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Multinationals and employment
in a West African sub-region:
Liberia and Sierra Leone

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I. Multinationals (MNEs) and the Developing World: An overview

A recent appreciation of the economies of developing countries illustrates their precarious state. Their over-all balance of payments deficit jumped from US\$25,000 million in 1978 to US\$88,000 million in 1981. Their debt-servicing cost more than doubled to US\$56,000 million between 1981 and 1983. It was also observed that "with petroleum and petroleum products consuming over 50 per cent of their export earnings, debt servicing accounting for another 19 per cent of the balance, and the real value of their export earnings sharply reduced, there is very little left for developing countries to meet current consumption needs, let alone future development projects".¹ This gloomy prospect seems to underline the need of developing countries for measures which will enhance their productive and earning capacities without over-burdening them with fixed debt-servicing costs. It is in this perspective that multinational enterprises (MNEs) are frequently looked upon as main sources of capital, employment, managerial and technological skills. These effects of FDI* are, however, also dependent on the existence of appropriate government policy and the level of development of the economy of the MNE host country.

Unfortunately, recent statistics on the flow of FDI (see table 1) show a declining trend in the developing countries' share of such investments relative to the developed countries. In terms of mere magnitude table 1 presents an impressive growth of FDI in the developing countries. The annual flow in 1979 was nearly seven-and-a-half times the 1960 figure and over six times that of 1967. The cumulative stock of FDI in the developing countries also increased almost three-and-a-half times between 1967 and 1979. But this growth in absolute terms represents a decline relative to the growth of FDI in general and, particularly, to such growth in the developed countries. For example, in 1967, the stock of FDI in the developing countries constituted 44 per cent of that of the developed countries. This percentage fell to 38 in 1973 and further to 36 in 1978. In terms of flow statistics, there has been a steady decline from 1960 when FDI flow to the developing countries constituted 36 per cent of total outflow to 1973 and 1974 when corresponding figures reached their troughs of 21 and 5 per cent respectively. A certain upturn in these figures seems to have started in the second half of the 1970s.

* The terms "FDI" and "MNEs" are used practically interchangeably in this paper to refer to either the monetary value of foreign investment or to the investments undertaken by MNE subsidiaries.

Table 1: Flow and stock of foreign direct investment from developed market economies to developing countries

FLOW			STOCK (selected years)			
Year	Amount (US\$ million)	Percentage of total FDI outflow	Year	Amount (US\$ million)	Regional distribution (percentage)	
					Africa	Central and South America
						Asia
1960	1 806	36	1967	32 239	17.3	57.4
1961	1 839	38	1971	44 893	19.6	56.1
1962	1 469	25	1972	48 016	19.6	53.8
1963	1 659	26	1973	53 928	18.9	53.5
1964	1 819	26	1974	60 170	16.9	57.7
1965	2 488	30	1975	69 490	16.0	54.2
1966	2 159	25	1976	69 340	13.9	54.5
1967	2 103	24	1977	77 626	13.1	55.7
1968	2 899	31	1978	88 260	12.6	57.2
1969	2 804	25	1979	110 000	n.a.	n.a.
1970	3 689	30				
1971	3 307	25				
1972	4 234	29				
1973	4 719	21				
1974	1 123	5				
1975	10 495	41				
1976	7 824	31				
1977	9 499	36				
1978	11 154	33				
1979	13 491	30				

Source: United Nations Centre on Transnational Corporations: Salient features and trends in foreign direct investment (New York, United Nations, 1983), pp. 38, 39 and 57.

However, within the developing countries, considerable variations occur in the growth of FDI. While Central and South America has maintained its lead as the largest recipient, the West, South and East Asian region has gained 5 percentage points between 1967 and 1978 while the African region has lost about the same percentage points over the same period. Table 1 shows that FDI growth rate is higher in the developed than in the developing countries. Even among the latter, the fast-growing economies of South and Central America, and South and East Asia recorded higher rates of growth than the countries of West Asia and Africa. The conclusion thus seems inevitable that FDI goes to the countries with the highest economic potential and prospects. Similarly, the investments which MNEs make in such host countries are positively related to the level of development of their economies. A vicious circle therefore develops. First the developing countries need the MNEs to develop their economies. Yet the MNEs are generally not attracted to such countries unless these have reached a certain level of development.

Many host countries have tried to increase the benefits they derive from FDI, by enacting laws which constrain the application of global strategies when disadvantageous to them or by offering incentives which attract such investment and mitigate at the same time the adverse local economic circumstances. The two countries studied have adopted more the second approach than the first. They have developed a number of incentives specifically designed to attract a higher inflow of FDI. The extent to which they have succeeded will be discussed later in this paper.

II. Background and Size of Foreign Direct Investment (FDI)

Background

In several respects, the economies of both Liberia and Sierra Leone share similar characteristics. Both are small countries, low in income per capita, with the primary industries of agriculture and mining dominating each economy (see table 2). While Liberia has large iron ore deposits, Sierra Leone's major mineral is diamonds. While the major agricultural product in Liberia, rubber, is produced mainly on plantations, Sierra Leone's coffee, cocoa, and palm is mainly produced by small peasant farmers.

Both countries owe the exploitation of their mineral resources and the establishment of the modern sectors of the economy to the advent of the MNEs, while in many other African developing economies, the earliest foreign investment occurred in the commercial sector. MNEs in those countries brought in manufactured merchandise to sell and in return

Table 2: Selected characteristics of
Liberian and Sierra Leonean economies

	Liberia	Sierra Leone
Population	1.98 million	2.74 million
Area	97,781 sq.km.	71,440 sq.km.
Gross National Product 1979	US\$940 million	US\$860 million
Agriculture's contribution to GDP (percentage)	15.5 (1977)	31.4 (1979/80)
Mining contribution to GDP (percentage)	23.4 (1977)	11.9 (1979/80)
GNP per capita	US\$520	US\$ 250
Stock of FDI (1978)	US\$1,230 million	US\$82 million
Annual average flow of FDI	US\$85.9 million	US\$3 million
Annual domestic investment	US\$362.7 million	US\$161.7 million
Annual FDI flow as percentage of GNP	9.14	0.35
Annual FDI flow as percentage of annual domestic investment	23.7	1.9

Sources: Centre on Transnational Corporations:
Transnational Corporations in World Development,
Third Survey (New York, United Nations, 1983),
pp. 312-313.

The Liberian economy in perspective (Monrovia,
Ministry of Planning and Economic Affairs, 1978).

Annual Statistical Digest, 1980 (Freetown,
Sierra Leone, Central Statistical Office,
July 1982).

purchased and exported local agricultural outputs - cocoa, palm produce, etc. - used as raw materials in the industries of the developed countries.

The earliest investments in Liberia and Sierra Leone differ, however, in this respect. In Liberia, the first multinational enterprise, Firestone Company, was granted a concession in 1926 on 1 million acres of land to grow rubber. Firestone's paid-up capital is currently over US\$40 million and it is the largest producer of rubber in the industry which includes other multinationals such as Guthrie (B.F. Goodrich), Salala Rubber and Alan Grant, the last two being relatively small with paid-up capital of about US\$500,000 each. The impact of the foreign-owned plantations is not only the introduction of commercial agriculture and the production of rubber but also in serving as an outlet for indigenously-owned plantations and thus increasing their output.

The MNEs entered Sierra Leone in 1928 when the Sierra Leone Selection Trust, a subsidiary of De Biers of South Africa, was granted a concession for diamond exploration. Production started in 1931. Similarly, gold production started in 1931, iron ore in 1933, bauxite and rutiles in the 1960s. As shown in table 2, the total FDI stock in Sierra Leone in 1978 is estimated at US\$82 million. While no sectoral distribution of this figure is available, it is reasonable to estimate that no less than 50 per cent of this is in the mining sector.

Size and sectoral distribution of FDI

Liberia

Very little historical information on the size, sectoral distribution, and country of origin of FDI is published in Liberia. This paucity of such information possibly derives from the open-door policy towards foreign investment and the general mode of foreign investment which is mostly through concessions granted for mining, logging or rubber plantation.

Considerable disparity exists between the two available estimates of the stock of FDI in Liberia. The United Nations Centre on Transnational Corporations estimates the stock of FDI in Liberia at US\$1,230 million in 1978 (almost the quadruple of the US\$315 million estimate for 1971). The average growth rate between 1971 and 1978 was 23 per cent although annual rates fluctuated from 6.2 per cent from 1975 to 1976 to 67 per cent between 1974 and 1975. Government estimates are, however, considerably lower. For 1978 and 1979, the two years for which such estimates are available, the stock of FDI was estimated at US\$804.7 million and US\$859.6 million, respectively (see table 3). Lower still was the Head of State's estimate of US\$746 million in 1979.²

In general, two sectors, mining and agriculture, account for about 72 per cent of total FDI with mining taking over 42 per cent. Investment in the agricultural sector is almost evenly divided between the rubber plantations and forestry exploitation. Although there is not enough flow of data to make any reliable deductions on sectoral growth pattern, it seems that investment in mining and rubber have stagnated while that of forestry recorded a growth rate of over 30 per cent between 1978 and 1979. In fact, a decline in the mining sector is occurring. The Liberian Mining Company, responsible for over 12 per cent of iron ore output, the major export earner for the country, closed down in 1977 after 27 years of operation.³ Many other mining companies were, in July 1983, also retrenching staff. The residual category, "others", consists of the manufacturing and the services industries. Manufacturing is a relatively new industry. A study in 1979 estimated total investment in this sector at about US\$103 million and found that the majority of the industries were established after 1965. Only 5 companies had been in operation for more than 25 years.⁴

Government data on FDI, referred to in table 3, also provided information on the major sources of such investments. It showed that the United States is by far the largest investor in Liberia. Its investment stock of US\$340 million in 1979 accounts for about 40 per cent of total FDI. United States investment dominates all the key sectors of the economy - mining, rubber and manufacturing - except forestry which is dominated by the F.R. of Germany. Other major investing countries are the F.R. of Germany (about 23 per cent), Sweden (about 13 per cent) and Italy (about 7 per cent). One interesting feature of the origin of FDI in Liberia is the significant presence of Lebanon. Although Lebanese investments account for just about 4 per cent of total FDI in 1979, its share of the "others" category that year was over 11 per cent. Their investment in this sector represents over 77 per cent of their total. The Lebanese constitute a large community of "resident foreigners" not only in Liberia but also in many other West African countries. They started as traders and have recently moved into manufacturing, mainly through a backward linkage process of manufacturing what they used to import.

