstatement of import figures perhaps owing to the inclusion of inventories.

Table 8

The Structure of Tariffs by Selected Industrial Groups

	Product/Industry	1970 Imports (cif) ($000)	1970 Tariffs ($000)	1970 Tariff Rate (%)	1971 Imports (cif) ($000)	1971 Tariffs Tariffs ($000)	1971 Tariff Rate (%)
1.	Beer	591	957	162.0	641	949	148.0
2.	Grain milling products (bakeries)	748	224	30.0	4,083	206	5.0
3.	Dairy products	974	154	16.0	1,506	203	13.5
4.	Sugar and Confectionery	1,447	568	39.3	1,561	475	30.4
5.	Alcoholic beverages	1,455	1,055	73.0	1,947	1,420	72.9
6.	Non-alcoholic beverages	143	39	27.3	224	52	23.2
7.	Tobacco	1,894	2,048	108.1	2,562	2,781	108.5
8.	Wearing apparel	3,589	1,003	27.9	4,587	1,449	31.6
9.	Leather footwear	199	43	21.6	468	130	27.7
10.	Wood and Furniture	797	173	21.7	620	178	28.7
11.	Paints and Varnishes	805	41	5.1	n.a.	n.a.	n.a.
12.	Soaps and Cosmetics	1,367	378	27.6	1,528	519	34.0
13.	Plastic Products	540	53	9.8	482	55	11.4
14.	Animal/Vegetable Oils and fats	665	71	10.7	665	78	11.7
15.	Animal Feeding	289	7	2.4	352	9	2.6
16.	Petroleum products	3,943	130	3.3	2,035	83	4.0
17.	Tyres, tubes and rubber products	3,429	201	5.9	677	245	36.2
18.	Cement and lime	379	5	1.3	1,228	4	0.3
19.	Transport Equipments	10,575	1,082	10.2	4,644	1,004	21.6
20.	Cutlery, tools and hardware	224	68	30.3	2,628	44	1.7
	Total	34,053	8,300	24.4	32,438	9,884	30.5

Table 9

Level of Protection Based on Domestic Value of Production

Product	Nominal Tariff (%) (1)	Nominal Protection (%) (2)	Effective Rate of Protection (%) (3)	Cash Flow/Assets Excluding Taxes /a (ratio) (4)	Cash Flow/Assets Including Taxes /b (ratio) (5)	Required Effective Rate of Protection (RERP) Excluding Taxes/a (%) (6)	Required Effective Rate of Protection (RERP') Including Taxes /a (%) (7)
Consumer Goods							
Beer	48.0	48.0	190.0	.07	.15	340.2	187.3
Soft Drinks (Coke)	30.0	30.0	21.0	.15	1.003	21.0	-118.8
Shoes	50.0	50.0	818.8	.09	.09	1,130.5	1,118.4
Soap	40.0	40.0	46.0	.23	.31	16.0	-11.0
Animal Feed	5.0	5.0	17.0	-.04	.04	108.0	108.0
Cookies - biscuits	38.6	35.7	-141.0	-.14	-.12	-420.0	-403.4
Toffees	50.0	50.0	-127.0	-.14	-.12	-313.3	-302.2
Matches	17.0	17.0	11.5	.04	.04	29.0	29.0
Furniture	34.0	34.0	63.0	.004	.03	123.4	113.0
Intermediate Goods							
Bleach	28.2	28.7	35.0	.19	.19	18.2	18.2
Paint	33.5	34.0	66.2	.45	.57	- .5	-28.9
Cement	6.0	6.0	2.6	.15	.15	1.5	1.5
Petroleum	77.3	47.0	271.0	.12	.27	266.3	33.0
Tiles	34.0	34.0	57.3	.13	.16	72.5	49.3
Nails	30.0	30.0	257.0	.03	.04	611.4	579.4

/a For these columns taxes paid by the firms were not taken into account in calculating the Cash Flow/Asset ratio and in the required Effective Rate of Protection.

/b For these columns taxes were included in the calculations.

Table 10

Percentage Share of Value Added in Output

Product	Value Added Domestic Prices	Output at Domestic Price	VAPD/ ODP	VAWP	Output at World Price	VWP/ OWP
	$	$	%	$	$	%
	(1)	(2)	(3)	(4)	(5)	(6)
Consumer Goods						
Beer	926	1,566	59	319	1,058	30
Soft Drinks	613,848	1,559,858	39	507,739	1,199,891	42
Shoes	128,563	487,896	26	13,992	325,264	4
Soap	250,674	908,540	26	171,724	648,957	26
Animal Feed	98,402	411,995	23	84,114	392,376	21
Cookies	38,489	671,845	5	-109,623	479,889	-22
Matches	132,453	186,907	70	118,768	159,750	74
Furniture	56,134	147,076	38	34,413	147,076	23
Intermediate Goods						
Bleach	33,810	65,928	51	25,639	51,912	49
Paint	210,542	659,341	31	126,688	492,045	25
Cement	640,000	2,396,840	26	624,043	2,261,169	27
Petroleum	4,137,132	22,118,408	18	2,332,798	16,263,535	14
Tiles	61,078	99,152	61	38,832	73,994	52
Nails	36,824	168,633	21	10,317	129,718	7