The role of the multinationals is in fact much more dominant than the magnitude of their investment is likely to indicate. Even in the absence of laws restricting investments in and ownership of certain industries, in Liberia many joint-ventures exist between the multinationals on the one hand, and the government or private citizens on the other. And whether the multinationals are the majority or the minority owners, they are invariably responsible for managing the operations. Even government and privately-owned enterprises, such as the Refinery and the Mesurado Group, operate under foreign management. Probably, one can best sum up the role of multinationals in the Liberian economy by saying that

commercial agriculture - rubber plantations and logging - large-scale mining and modern manufacturing establishments owe their existence to the pioneering entrepreneurial efforts of the multinationals.

Table 3: Foreign direct investment in Liberia
(US\$ million)

YEAR	NET FLOW	STOCK				Total
		Mining	Rubber	Forestry	Others ¹	
1970	57.1					
71	- 34.0					315
72	20.7					360
73	74.8					440
74	57.7	Not available				480
75	180.4					800
76	83.2					850
77	170.5					1 035
78	144.7	(354.05)	(120.28)	(103.75)	(226.58)	1 230(804.7)
79	41.2	(366.77)	(119.46)	(136.58)	(236.77)	(859.6)
80	71.9					
81	288.0	Not available				

Source: The stock figures in parentheses and the sectoral distribution for 1978-79 are taken from a table made available by Mr. Lawrence Doe, Director of Research and Projects Preparation, National Investment Commission, Liberia.

Other figures are from: Centre on Transnational Corporations: Transnational Corporations in World Development: Third Survey, (New York: United Nations, 1983), p. 303.

¹ Includes manufacturing and services

Sierra Leone

The problem of information scarcity is greater in Sierra Leone than it is in Liberia. Clearly, there was no branch of government specifically responsible for compiling statistics on the size or location of foreign investment. The need for such statistical information does not seem to be apparent to government as the recent survey of industries carried out by the Central Statistics Office did not include any questions on the nationality of investors. The "laissez-faire" policy of the government has so indulged managers and proprietors that "to ask for information is often to annoy or displease"⁵ them. Even the Central Statistics Office, though empowered by the Statistics Act, 1963, to conduct industrial census/survey, had to issue threats of prosecution, through warning letters from the Solicitor General, to get responses from many companies.⁶

While it is difficult to qualify the size of FDI in Sierra Leone, there is considerable qualitative evidence that suggests its predominance. A UNIDO study observed that: "Industry in Sierra Leone has emerged in the absence of local capital, local entrepreneurship and local manager and technical personnel. Initiative and direction in the field of industrial development therefore came from foreign investors and the expatriate communities settled in Sierra Leone. After almost two decades of independence ... initiative, control and direction continue to remain in the hands of outsiders."⁷

Another study relating to 18 companies established under the Development Ordinance showed that 6 were 100 per cent foreign-owned and each of the remaining 12 was a joint-venture among the various foreign investors, with only 5 involving private Sierra Leonean participation.⁸ The strong presence of foreign investment was also observed by a JASPA study.⁹ In fact, that study regarded the capital intensity characteristic of Sierra Leonean industry as an inevitable consequence of almost the entire investment coming from private and often foreign investors.

The United Nations estimates in table 4 value the stock of FDI in Sierra Leone in 1978 at US\$82 million, only US\$10 million higher than the estimate in 1971, and US\$8 million below the peak (of US\$90 million) reached in 1974. Sierra Leone therefore appears not to be attractive to foreign investors. The flow data reinforce this conclusion. Over the 10 years for which figures are available, FDI increased by only US\$8.4 million annually. Information in table 4 also leads to the conclusion that the main source of foreign capital in Sierra Leone is from public aid. In 1978 such aid was almost double the 1975 figures. It is plausible to argue that aid was complementary to FDI and therefore was directed largely to those sectors which are essential to the Sierra Leonean economy but which are not appealing to foreign

Table 4: Foreign aid and investment in Sierra Leone, 1970-79 (US\$ million)

Foreign Aid and Investment Flow Sectorial Distribution 1975-77(a)												
Year	F D I	Stock	Flow	Agric.	Min- ing	Manu- facture	Elec- tricity, Water	Transp. and Commun.	Trade and Tourism	General Services	Social Services	Total
1970	n.a.		8.0									
1971		70	5.0									
1972		75	4.3									
1973		80	3.6									
1974		90	10.8									
1975		75	9.7	5.8	1.2	2.6	2.0	7.2	5.4	7.6	2.2	34.0
1976		80	8.1	6.8	7.2	-	1.5	4.6	2.1	1.7	4.2	28.2
1977		80	4.7	12.4	11.4	-	4.5	6.6	2.2	7.0	6.1	50.2
1978		82	18.8									
1979	n.a.		11.6									

Not available

Not available

(a) The foreign aid and investment flow figures were converted from Leone to US\$ at the official rates given in International Financial Statistics, XXXI, July 1978, p. 314.

Source: International Labour Office: Ensuring equitable growth: A strategy for increasing employment, equity and basic needs satisfaction in Sierra Leone (Addis Ababa: Job and Skills Programme for Africa, 1981), p. 271. Centre on Transnational Corporations: Transnational corporations in world development: Third survey (New York, United Nations, 1983), p. 305.

investors. In 1976/77, agriculture received 26.9 per cent of foreign aid while social services, transport and communications and general services received 25.8, 21.9 and 10.4 per cent respectively. In contrast, mining and manufacturing received none of such funds. The dependence on foreign capital is likely to continue in the future, but this may mostly take the form of official assistance rather than private direct investment, unless the disadvantages of a small domestic market could be overcome through regional grouping such as the ECOWAS. As a matter of fact, the poor performance of Sierra Leone in attracting foreign investment appears to arise mainly from its small domestic market which seems to have quickly saturated with import-substitution investment goods. In fact, about 60 per cent of firms in the manufacturing sector were reportedly operating at below 50 per cent of their output capacity.¹⁰ Since the output of MNEs in developing countries is often domestic market-oriented, the low capacity utilisation implies over investment and low profitability, making further investments, particularly foreign, rather unattractive.

One conclusion which can be drawn with respect to FDI in Liberia and Sierra Leone is that such investments are highly supplementary rather than displacive. The indigenous investment which exists probably owes such existence to the entrepreneurial, managerial and technological know-how introduced by the MNEs or to their linkage effect. It is important to bear this in mind when attempting to estimate the employment effect of MNEs in these countries. In other words the 'counter-factual' assumption relevant to FDI in the manufacturing sector of these economies is "importing" rather than local investment. For the mining sector, the counter-factual assumption is non-exploitation of the mineral resources, the presence of which would most probably not have been discovered without the technology of the MNEs. In that case virtually all the effects of MNE operations can be regarded as "net", except in such cases where a strong indigenous alternative technology exists.

Government policy on FDI

Apart from the size and sectoral location of foreign investment, the market size, and level of development of the host country, the other major factor influencing the effect of FDI is government policy. Government policy towards foreign investment is of fundamental importance because it defines the environment within which foreign investment operates and could therefore attract or repel investors. Policy could also be aimed at directing investment to desired sectors, or geographical areas, and at inducing MNE behaviour which is conducive to the host country's interests.

Government policy may therefore be classified as either "promotional" or "regulatory" in objectives. Promotional objectives aim at enhancing the prospects of a country as a desirable market for foreign investment. It is competitive in nature, since many other countries may desire the same investments. Among the developing countries, such policies often take the form of incentives such as tax holiday, tariff protection, import duty exemption and other fiscal measures. In general such incentives are particularly effective for MNE manufacturing activities whether domestic or export market-oriented.

The existence of mineral resources often serves as a strong attraction for foreign investment; and in Liberia and Sierra Leone, a very high proportion of the existing FDI is owed to their possession of such mineral resources as iron ore, diamonds, bauxite, rutile and gold. In such cases, government policy on MNEs engaged in exploiting these resources is generally regulatory to ensure that the host country derives the optimum benefit from such exploitations. Regulatory policies often deal with ownership and control of MNEs, employment and training of nationals, utilisation of local resources, etc. Government policy towards FDI in the major sectors of the economy of each of the two countries studied is examined below.

Agriculture and mining

In general, both the governments of Liberia and Sierra Leone adopt an open-door, free-enterprise policy. There are no restrictions on the level or locations of MNEs. In most cases, all they have to do is to register with the appropriate ministries. However, in the case of mining and agricultural companies, their entry and operation conditions are governed by the terms specified in their concessions.

The concession defines the area in which a company can carry out explorations for minerals or cultivate plantations as well as specify terms of ownership, control, employment, usage of local materials, processing and sale of the mine or plantation output. In one such concession between the Sierra Leone Government and the Sierra Leone Ore and Metal Company Ltd., a subsidiary of Alusuisse, the latter was granted exclusive rights to prospect for bauxite in the Port Loko region. With the discovery of bauxite, a joint-venture, the Sierra Leone Bauxite Mining Company Limited (SLBMC), was formed and granted a lease to exploit the mines for 35 years with provisions for 10-year extensions. The SLBMC was to operate under Alusuisse management subject to the general policy of the Board of Directors, the chairman of which was to be appointed by the government. The agreement also provides that preference in employment be given to qualified nationals at all levels, particularly for skilled, technical, administrative and managerial positions. The company was also to provide training for nationals to qualify for such positions.

Mining and agricultural companies often operate in remote enclaves and therefore need to construct their own roads, generate their own electricity and provide their own health and educational services. The concessions take this into consideration and often allow the MNEs to import, free of customs duties, all materials, equipment and personnel required for such infrastructure. In a recent case cited during an interview with the author, one mining company in Liberia was said to have appealed to a ministry to allow it to import petrol duty-free because the high cost of local petrol was hurting the company.

Although the concessions differ in details, they were generally characterised by the open-door philosophy of government. Because of the size and nature of these investments, each company had a bilateral agreement with the government which sets out the duties and privileges of the company. However, it seems that little monitoring of observance of the terms of the concession exists. This is most probably a result of the scarcity of qualified government personnel for this purpose.

Manufacturing and other sectors

Mining and plantation (agricultural) companies in developing countries do not often engage in processing their output. These are often exported raw as inputs for the processing plants of their parent companies. For example, Liberia, in spite of her heavy production of rubber, 180.3 million pounds in 1981, does not have any significant rubber-based manufacturing industry. Rather, the rubber is exported in latex (about 40 per cent) and crepe (about 60 per cent) forms. This is similarly true of other agricultural products - logs, cocoa, palm products, etc. - and of minerals - diamonds in Sierra Leone and iron ore in Liberia. While in some cases this failure may be a result of economic considerations (the large capital requirement for such processing and the small domestic markets of the producing countries), in others it may be just the reluctance to set up plants that are competitive with that of their parent companies. Whatever the case, MNEs in the primary sectors of mining and agriculture have not generally assisted, in the past, Liberia or Sierra Leone in the processing of their raw materials. Such processing is usually associated with the transfer of higher managerial and technological skills capable of multiplying and accelerating the process of development.

Corrective measures were taken in both countries to attract foreign investment in the manufacturing sector. Liberia adopted an Investment Code in 1966 and amended it in 1973. The code essentially kept the open-door policy of the government and offered the usual customs duty relief; tariff protection, income tax exemption, refund of excise duty paid on exported output, accelerated depreciation, and loss carry-

forward provisions. Approved Investment Projects may also enjoy leasing available land in government-owned industrial parks at a preferential rate, support in obtaining loans and contribution to equity as well as patronage by government and its agencies. The enjoyment of these incentives was, however, subject to certain conditions. The Approved Investment Project must:

- (a) fall within the over-all priority as established by the National Planning Council;
- (b) ensure the permanent employment of Liberians at all levels and carry out appropriate training schemes;
- (c) offer ownership participation to Liberians;
- (d) produce a local value-added of not less than 25 per cent of the value of gross output; and
- (e) take its raw materials and other supplies from Liberian origin subject to availability in the right quality, quantity and at comparable prices.¹¹

The Act could be credited with a certain degree of success. Although the rate of growth of the Liberian economy slowed down from 10 percent during the 1950-60 period, to 7 per cent in the 1965-75 period, manufacturing maintained its 4 per cent share of the GDP. Manufacturing output rose from US\$19.8 million in 1969 to US\$36.3 million in 1975. Of the 46 companies for which dates of establishment were available, 28 (61 per cent) were established in 1966 or later. But in terms of the employment, value-added and use of local resources objectives, the code has not succeeded much. As observed earlier in this section, foreign capital depending largely on imported materials still dominates. Possibly this is a result of the small domestic market and the lack of focus of the incentives to the type of industry capable of accomplishing the objectives.

Among the institutional measures taken to encourage foreign investment was the establishment of the National Investment Commission (NIC) and the Liberian Industrial Free Zone Authority (LIFZA). The former is to consider investment proposals under the Investment Code in terms of government objectives and make recommendations to the Ministry. The NIC also takes equity shares in various companies and helps foreign firms in locating local partners. LIFZA was established in 1975 as a means of overcoming the small domestic market problem in diversifying the economy. It attempts to attract export-oriented FDI using local resources and high labour-intensive technology. The government has spent up to US\$13 million on structures and facilities in the zone. Although the zone offers very liberal incentives, not much investment has been made thus far. LIFZA was negotiating with five investors expected to invest about US\$6.4 million. But only one

company, Agromachines Ltd., with a capital investment of US\$650,000 and employment of between 60-80, has, as of July 1983, established within the zone.¹² Negotiations are, however, reportedly being carried on with additional companies.¹³

The government is planning a review of the Investment Code with a view to streamlining "the procedures and establishing a more attractive investment climate, ... provide greater ease of granting incentives, remove inequalities between economic sectors and improve the geographic spread of economic activities."¹⁴ The Government also intends to continue the open-door investment policy, using public investment to stimulate private investment and according priority to productive and labour-intensive investment which has high domestic resource utilisation impact, particularly in terms of furthering the employment of Liberians and reducing the high rate of unemployment in both rural and urban areas.¹⁵

In Sierra Leone, the policy towards FDI is similarly one of open-door. The before-mentioned UNIDO study observes the "complete freedom of choice" enjoyed by the foreign investors "in all matters relating to the selection, evaluation, implementation and operations of industrial projects". It concluded that the experience of this complete freedom "has not yielded the best results."¹⁶

Sierra Leone government policy is still largely promotional with virtually no regulatory objectives. This promotional objective derives from government awareness of the dire need of the country for foreign investment. In a recent speech the Minister of Trade and Industry reiterated government's welcome of foreign investors to participate in industrial projects through investments, technology and managerial expertise, as a means of making available to the economy such machinery, equipment and technology that may not otherwise be available.¹⁷ In order to attract such investors, government offered, under the Industrial Development Act, 1960, tariff, tax and other fiscal incentives. A new Development of Industries Bill, 1982, is still before the Parliament. The Bill proposes the usual fiscal and tariff exemptions but goes further in setting a 30 per cent minimum level of value-added for projects and aims at controlling the employment of expatriates. The Bill also proposes to allow companies to treat their training expenses as tax deductible and to accord priority to indigenous enterprises in processing for approval, in securing loans from the National Development Bank, and to exempt their foreign/expatriate staff from payroll tax.

The priority accorded indigenous enterprises in the Industrial Development Bill is an attempt to reinforce the indigenisation process started in 1969 with the "Non-citizen (Trade and Business) Act" which prohibited non-citizens from operating or participating in certain businesses or retail trades, e.g. manufacturing of cement blocks, transport,

supermarkets, bakeries, laundry and dry cleaning.¹⁸ These were generally low-technology and easily-managed businesses which Sierra Leonean citizens were deemed competent to handle.

A trend towards government participation is emerging. As far back as 1971, the government decided to take 41 per cent of all major mining companies and this discouraged some potential investors. For example, US Steel and Kaiser Aluminium which were proposing to take up equity shares in the Sierra Rutiles withdrew. New ventures, such as the SLBMC discussed above are joint-ventures, between the Sierra Leonean government and foreign investors.

As in many other developing countries, the government FDI policy is very general. It could be argued that policies directed towards attracting investment engaged in processing the country's major minerals and agricultural outputs would produce a higher value-added and likely generate higher (direct and indirect) employment because of the implicit linkages. The new Bill would encourage essentially export-oriented investment by which the small domestic market problem would be overcome. Because the output of such industries is also likely to be intermediate in nature, the level of technological and managerial skills transferred would be relatively higher than those of the domestic market-oriented existing consumer-goods industries.

III. Direct Employment Effects of MNEs

The direct employment effects refer to employment generated immediately by MNE projects and consists of the employees on the payroll of the MNEs. For individual companies, it is easy to ascertain the direct employment attributable to a given level of investment. National estimates are however more difficult. National data on FDI employment are not often available. In the absence of a national survey or census of employment by foreign-owned firms, resort is often made to using estimates of capital/labour ratio based on sample surveys of MNEs. An approximation of the national employment effects of MNEs is then obtained by projecting the capital/labour ratio to the stock of FDI in the country. The degree of accuracy of the estimates thus obtained depends on the extent to which the sample, on which the capital/labour ratio is based, is representative of the variations in the capital/labour ratios of the MNE population.

Liberia

Total employment

Annex I presents the available employment statistics in Liberia. These statistics include "all individuals predominantly economically active, irrespective of whether they are self-employed, working members of the family, or employed for wages".¹⁹ This definition is likely to exaggerate the level of employment in Liberia, since it includes those who are underemployed or in disguised unemployment. According to this definition, Liberia absorbs about one-third of its total population and about 85 per cent of its labour supply in employment. Between 1979 and 1981, an average of about 15 per cent of the labour supply was unemployed. The picture is not different in 1984 when 728,800 jobs are projected for the 884,000 persons expected to be in the labour force, thereby producing an unemployment figure of 153,200 or 17.5 per cent of the labour force.