Table 11

Desirable Rates of Nominal and Effective Protection

Firm	Desirable Rate of Nominal Protection 1/ (%)	Desirable Rate of Effective Protection 2/ (%)
Beer	7.1	98.8
Soft Drinks (Coke)	33.6	20.8
Footwear	33.7	100.7
Soap	12.7	-2.6
Animal Feed	5.2	1,036.6
Cookies - biscuits & Toffees	50.9	-147.1
Toffees	68.3	-152.9
Matches	19.1	28.8
Bleach	17.9	38.3
Paint	20.1	48.4
Cement	1.5	209.7
Petroleum	33.4	34.1
Tiles	30.8	48.5
Nails	20.5	256.9
Furniture	33.1	48.5
Average	25.9	111.2

1/ Desirable Rate of Nominal Protection is obtained as follows:

$$\frac{\text{rate of effective protection X value added c.i.f. plus total value of inputs c.i.f.}}{\text{value of finished product c.i.f.}}$$

See IBRD, Economic Growth and Prospects in Ethiopia, Vol. II, Annex 2: Manufacturing Industry, Appendix II, p. 4, September 22, 1970, No AE-9.

2/ The Desirable Rate of Effective Protection is obtained by applying the procedure explained in the footnote under para 143.

APPENDIX TABLE I

Changes in Rates of Duty to the 1966 Tariff Schedules
(Customs Notice No. 2 1973)

TARIFF NO.	DESCRIPTION	1966 RATE	1973 RATE
21.07-C	Flavoring Extracts, c.i.f.	50¢ Qt	50¢ Qt.
21.07-D	Other		40%
22.03-A	Beer known as Lager, Ale Porter and all other beer made from malt		$ 2.57 per gal.
22.03-B	Stout	83¢ per gal.	$ 1.45 per gal.
24.02-B	Cigarettes	$1.10 per 100pcs.	$ 1.60 per 100 pcs.
32.09-B	Ready mixed paints, c.i.f. (less than $2.50/gal.)	$1.25 per gal.	$ 2.50 per gal or 25¢ per pt. which is greater
32.09-C	Ready mixed paints c.i.f. ($2.50 or more per gal.)	50 %	$2.50 per gal or 25¢ per pt. whichever is greater
34.01/06-C	Other (soap)	6¢ lb.	15¢ per lb.
39.01/06-C	Other (plastics)	50%	40%
39.07-E	Bowls, cups, etc.	50%	40%
64.01-A (1)	(Footwear) valued $2.00 or over	63%	50%
64.01-A (2)	(Footwear) valued less than $2.00	$1.25 per pr.	$1.00 per pr.
64.01-C (1)	(Footwear) valued less than 50¢	33¢ per pr.	25¢ per pr.
64.01-C (2)	(Footwear) valued at 50¢ or more	63%	50%
64.02-A (1)	(Footwear) valued at 96¢ or over	63%	50%
64.02-A (2)	(Footwear) valued less than 96¢	60¢ per pr.	48¢ per pr.
73.31-A (i)	Nails, Valued at 10¢ lb. or less	4¢ per lb.	3¢ per lb.
73.31-A (ii)	Nails, Valued at over 10¢ lb.	40%	30%
74.14-A (i)	Nails, Valued at 10¢ lb or less	4¢ per lb.	3¢ per lb.
74.14-A (ii)	Nails, Valued over 10¢ lb	40%	30%

APPENDIX TABLE II

	Product	Excise Tax Rates
1.	Animal Feed	- no excise tax but subject to consular fees.
2.	Cement	- 5 percent on each bag of cement sold.
3.	Gin and Rum	- $2.50 on each and every U.S. gallon of spirits manufactured.
4.	Furniture	- subject to only consular fees.
5.	Matches	- excise tax 0.1¢ per 50 sticks box of matches sold.
6.	Flour	- excise tax to be imposed later, but subject to consular fees now.
7.	Battery	- excise tax of 27 percent on all batteries produced by sponsors.
8.	Biscuits	- 5 percent on all sales of confectionary.
9.	Plastics	- 5 percent on all sales of all products produced.
10.	Metal Products	- 5 percent on sales of all furniture manufactured by the Company.
11.	Laundry Soap	- 5 percent on all sales of soap produced.
12.	Cigarettes	- 0.75¢ per one hundred cigarettes.
13.	Soft Drinks	- $0.5625 per case of 24 bottles which is equivalent to 6¢ per each 4/5 of U.S. gallon of non-alcoholic beverage.
14.	Beer and Stout	- 50¢ per U.S. gallon of stout produced and 50¢ per U.S. gallon of beer produced.
15.	Nails	- 1½ percent on all nails sold.

APPENDIX Table III

Assets/Employment, Value Added at Factor Price/Employment and Capacity Used Ratios

Firms	Assets/ Employment ($)	VAFP/ Employment ($)	Capacity Used (%)
Beer	24,464.6	3,795.1	100
Soft Drinks	4,394.9	3,610.9	80
Shoes	7,263.0	1,224.4	95
Soap	9,631.9	3,916.8	26
Animal Feed	9,864.4	1,230.0	35
Cookies - biscuits	5,439.7	230.5	40
Toffees	5,439.7	230.5	40
Matches	30,760.8	5,293.2	8
Bleach	15,722.2	6,762.1	6
Paint	9,425.2	7,018.1	80
Cement	26,577.3	6,597.9	73
Petroleum	68,093.1	13,260.0	100
Tiles	10,884.6	2,349.2	80
Nails	15,609.9	1,841.1	45
Furniture	4,189.6	1,651.0	100