The increasing unemployment reflects the disparity between the population growth rate and that of employment. While the former, as in many other developing countries, grows at an annual rate of about 3.4 per cent, employment grows only at about 1.7 per cent annually. The growth rate in the more recent years has been declining and was in fact negative between 1980 and 81. This fact suggests that the 4 per cent average annual growth rate projected between 1981 and 1984 may be rather optimistic.

As pointed out earlier, the key sectors of the Liberian economy are agriculture and mining. Annex I shows that these two sectors declined in absolute numbers employed in the period 1974-81. A further decline is projected in mining employment between 1981 and 1984 while a considerable increase, over 8 per cent annual average, is projected in agriculture, probably anticipating the substantial foreign aid assistance in agriculture.

Although total employment is important, the type and level of employment are important as well. The higher the percentage of high-skilled jobs there are, the higher the benefits in terms of the link between employment and economic growth and development. High-skilled jobs are likely to have higher multiplier effects. Annex II shows that the low-skilled jobs predominate in Liberia, accounting for about 96 per cent of all employment. The high-skilled jobs in the professional, technical, administrative and managerial cadres account for only 3.8 per cent of total employment. Low-skilled agricultural and related primary sector workers as well as similar production workers dominate employment with over 82 per cent. Another relevant phenomenon of Annex II is the nationality distribution of employment. Expatriate non-Africans take a disproportionately large share of the high-skilled jobs -

professional, technical, administrative and managerial - and a disproportionately low share of the low-skilled jobs. The reverse is generally true of Liberians.

Over 51 per cent of the working population are self-employed as opposed to 30 per cent in paid employment and 18 per cent unpaid family workers. The self-employed are less likely to be found among the professional and technical cadre, 6.4 per cent, and much less so, 3.1 per cent, among the administrative and managerial class. On the other hand, over 64 per cent of the workers in agriculture and animal husbandry, forestry, fishermen and hunters are self-employed. Over 23 per cent of workers at this level are also unpaid family workers. Possibly, because the key industries - agriculture and mining - are rural in nature, a higher percentage of the rural population is working (i.e. 44 per cent) than in urban areas where only 34 per cent of the population is employed. This implies a higher level of urban (than rural) unemployment, a factor which possibly influences government's liberal policy towards FDI.

MNE employment

For the purpose of estimating the direct employment effect of MNEs operating in Liberia, the data in a study by Carlsson and Hinzen²⁰ were used in determining the relationship between employment and capital. Complete information was available for 45 companies, 29 foreign and 16 Liberian, with total capital of US\$60.1 million and US\$31 million respectively. For purposes of comparison, the author has computed the capital/labour ratio for the MNEs and indigenous Liberian companies separately (see Table 5). He classified a company as foreign-owned if at least 40 per cent of the capital was foreign-owned. A dividing line of 40 per cent was chosen because enterprises with less than that are more likely to be controlled by indigenous owners. In addition, foreign investors are often reluctant to accept a lower percentage participation because of the control implications. However, it must be stated that an enterprise with less than 40 per cent or, in fact, no equity participation, may be controlled by an MNE under a management contract or other forms of agreement - turnkey projects or joint-ventures. For example, the Mesurado Group of Companies, engaged in fishing and manufacturing, is 100 per cent Liberian-owned but it is largely under expatriate management. So is the Liberian Refinery Company which is fully owned by the Liberian government. Since such companies are run along the lines of MNEs, their inclusion in the indigenous sector reduces the employment-intensity of that sector.

Using the employees per US\$1 million capital given in table 5 and given the FDI stock of US\$1,230 million in 1978 (table 3), employment generated by MNEs in Liberia is estimated at approximately 47,000 jobs. This estimate should be taken

with some caution because the employment intensity figures used are based on a study of manufacturing industries only, neglecting the agriculture and mining sectors in which FDI is concentrated and which may have different capital/labour relationship.

An alternative method was to estimate the number of paid employees using the ratio of paid to total employment given in the 1974 census figures (see Annex II) and then estimate the number of MNE employees using the proportion of employment accounted for by MNEs calculated from the Carlsson and Hinzen study (see table 5).

Table 5: Capital-labour relationship in Liberian manufacturing sector

	MNE	Liberian	Total
Total fixed capital (US\$ million)	60 117	31 007	91 124
No. of employees	2 280	1 253	3 533
Percentage of employees	64.5	35.5	100
Employees per US\$ million capital	37.92	40.41	38.8
Fixed capital per employee (US\$)	26 367	24 746	25 792

Source: Calculated from data in Jerker Carlsson and Eckhard Hinzen: Structure and performance of the manufacturing industry in Liberia, an unpublished report prepared at the request of the UNIDO Senior Industrial Development Field Adviser, Liberia, April 1979, pp. 24-28.

As shown in Annex II, paid employment accounted for 29.7 per cent of total employment. Since the percentage is based on the 1974 census, it is a reliable benchmark and has been assumed constant in subsequent years. It is therefore used in computing the paid employment figures for 1979-81 shown in table 6. MNE employment is then estimated as 64.5 per cent of paid employment, based on the data from the Carlsson and Hinzen study. The results of this procedure are presented in table 6. It shows that the direct employment effects of MNEs in 1979, 1980 and 1981 could be estimated at, approximately, 128,000, 129,000 and 124,000 respectively. The validity of these estimates also depends on the extent to which the ratio of paid- to total-employment and MNE-employment to paid-employment remain the same for all these years (see table 6).

One can calculate the employment effect under a counter-factual assumption of indigenous investment replacing FDI. Such figures are, however, merely theoretical because, as pointed out earlier, the best counter-factual assumption is importing and not local investment. The lack of managerial and technological skills of local entrepreneurs implies that they could not have substituted for the foreign investors.²¹

Table 6: Estimates of MNE employment in Liberia
1979-1981

Year	(1) Total Employment	(2) Paid Employment 29.7% x(1)	(3) MNE Employment 64.5% x(2)
1979	668 400	198 514	128 042
1980	676 000	200 772	129 498
1981	649 500	192 901	124 420

Source: Calculated from data in Annexes I and II and Table 5.

Perhaps more important than the number of employment opportunities generated is the type of jobs because of the skills transferred and the multiplier effects of such skills on the GDP and economic development of the country. While no direct information is available, it follows from the high technology and capital intensity of MNE operations that they have to engage personnel who match such company-operational characteristics. MNEs are therefore likely to employ most of the high-skilled professional, technical administration and managerial cadres. As seen from Annex II, Liberians constitute a high percentage of such high-skilled jobs - 81 per cent of professional and technical, 60 per cent of administrative and managerial and 82 per cent of production-related workers.

Agricultural and mining operations are essentially rural. Therefore, MNEs in this sector have provided large employment opportunities in the rural areas of Liberia. Such operations are responsible for opening up remote areas in which subsequently developed thriving industrial/commercial centres such as Habel Forefa and Dolos Town (Firestone) and Bong Town and Nyen (Bong mines). The concentration of large numbers of workers, including high-level managerial and technical workers, creates a market which is exploited by many commercial entrepreneurs catering to the needs of such workers. But for FDI in mining and agriculture, most of these rural areas would have remained undeveloped and their mineral or land resources unexploited.

Productivity

Productivity in MNEs is higher than in the local firms. Generally, productivity is lower in agriculture than in the non-agriculture sector, US\$483 to US\$2,349 per employee per annum. But there is dualism in the agricultural sector and productivity varies between sectors. The 1971 census estimated 83,170 smallholdings cultivating an average of 2.36 acres each and producing mainly for self-consumption, while there were 38,575 holdings cultivating an average of 18.34 acres each, producing for sale. Large plantations, such as Firestone, Guthrie etc., constitute 1.5 per cent in number but cultivate 36.7 per cent of the land area under cash crops. Their productivity is thus generally much higher. The concession sector also had an income per capita of US\$2,400 in 1974, almost five times the US\$546 in the non-concession sector.²²

Mining productivity is higher than in agriculture. Thus earnings in mining are about three-quarters higher than those in the whole private sector.²³ While the low wages in agriculture are officially attributed to low productivity, a leading unionist interviewed mentioned as a main explanatory factor the prohibition, until 1980, of workers' unions in the agriculture sector. Private Liberian plantation owners are said to be in favour of independent plantation unions rather than of a central agricultural workers' union.

Labour conditions

MNEs in Liberia generally pay higher wages than local companies. As pointed out earlier, this reflects the higher productivity in their operations which in turn results from their comparatively high technology and labour skills. A great disparity, however, occurs between sectors as well as between nationalities. Expatriate staff in all sectors earn many times, sometimes as much as seven times, as their Liberian counterparts, although the gap is slowly closing.²⁴

Annex IIIA and IIIB show the income disparity among various sectors. They indicate that wages in agriculture are lower than the average in the private as well as the government sectors. It seems plausible, however, to assume that wages in plantation agriculture are higher than the general level in the agriculture sector. For example, the wages of Firestone rubber tappers were almost twice as much as those of rice farmers in Killiwu Street, and slightly higher than those of other small-scale self-employed or street traders, occupations which seem to be the most probable alternative employment to this group of workers. On the other hand, miners are the highest paid of wage earners. Miners, generally employed by MNEs, earn half as much more than government employees in Monrovia and almost twice the general household income.

Training

At least in a developing economy, every industrial employment is practically a form of training. Even if the employee is only engaged in unskilled factory production work, his introduction to machine operations and his acquisition of industrial discipline, in a predominantly agricultural, low-technology environment, constitute a form of training. In fact, such training may be indispensable to his ability to absorb higher forms of training.

The higher forms of training take different forms (see key in table 7). The information presented in table 7 is extracted from the manpower survey questionnaires (not yet analysed) of the Ministry of Planning and Economic Affairs and relate to 13 agricultural or mining companies (11 foreign, 3 Liberian) training activities in 1979-81. All the Liberian and 9 of the foreign companies are agricultural. Yet, while the Liberian companies in the sample reported no training at all, the foreign companies covered trained an average of about 1 per cent of their employees, and practically all the major companies have their vocational training institutions. Training through apprenticeship was the most common with each trainee averaging about 13 manweeks. However, in terms of length of training, "university/technical extension courses" and "work-study programmes" were the highest with each trainee averaging about 113 and 104 manweeks within the before-mentioned 3-year period. While the percentage of staff being

Table 7: Summary of training activities of selected companies in Liberia

Nationality of Company	Annual average size of	Type of training* and number trained 1979-81										Type of training* and manweeks of training 1979-81									
		1	2	3	4	5	6	7	8	9	10	1	2	3	4	5	6	7	8	9	10
Companies	Employees 1978-81																				
Foreign (n=11)	32 034	301	73	33	20	17	14	75	1	97	6	4021	944	80	374	696	1580	1441	104	309	72
Percentage of employees trained	0.93	0.9	0.2	0.1	0.06	0.05	0.04	0.2	-	0.3	0.01	Not applicable									
Average manweeks per trainee		Not applicable										13	13	2	19	41	113	33	104	3	12
Liberian (n=3)	1 089	None										None									

* Key to type of training

1. Apprenticeship
2. On-the-job training
3. Company in-plant training
4. Supervisory training
5. Secondary/technical extension courses
6. University/technical extension courses
7. Vocational training
8. Work-study programme
9. Workshop/seminar, etc.
10. Others

Source: Information obtained by the author based on preliminary results of the Manpower Survey carried out by the Ministry of Planning and Economic Affairs, Monrovia (1983).

trained is small, at least compared with manufacturing companies, the variety and high level of the type of training are significant features, implying considerable expenditure and labour skill improvement. Also significant, as mentioned by an interview respondent, is the fact that much of the MNE training is done abroad, possibly in their parent companies or related institutions. This affords the trainee a greater exposure and opportunity to interact with and learn of other business environments.

Sierra Leone

Total employment

The level of employed labour force in Sierra Leone shown in Annex IV is generally about 36 per cent of the total population and 91 per cent of the labour force. Again, because the average annual growth rate of employment (1.8 per cent) lags behind that of the population (3.4 per cent), the percentage of the population kept in employment is declining. By far the largest sector in employment is agriculture which accounts for over 72 per cent of the working population and about a quarter of the total population. Other significant sectors are commerce, public administration and manufacturing, with about 10, 7 and 5 per cent of the working population respectively. It is significant to note that mining and quarrying, in which FDI is concentrated and which provides the bulk of export and government revenue, is not a large employer of labour. Additionally, the number employed in that sector has declined from a peak of 47,000 in 1963 to 21,000 in 1974 and further to an estimated 15,000 in 1981. This was accompanied by a decline of its relative share from 2.1 per cent of the employed population in 1974 to 1.3 per cent in 1981. The decline in employment in the mining sector is a consequence of two factors. First is the low world market prices of many of Sierra Leone's minerals. Furthermore, according to an ILO study, the prices paid to Sierra Leone mining companies under a concessionary agreement, in which output is sold on long-term contract to MNEs, are lower than world prices.²⁵ The second factor is the decline in the shallow alluvial deposits of minerals causing a decline of small-scale operators, who use very labour-intensive techniques, and the increasing use of machinery and capital-intensive technology by MNEs in order to reach the deep deposits.

The dominance of agriculture and commerce in employment is due to their suitability for self-employment. A high proportion of the large numbers in these sectors may be under-employed or really in disguised unemployment. This view is reinforced by the information presented in Annex V which shows that less than 15 per cent of the working population was in

wage/salary employment in either of the two years while over 42 per cent was self-employed. Also important is the trend between government and private paid employment. While government accounted for only 36.3 per cent of paid employment in 1963, its share had increased to about 47 per cent in 1974. It is really the public sector and self-employment which absorbed the increase in population between 1963 and 1974. Private employment, however, still offered more than half of paid employment and about 7.5 per cent of total working population. It is in this sector that the employment contribution of MNEs is included.

MNE employment

In absolute terms, Sierra Leone has not succeeded in attracting much FDI. However, the little existing has done much in terms of employment generation in both the mining and the manufacturing sectors. In the mining sector, declining world market prices and the depletion of shallow alluvial deposits affect employment generation adversely. In the manufacturing sector, the generation of direct employment opportunities by MNEs is also affected by the adoption of a capital-intensive technology and the low-capacity utilisation of most MNEs owing to the small size of the domestic market. The small-scale sector, consisting of establishments employing less than six persons, is the major employment generator in Sierra Leone. The Ministry of Labour estimates that the small-scale sector generates 87 per cent of the employment in manufacturing, 57 per cent of that in construction and 94 and 66 per cent respectively of trade and transport employment. These statistics can be used as a basis for a rough estimate of the employment effect of MNEs in Sierra Leone.

The virtual total dependence of Sierra Leone on FDI for industrial investment was noted earlier. In estimating the employment due to MNEs, it is assumed that larger industrial establishments (those employing six or more persons) are virtually all MNEs. This assumption is realistic in view of the obvious predominance of MNEs in this size group, even among medium-sized establishments. Since we know the percentage of the working population in various sectors accounted for by the small-scale sector, the residual can be attributed to the "large-scale" sector which is taken to be MNE establishments. We can then add the employment in large-scale mining which is generally foreign-owned or managed and which can be estimated at 46 per cent of total employment in the sector. The results of this procedure for three selected years are presented in table 8. While the table shows exact calculations, the estimates of MNE employment in Sierra Leone may be rounded off to about 39,000, 38,000 and 39,000 in 1974, 1979 and 1981 respectively to account for errors in the estimate. These figures generally represent over 3 per cent

of the total working population. The percentage declined from 3.8 in 1974 to 3.4 in 1981. However, they still accounted for more than one-half of employment in the modern sector (high-skilled, wage employment) in Sierra Leone. (The modern sector of the manufacturing industry in Sierra Leone employed 11,027 in 1979.²⁶ Our estimate of MNE employment in that sector - 6,500 - thus represents about 58 per cent of such employment.) The somewhat declining performance of MNEs in terms of direct employment generation results from the concentration of their activities in mining where choice of technology is influenced more by economic efficiency consideration rather than employment. The relative insignificance of MNE investment in agriculture, particularly plantation agriculture, which usually involves considerable labour input, further reduces their direct employment contribution on an over-all scale.

Table 8: Estimated employment in Sierra Leone, 1974, 1979 and 1981 (in thousands)

SECTOR	Percentage ¹ of MNE EMPLOYMENT	TOTAL EMPLOYMENT			MNE EMPLOYMENT ²		
	(1)	(2) 1974	(3) 1979	(4) 1981	(5) 1974	(6) 1979	(7) 1981
Manufacturing	13	48	50	53	6.24	6.50	6.89
Construction	43	18	22	23	7.74	9.46	9.89
Commerce	6	98	112	119	5.88	6.72	7.14
Transport	34	27	24	25	9.18	8.16	8.50
Mining and Quarrying	46	21	15	15	9.66	6.90	6.90
TOTAL	17	212	223	235	36.04	37.91	39.95

¹ Estimated from the Ministry of Labour census data as indicated on pages 23 and 24.

² The data in columns 5, 6 and 7 have been estimated by applying the percentage of MNE employment shown in column 1 to the data on total employment in the various sectors and years (columns 2, 3 and 4).

Labour conditions

Many government labour officers interviewed by the author in both countries consider MNEs superior to local firms in employment conditions. Although employment conditions are negotiated by industry labour unions every 18 months, it was claimed that MNEs actually implement such agreements more than local firms. This greater degree of compliance is attributed to the existence of better organised labour unions in MNE establishments as well as the large size and higher profitability of MNE operations. These factors, rather than nationality of ownership may account for the superior rating of MNEs.

There is also general agreement among MNE executives, government labour officers and labour union leaders interviewed that salaries in MNE establishments are higher than in government or in indigenous firms. In addition to salaries, many companies, particularly in the mining sector, offer several fringe benefits to their workers. These include subsistence allowance, rent allowance, subsidised prices for rice, kerosene and corrugated iron roofing sheets. These fringe benefits were designed to attract workers to the remote areas where mining usually takes place.

No specific statistics were available on training, but respondents interviewed claimed that MNEs train their workers more than other employers and that more of such training takes place abroad. Many respondents interviewed by the author felt, however, that training is more at the operational labour rather than management level and, particularly in respect of indigenous management staff, is often undertaken at government insistence. Most of the mining companies have an apprenticeship training scheme. Under one of such schemes at Sierra Rutile, apprentices supplement their learning on-the-job with weekly lectures. Company training facilities are supplemented with those of the Employers' Federation and the Sierra Leone Chamber of Mines.

Under the Regulation of Wages and Industrial Relations Act, 1971, job conditions such as wages and salaries, fringe benefits, leave, accident, redundancy and union recognition, are determined through collective bargaining procedure. MNEs are said to comply with this process and the terms of agreement reached more than non-MNEs. One practice of some foreign companies (including some from third world countries) is that Sierra Leoneans are not, however, appointed to managerial and administrative positions. These foreign enterprises reportedly often rely on their countries of origin for such staff.²⁷

IV Indirect Employment Effects

The total employment effect of MNEs obviously goes beyond the number of people directly employed in their establishments. It includes employment resulting from their activities such as subcontracting, local purchases and patronage of local support services such as banking, transport, utilities and distribution. Even some employment in the public sector may be attributed to MNEs since such employment may be sustained by funds contributed in the form of taxes, duties, etc. by MNEs. Such first-round indirect employment may also generate a secondary employment effect and the process may continue through a form of employment multiplier process.²⁸ However, even in the developed countries with better information, it is difficult, if not impossible, to estimate these secondary effects. Resort is therefore often made to "proxies", such as the extent of local purchases in contrast to imports, contribution to government revenue, subcontracting to local firms and patronage of local support services. The assumption is implied that the higher the levels of these proxies, the higher the indirect employment effect.

The indirect employment effect of MNEs may be more important than the direct effect especially in terms of size and transfer of technological, occupational and management skills generated. The process of linkage with local industries may involve the MNEs in assisting such local industries in designs and production of their products as well as in financing and managing the enterprises.

The extent to which the indirect effect is important depends largely on three interrelated factors: the nature of the MNE; the scale of production; and the state of economic development of the host country. Generally, MNEs in the primary sector - mining and agriculture - tend to have relatively small indirect effect unless they engage in processing their output. Similarly, resource-based manufacturing firms tend to have greater indirect effect than market-oriented ones. The impact of the scale of production seems obvious; the larger the pebble, the larger the ripple effect. The scale of production is determined by the size of the market for the output of the firm. MNEs located in small domestic market countries, such as Sierra Leone and Liberia, need export markets to sustain any large-scale production. Lastly, the level of economic development in the host countries determines the extent to which these benefits are derivable. The availability of input materials in the right quantity, quality and price, the adequacy of local support facilities and support services, other things being equal, determine the extent of MNE patronage and their resultant generation of employment.

Traditional linkage

The term 'traditional linkage' is used in this paper to describe those effects described above - local purchases, contribution to government revenue, subcontracting to local firms, and patronage of local support services, etc. Availability of information however limits discussions to only two of these measures of traditional linkage. In general, however, it can be said that the state of all the three factors determining the size of linkage in the two countries studied suggests small indirect employment effects. The MNEs in both states are largely in the primary sector of mining and/or agriculture; the two countries are small and largely lack the production know-how to supply input requirements for MNE operations. It is therefore not surprising that the traditional linkage effect in both countries must be considered to be very small. Most of the output of the primary sector - timber, logs, rubber, minerals, coffee, etc. are exported raw, thus depriving these countries of the additional direct and indirect employment which would have been generated by setting up processing plants of the raw materials. For example, although Liberia is the largest producer of rubber in Africa (168.7 million tons in 1980) only one local enterprise, a footwear factory for the domestic market, is rubber-based.

Local purchases

It follows from the preceding paragraph that existing manufacturing plants are market- rather than resource-oriented. In Liberia, most of the input materials are imported. In respect of Liberia, Carlsson and Hinzen observed: "The only significant domestic items entering the manufacturing sector are wood, sugar cane, fish and rubber. Virtually all textiles, chemicals, paper and metal products are imported. Few intra-sector linkages are established by domestically-milled flour, cane sugar, timber, cement, explosives, paint and nails."²⁹

The impact of this high import dependence is a low value added which, for the whole manufacturing industry, was estimated at 14 per cent of output. Even for the small-scale sector which is normally less import-dependent, a survey commissioned by the World Bank found that 53 per cent of industries in the sector depend on foreign suppliers for their major raw materials and only 12 per cent depend on Liberian sources for such.³⁰ The high-level reliance on imports of such traditional small-scale sectors as photography (100 per cent), tailoring (90 per cent) and printing (75 per cent) show that it is the inability of the host economy to supply rather than the unwillingness of MNEs to buy local that is the major cause of foreign dependence.

The picture in Sierra Leone is the same. The ILO study referred to earlier also observed that "most industries remain dependent on imported inputs, the over-all ratio of imported inputs to total inputs being over 80 per cent in 1973/74, about the same as in recent years."³¹ The UNIDO study of industrial development in Sierra Leone referred to earlier also found a high dependence on imports. Only one of the nine manufacturing sectors studied had less than 30 per cent dependence on imports while three had more than 80 per cent.³²

Government revenue

Tables 9A and 9B show the sources of government current revenue in both Liberia and Sierra Leone respectively. In Liberia, the contribution of MNEs to government revenue can be inferred from those of iron ore profit-sharing, corporation tax and foreign trade tax. In 1976, these accounted for 56 per cent of total revenue although this has declined to 44 per cent in 1981 as a result of an 84 per cent decrease in iron ore profit-sharing. Since MNEs also account for a substantial percentage of wage employment, part of the individual income tax can be attributed to them.

In Sierra Leone as well, MNE-related sources constitute the bulk provider of government revenue. Import duties constitute the single largest source and, as discussed above, MNEs are large-scale importers. Duties paid on exports and on local production provide more than a quarter of the total revenue. The low contribution of the mining companies is partly a consequence of the tax exemption often granted them under the concession agreements and partly of the decline in mining activities. It can therefore be inferred from these tables that MNEs make substantial contributions to government revenue. As mentioned before, such contributions represent in part an indirect employment effect because they allow increased government employment, finance government social welfare projects and the provision and improvement of infra-structural facilities.

Other linkage effects

In most developed countries, MNEs can assume the existence of basic infrastructures and utilities. In many developing countries, MNEs may have to provide such services. This is particularly true of MNEs in the mining and agricultural industries. Because they operate in rural enclaves, they have had to construct their own roads, generate their own electricity, establish their own schools and provide their own health and housing services. These are not activities with which companies normally concern themselves and are therefore regarded as special.

Table 9A: Sources of government revenue, Liberia, 1976-81 (Percentages)

SOURCES	1976	1977	1978	1979	1980	1981
<u>Total Revenue (US\$ million)</u>	<u>149.8</u>	<u>172.7</u>	<u>190.6</u>	<u>204.2</u>	<u>222.4</u>	<u>223.0</u>
Taxes on Income and Profit						
Iron ore profit-sharing	19	11	6	5	4	3
Corporation tax	9	10	9	12	9	5
Individual income tax	6	9	14	15	17	24
Austerity	5	2	-	-	-	-
Other	4	4	3	3	2	1
Indirect Taxes on:						
Property	2	1	1	1	1	1
Domestic transactions	8	8	9	10	13	11
Foreign trade	28	35	38	38	31	36
Other taxes	5	5	5	6	7	9
Non-tax revenue	4	7	7	3	11	1
Maritime revenue	11	7	7	6	5	9

Note: Percentages may not add up to 100 owing to rounding.

Source: Economic survey of Liberia, 1981, (Ministry of Planning and Economic Affairs), p. 30.

Table 9B: Sources of government revenue; Sierra Leone (selected years) (Percentages)

SOURCES	1971/72	1973/74	1976/77	1978/79	1979/80	1980/81
INDIRECT TAXES						
Import duties	40	36	32	29	22	22
Export duties	7	10	16	10	12	7
Excise duties	20	14	15	15	15	20
Miscellaneous duties	-	-	3	9	13	17
DIRECT TAXES						
Mining companies	3	1	2	1	2	1
Other companies	15	27	13	17	13	15
Personal income	5	4	6	6	7	8
Others	-	-	1	1	1	1
OTHER SOURCES	9	6	12	12	15	10
TOTAL CURRENT REVENUE (Le '000)	52 030	81 096	112 804	173 875	195 946	216 736

Note: Figures may not add up to 100 owing to rounding.

Source: Bank of Sierra Leone: Economic Review, Vol.15, Nos. 3 and 4,
July - December 1981, table 14.

In both countries MNEs, in the mining sectors in particular, run non-fee paying schools for the children of their staff. In Liberia, there is a dual school system, one for the children of the "senior staff" and the other for those of the "junior staff". Although the "senior staff" schools are said to be of higher standard, both schools are rated better in quality than government-run schools.

In Liberia, a total of 1,474 miles of private roads, 24 per cent of total national road networks, were maintained by private companies and enclave operations in 1978. The companies also built three separate railways to move ore from the interior to the ports. The Liberian Mining Company railroad (160 kms.) links Monrovia to the Bomi Hills and the Mano River; the German-Liberian Company railway (80 kms.) joins the Monrovia and the Bong Range; while the LAMCO railway (270 kms.) runs between Buchanan and Mount Nimba.³³ The operation and maintenance of these services provide additional employment opportunities for the country.

Besides the employment effect, these roads and railways open up an interior which would otherwise have remained inaccessible and underdeveloped. The concentration of workers in the mining areas created a potential market, the exploitation of which is facilitated by the construction of roads and railways. The mining areas thus attracted a population of traders, farmers and other service professionals (tailors, barbers, etc.) who depend on the patronage of the mine workers. Many towns in Liberia (Lamco, Nyen, Habel Forefa and Bong) and in Sierra Leone (Lunsar, Pepel, Kenema, Sefadu, etc.) developed this way. They continue to depend on the population of mine workers and their fortunes fluctuate with those of the mines in their areas. For example Lunsar, in the Marampa iron ore mines, suffered a decrease in population when the mining company folded up. Its population has increased from 21,500 in 1974 to 31,765 in 1982, following the reactivation of the Marampa mines. On the average, it is estimated that each mine worker in Liberia or Sierra Leone has about five dependents.³⁴

Given the MNE employment estimates of 5,245 in the mining sector in Sierra Leone in 1979, and using the dependency ratio of 5:1, it can be estimated that some 26,000 additional persons owe their self- or wage-employment to the mining sector. Similarly, an employment multiplier of 5 could be applied to MNE employment in the mining sector in Liberia.

V. Conclusions

The study of MNE employment in Liberia and Sierra Leone confirms for these two countries certain general findings of previous research on MNEs in developing countries. First, it confirms that FDI in developing countries is unevenly distributed in favour of the more advanced and relatively more prosperous countries. For example Liberia, with a per capita income of only about twice Sierra Leone's, had a stock of FDI which was more than 15 times that of Sierra Leone.

The second general finding confirmed for both countries is that MNEs are not the major source of employment in developing countries. The majority of employment is offered by the informal, small-scale sector largely through self-employment in agriculture, commerce or crafts. Employment in this sector grows at a faster rate than MNE employment and absorbs a greater percentage of increases in the labour force. However, MNEs in the two countries account for the majority of higher-skilled employment in the technical, professional and managerial categories, thereby fulfilling a modernising role for the countries' economies and their employment share in the modern sector is important.

A third conclusion (not following the general pattern) is that MNEs in Liberia and Sierra Leone are concentrated in the primary sector of mining and, especially as far as Liberia is concerned, also in agriculture. The investment in manufacturing, however, follows the general pattern of MNEs being located in both developing and industrialised countries in the high technical and capital-intensive industries such as chemicals, metals and food processing.

Lastly, MNEs in both Liberia and Sierra Leone, as in many other developing countries, operate largely as foreign enclaves, with little or no traditional linkages or integration with the local economy. However, in the mining and agricultural sectors which are rural operations, MNEs have provided infrastructural and social services which open up large portions of the rural areas to trade and other professional activities. The operations of MNEs in this sector has led to a large number of employment opportunities in the rural areas. Additionally, contributions to government revenues are important.

Specifically, MNEs in Liberia account directly for over 120,000 (1981) employment opportunities, representing over 60 per cent of wage employment and almost 20 per cent of total employment in the country. In Sierra Leone, MNE employment estimates are about 38,000 (1981) representing some 17 per cent of total non-agricultural employment and some 3 per cent of the over-all employment in the country. MNE employment

generation in both countries has been declining in recent years owing to the low world prices of agricultural and mineral products, the two areas of concentration of MNE investments. The decline in these two key sectors has adverse implications for the level of activities and employment in the manufacturing sector as well.

Unlike in some other developing countries, such as Nigeria and Kenya, where MNEs are concentrated in domestic market-oriented manufacturing industries, Liberian and Sierra Leonean MNEs are concentrated in export-oriented industries of mining and agriculture. MNEs outputs thus constitute as high as 70 per cent of the countries' exports. Besides the presence of mineral deposits which attract FDI to that sector, the low investment in manufacturing is a result of the limitations imposed by their small domestic markets and their problems in developing an export market for manufactured goods.

Government policy on MNEs in the two countries is more promotional than regulatory. The two governments adopt a liberal open-door policy which offers various fiscal and tariff incentives to foreign investors. Unlike in many other developing countries, there has been very little attempt to restrict foreign investment and control of either the manufacturing, agriculture or mining sectors. The concession agreements, under which most of the MNEs in the agriculture and mining sectors operate, often confer full authority to manage the enterprises on foreign investors although they are expected to accord priority to nationals in employment of technical, professional and managerial staff, as well as provide training opportunities for these categories of staff. These two countries have not, however, adopted a general policy of indigenisation of ownership and control of MNEs found in many other developing countries, particularly since the 1970s.

The small foreign investment in manufacturing which exists is engaged mainly in the production of substitutes for imports for local consumption. They depend largely on imported inputs and utilise relatively more capital-intensive technology. Their employment and linkage effects on these two countries are therefore lower than could have been with resource-based manufacturing establishments using labour-intensive technology.

The cases of Sierra Leone and Liberia provide additional evidence in support of previous findings that the level of development (availability of inputs, support services, skilled labour, and high purchasing power) of host countries influences MNE contributions to their economic development. A given amount of FDI in a developed country will thus make a greater contribution, in absolute terms, to the development of that country than a corresponding investment in a developing country

would. For example, 25 per cent of total world FDI located in the developing countries generated only 10 per cent of total FDI employment.³⁵ The emergence of local enterprises, to which MNEs can subcontract, and which can provide needed inputs for, or use the output of, MNE operations, is a major determinant of the magnitude of MNE contributions to the economic development of their host countries. The proposed extension of government incentive programmes in both Sierra Leone and Liberia to small indigenous establishments will thus not only help such establishments but also improve the environment of MNE operations and their contributions to the countries' economic development.

While the volume of FDI and its contributions to the development of Liberia and Sierra Leone may be regarded as low in absolute terms, the relative impact on these two economies is highly significant. Perhaps a much more meaningful evaluation is not in quantitative but rather in qualitative terms, i.e. the modernisation of the economy in terms of the introduction and upgrading of technological, professional and managerial skills, of the entrepreneurial skills which help to transform otherwise idle into productive resources, and the generation of more productive industrial employment opportunities in place of generally low productivity self-employment. The use of quantitative measures of MNE contributions may be more appropriate for the developed countries where the developed nature of the economic environment makes MNE policies determining such contributions feasible.

The evidence in these two countries therefore suggests that in spite of the relatively small size of FDI, particularly in Sierra Leone, its contributions to the development of these two countries is significant. The significance lies not just in the number of additional employment opportunities provided but in the quality and the conditions of such employment. MNEs have also made it possible, through their technological skills, to exploit natural (mineral and agricultural) and human resources which would otherwise have been lying idle or at least less-productively exploited.

Future of MNE employment contribution in the sub-region

Two factors augur well for the future of MNE activities in Liberia and Sierra Leone. The first is a favourable government policy which reiterates government's commitment to the free enterprise system and, particularly, its awareness of continued need for foreign investment. The government in Liberia confirms "its commitment to the free enterprise system of economic pursuit" and intends to continue "an open investment policy encouraging both local and foreign private

investment".³⁶ In Sierra Leone, the government acknowledges the need for the private sector to inject managerial skills, financial resources, responsibility and accountability as well as entrepreneurial daring into the economy.³⁷ It also, as mentioned earlier (see page 14) reaffirms its welcome to foreign investors.

The second factor is the effort to improve the economic environment within which the MNEs operate. Both countries are trying to overcome the limitations of their small domestic markets by encouraging export-oriented manufacturing companies. Liberia has created an export processing zone to this effect, while Sierra Leone is offering special incentives to export-oriented companies. The extent to which this succeeds depends on the ability of the two governments to reduce trade restrictions in their potential export markets, particularly within the Economic Community of West African States (ECOWAS).

The encouragement of export-oriented industries often involves the use of capital-intensive technology which may not generate large employment opportunities. The attraction of this type of FDI may therefore poses a conflict between the objectives of generating large employment opportunities on the one hand and, on the other, modernising the structure of the economy through the generation of, even if relatively fewer, high-skilled employment. In addition, the contribution to development of export-oriented FDI depends largely on factors outside the control of the host countries of such investment. Even when restrictions of free trade are ignored, the volume of exports, which determines the level of production and employment activities in the exporting firms, depends on the purchasing power of the rest of the world or at least of the major trading partners.

Another measure in improving the environment of MNE operations is the streamlining of decision making on foreign investment. In Liberia, LIFZA is empowered to take all the decisions needed to approve a foreign investment proposed, thus saving foreign investors from the delay often involved in the bureaucratic process of dealing with several ministries responsible for various aspects relating to the establishment of a business enterprise. Both LIFZA and the National Investment Commission also undertake the preparation of feasibility studies for which they seek equity investments from both local and foreign investors.

Notes

¹ Nitish K. Sengupta: "Opening statement", in The CTC Reporter (United Nations Centre on Transnational Corporations, New York), No. 14, Winter 1983, p. 7.

² Foreign investment in the present revolution, a statement by the Government of the People's Redemption Council, Republic of Liberia, 30 May 1980.

³ J. Carlsson and E. Hinzen: Structure and performance of the manufacturing industry in Liberia, an unpublished report prepared at the request of the UNIDO Senior Industrial Development Field Adviser, Liberia, April 1979, p. 2.

⁴ Ibid., pp. 24-28.

⁵ UN Industrial Development Organisation (UNIDO): Review of industrial development in Sierra Leone, 2 April 1982, p. 72.

⁶ Central Statistics Office: Report on the first annual survey of industries, 1980-81, Vol. 1, p. 6.

⁷ UNIDO, op. cit., p. 76.

⁸ R.G. Saylor: The economic system of Sierra Leone (Durham, North Carolina, Duke University Press, 1967), p. 153.

⁹ ILO: Ensuring equitable growth (Addis Ababi, Job and Skills Programme for Africa (JASPA), 1981), p. 157.

¹⁰ UNIDO, op. cit., p. 53.

¹¹ An Act amending the Investment Incentive Code of the Republic of Liberia (Monrovia, Bureau of Printing, Ministry of Foreign Affairs, 28 Feb. 1975).

¹² Interview with senior officials of the Liberian Industrial Free Authority (LIFZA).

¹³ LIFZA: Annual Report, July 1981 - 30 June 1982, pp. 7 and 8.

¹⁴ Foreign investment in the present revolution, a statement by the Government of the People's Redemption Council, Republic of Liberia, 30 May 1980.

15 General economic policy (the Government of the People's Redemption Council, Republic of Liberia), 5 June 1980.

16 UNIDO, op. cit., p. 137.

17 A.B. Kamara, Minister of Trade and Industry: a speech given at the Conference on Private Sector Participation in Economic Development of Sierra Leone, 7 Oct. 1982.

18 "The Non-Citizen's (Trade and Business) Act, 1969" in Legislation of Sierra Leone, 1969 (Government Printing Department), pp. A.35 - A.40.

19 "Population estimates for Liberia, 1980-84", Chapter II of the National Development Plan, 1980-84, p. 44.

20 Carlsson and Hinzen, op. cit., pp. 24-28.

21 For the sake of argument, however, we may assume that local enterprises replace the MNEs. Under such an assumption, the employment opportunities generated by local enterprises are likely to be higher, once again using the ratio of percentage employment to percentage capital of Liberian companies in the Carlsson and Hinzen study. The direct employment generated would have risen to approximately 136,000, 138,000 and 132,000 for the years 1979 to 1981 respectively. (This is calculated as $\frac{E_L}{C_L} (C_f)$; where E_L = employment figures for Liberian companies; C_L = percentage share of total capital companies; and C_f = percentage share of MNEs which would have been replaced by Liberian capital.) The higher employment generation may result partly from differences in the nature of industries or in the level of technology used.

22 International Bank for Reconstruction and Development: Current economic position and prospects of Liberia, Report No. 1642A-LBR, 28 Feb. 1978, ps.

23 ILO: Rural-urban gap and income distribution: The case of Liberia (Addis Ababa, JASPA, 1982), p. 44.

24 See Economic survey of Liberia, 1972 (Ministry of Planning and Economic Affairs), p. 27.

25 ILO: Ensuring equitable growth (Addis Ababa: JASPA, 1981), pp. XIX and 265.

26 UNIDO, op. cit., p. 13.

27 *ibid.*, p. 139.

²⁸ For a detailed treatment of the categories of indirect employment effects, see ILO: Employment effects of multi-national enterprises in developing countries (Geneva 1981), pp. 53-71.

²⁹ Carlsson and Hinzen, op. cit., p. 35.

³⁰ A. Sawyer and D. T.-W. Mayson: Small-scale enterprise in Liberia: A preliminary assessment, an unpublished report of a survey commissioned by the World Bank, the Liberian Development Corporation and the Liberian Ministry of Finance, April 1979, pp. 33-34.

³¹ ILO: Ensuring equitable growth, op. cit., p. 156.

³² UNIDO, op. cit., p. 66.

³³ The Atlas of Africa (Jeune Afrique), p. 159.

³⁴ These estimates were obtained from Mr. S.S. Kamara, Senior Development Planning Officer, Ministry of Development Freetown, Sierra Leone and Mr. A. Siafa Blackie, Research Analyst, National Investment Commission, Monrovia.

³⁵ H. Günter: "ILO research on TNCs and social policy: A summary" in The CTC Reporter, 14, Winter 1983, p. 49.

³⁶ General economic policy, op. cit. pp.1-2

³⁷ The Hon. Salia Jusu-Sheriff, Minister of Finance, Republic of Sierra Leone, in the Budget Speech to Parliament, 30 June 1982.

Annex I: Liberia: Employment and working population by industry
1970, 1974, 1979, 1980, 1981 and 1984

Industrial Division	1970	1974	1979	1980	1981	1984 (projected)
Agriculture and allied activities (including monetary agriculture)	25 031	488 000	528 000	538 000	463 000	578 000
Monetary agriculture (including forestry and fishing)	-	(55 500)	(59 600)	(60 000)	(52 000)	(67 500)
Mining and quarrying	11 183	22 000	17 500	17 500	20 000	19 100
Manufacturing	2 108	9 900	12 000	11 000	11 000	12 000
Electricity, gas and water	680	1 200	1 450	1 450	1 500	1 600
Construction	1 691	7 400	9 400	8 000	7 500	8 800
Wholesale/Retail trade, hotels and restaurants	2 153	29 100	32 000	32 000	32 000	35 000
Transport, storage and communications	2 592	11 200	15 600	15 600	12 000	17 000
Finance, insurance and business services	1 058	1 400	1 650	1 650	n.a.	1 800
Government services	19 362	29 100	32 000	32 000	32 000	34 800
Other services	-	15 500	18 800	18 800	18 500	20 700
ALL INDUSTRIES	65 858	614 800	688 400	676 000	597 500	728 800

Note: 1970 figures are not comparable as they refer to salary/wage employment while figures for the other years refer to "working population", including self-employed workers.

Source: Economic survey of Liberia, 1972 and 1976. The projection for 1984 is from Appendix 3, National Development Plan, 1980-81 to 1984-85.

Annex II: Liberia: Working population by occupation, status and nationality, 1974

Major occupt. group	Nationality				Occupational Status			
	Total	Liberians	Other Africans	Non-Africans	Paid employee	Employer	Self-employed	Unpaid family worker
Professional and technical	15 125	12 297	1 115	1 713	13 761	118	968	278
Administrative and managerial	1 149	694	80	375	1 064	43	36	6
Clerical and related	10 666	9 780	570	316	10 298	76	160	132
Sales workers	14 000	9 006	3 275	1 719	3 458	201	9 505	836
Service workers	15 625	15 122	377	126	14 416	74	377	758
Agricul., animal husbandry, forestry, fishermen and hunters	303 695	295 280	8 170	245	37 073	1 012	195 305	70 305
Production and related workers, transport, equipment operators and labourers	54 136	44 317	8 863	956	40 340	585	12 270	941
Unidentifiable occupation	18 475	16 807	1 050	618	8 215	112	4 612	5 536
TOTAL	432 871	403 303	23 500	6 068	128 625	2 221	223 233	78 792

Source: 1974 Census, pp. 115, 142 and 145.

Source: 1974 Census, pp. 115, 142 and 145.

Annex III A: Liberia: Average monthly earnings in private sector establishments (\$)
(1969 - 1977)

Year	Agriculture	Mining	Others	Total private sector	Government (net after tax)
1969	56.8	159.9	154.9	108.7	64.19
1970	53.8	193.3	153.3	109.7	66.42
1971	58.0	181.1	139.8	105.9	72.77
1972	59.2	199.2	153.9	117.2	80.82
1973	65.7	217.1	189.4	132.4	84.2
1974	68.8	218.2	n.a.	n.a.	102.0
1975	n.a.	336.5	234.0	215.0	n.a.
1976	n.a.	403.7	n.a.	n.a.	n.a.
1977	161.3	500.6	n.a.	n.a.	n.a.

Source: as Table Annex III B

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Annex III B: Liberia: Average household income 1977/78

Household head occupation	Household average income US \$
Monrovia businessman, professionals	617.86
Miners (Yekepa mining town)	301.85
Shopowners and self-employed craftsmen (Kanweaken)	243.1
Government and other employees (Monrovia)	207.87
Farmers and self-employed (Zwedru)	173.73
Rice farmers (Foequellie)	109.61
Rubber tappers (Firestone district)	65.62
Street traders and other small-scale self-employed	61.9
Rice farmers (Killiwu district)	23.66
All households	164.3

Source: ILO: Rural-urban gap and income distribution:
The case of Liberia (Addis Ababa, JASPA, 1982),
 pp. 55 and 57.

Annex IV: Sierra Leone: Observed and projected population and employed labour force by economic activity (selected years) (000s)

Industry	Observed*		Projected		
	1963	1974	1979	1981	1985
Agriculture, forestry and fishing	702	735	794	826	890
Mining and quarrying	48	21	15	15	16
Manufacturing	41	48	50	53	59
Electricity, gas and water	2	2	2	2	2
Construction	16	18	22	23	23
Commerce	53	98	112	119	134
Transport and communication	16	27	24	25	31
Public administration	29	61	74	77	83
Total working population	907	1 010	1 093	1 140	1 238
Residual		98	117	118	122
Total labour force		1 108	1 210	1 258	1 360
Total population	2 108	2 735.2	3 037.9	3 390.7	3 537

* Working population in 1963 included persons 10 years or older, while in 1974 the minimum working age was 12 years.

Source: 1963 and 1974, Census for observed data. Ministry of Planning for the projected data.

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Annex V: Sierra Leone: Employment by status, 1963 and 1974

Status	(000s)		Percentage distribution of total working population	
	1963	1974	1963	1974
Wage and salary				
Government	37	69	4.07	6.83
Private	65	78	7.15	7.72
Employer	3	3	0.33	0.29
Self-employed	382	483	42.07	44.82
Unpaid household worker	421	377	46.36	37.32
Total working population	908	1 010	100.0	100.0
Percentage of working population in wage/salary employment	11.23	14.55		

Source of basic data: 1963 and 1974 Census of Sierra Leone.