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**A REVIEW OF PRIVATIZATION IN
THE REPUBLIC OF GUINEA/CONAKRY**

(Part i)

N 122

REPORT BY

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Prepared for the
BUREAU FOR PRIVATE ENTERPRISE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



CENTER FOR PRIVATIZATION

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A REVIEW OF PRIVATIZATION IN
THE REPUBLIC OF GUINEA/CONAKRY

PART I:

THE POTENTIAL FOR PRIVATIZATION IN GUINEA/CONAKRY
A BACKGROUND REPORT

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TABLE OF CONTENTS

	<u>Page</u>
TRANSMITTAL LETTER	iv
EXECUTIVE SUMMARY.	v
I. PURPOSE AND SCOPE OF WORK	1
II. COUNTRY PROFILE	3
A. Host Government	5
1. Top Level Commitment	5
2. Enunciated Policy.	7
3. Power to Implement	10
4. Mid/Lower Level of Commitment.	11
5. Accessibility for Dialogue	13
6. Awareness/Availability of SOE Costs.	15
7. Private Sector Influence on Policy	16
8. Officials' Dependence on Outside Income.	19
9. Open Economy vs. Managed Economy	20
10. Previous and Current Experience With Privatization.	21
A. Background on Guinea Parastatals.	21
B. Actions Taken by the Touré Regime	21
C. Actions Taken by the Current Regime	22
B. Political/Economic Environment.	34
1. Legal Barriers to Privatization.	34
2. Economic Stability	38
3. Political Stability.	42
4. Unemployment Level	44
5. Physical Infrastructure.	46
6. Regulatory Climate	51
7. Parastatal Share of Economy.	52
8. Reasons for Parastatals.	56

TABLE OF CONTENTS

(continued)

	<u>Page</u>
C. Business Climate	57
1. Role of Informal Sector.	64
2. Management/Entrepreneurial Pool.	65
3. Status of Population Groups.	66
A. Ethnic Minorities	66
B. Other Groups.	67
4. Permits to Start/Extend Business	67
5. Freedom to Hire/Fire People.	70
6. Parastatal Preference.	72
7. Tax Climate.	74
8. Accounting/Auditing Requirements	75
9. Other Donor Presence/Support	75
D. Financial Markets	77
E. External Influence.	80
1. United States.	80
2. France	81
3. Other.	82
F. Critical Issues	82
III. ACCOMPLISHMENTS	88
IV. RECOMMENDED FOLLOW-UP	91

TABLE OF CONTENTS

(continued)

APPENDICES

- A. Internal Documentation
 - A-1 Trip and Interview Chronology
 - A-2 Background Correspondence
 - A-3 Exit Interview Cable

- B. Substantive Documentation
 - B-1 Bibliography
 - B-2 Ordonnances
 - B-3 "The Privatization of the Public Industrial Sector"
 - B-4 "Enterprise Divestiture: Bid Summary"
 - B-5 "Financial Mechanisms in Divestiture"
 - B-6 World Bank Policy on Guinea

November 13, 1986

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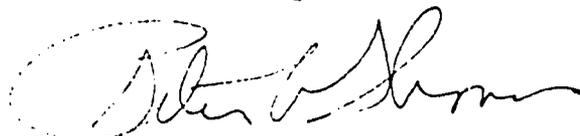
Dear Sirs:

The Hay Group is pleased to transmit this two-part Report on privatization in the Republic of Guinea/Conakry, which we prepared in conjunction with the Center. The Report reflects the findings and conclusions of the team that conducted an in-country review in Guinea during August, as well as all of the comments, insights, and inputs received from U.S. AID (Private Enterprise and Africa Bureaus), and the Mission in Conakry during the extended review period which followed our formal briefing at AID.

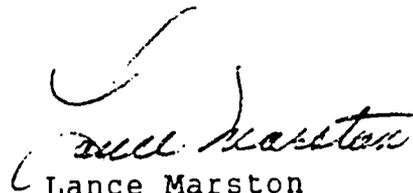
The Report is reflective of the two-part nature of the effort: Part I describes the general environment for privatization throughout Guinea, and Part II discusses the backgrounds of three industrial firms preselected for privatization actions. As the Report notes, the overall picture is complex, and privatizers are faced with both significant opportunities and numerous areas of potential mis-step.

We trust that this report will enable decision-makers -- public as well as private -- to maximize the opportunities and minimize the risk in privatizations in Guinea.

Yours truly,



Peter A. Thomas
Executive Consultant



Lance Marston
Vice President and Director,
Government Consulting
Services

Enclosure

EXECUTIVE SUMMARY

This report summarizes the findings of a team comprised of Center for Privatization and Hay Group personnel, relating to investigations carried out in the Republic of Guinea during August 1986. The effort was a double one in that it covered both the question of the overall national environment for privatization, and the potential for privatizing three industrial firms: a metal working shop; a maker of aluminum products; and a tire recapper.

The Republic of Guinea is an exciting nation in terms of potential for development and growth in business opportunities. It is both rich in natural resources, and the beneficiary of a commitment on the part of its Government and the international community to encourage the private sector.

The Government of Guinea, in power since 1984, is liberal, comparatively progressive, and enjoys broad popular support. The intention of the Government to privatize parastatals and reduce the size of the bureaucracy has been clearly enunciated and ratified on a number of occasions, in both oral and written forms. At middle and lower levels the team found support for the official policy, although tempered with a healthy skepticism in some cases where the implementation is difficult.

The historic costs of parastatals are plain to all observers, thanks in a large part to the lending institutions' efforts to demonstrate accurate costing methods; likewise, the significant cost of the privatization program is known, and the close linkage of international aid is the response.

There is currently virtually no organized private sector in Guinea, and what there is exerts almost no influence on the Government. On the other hand, there is a large and vibrant parallel economic system of single operators and small groups; this market provides many, if not most, of the daily needs of the population.

The privatization program now underway has thus far focused on the banks, certain trading and sales operations and the industrial parastatals. The first two categories are virtually through the process of transfer to the private sector, while the latter is moving along rapidly. In the case of the industrial groups, the Government has created four classes of operation, ranging from "close the enterprise and sell the assets" to "make improvements leading to private participation with the Government." Already some deals are being negotiated and others appear imminent, but details on the particular arrangements are unavailable for review.

In the larger context, there are a number of problems within the Guinean environment which do much to temper the enthusiasm of the private sector toward privatization, or investment and trading in general. The legal system has not yet recovered from the non-functioning state it reached during the prior regime. The laws are in a state of flux, there is little legal advice available in the country, and the process of dispute resolution is ad hoc at best. Specific problems of interest to privatizers relate to the current absence of a usable (and predictable) investment code, tax code, labor law, and land ownership system. There is widespread belief in Guinea, however, that these gaps will be corrected in the foreseeable future, in some cases with assistance from the international lending institutions.

The Guinean economy has far to go before it can be seen to be fully secure, but the consensus is that all the right decisions are being made. They include the devaluation of the currency, the utilization of currency auctions, and the termination of the process of selected (e.g., parastatal) organizations having access to cheap foreign exchange.

Guinea is now a stable political environment, and can be expected to remain so if the economic climate continues to improve, and potential problems such as the roles of the tens of thousands of terminated civil servants are properly addressed.

Guinea's physical infrastructure is in a state of advanced decay, the result of decades of neglect. Public works are inefficient, suffer excessive breakdowns, and do not reach the population. From the point of view of businesses, poor services are one of the paramount causes of most problems faced in daily operations. In the special case of new investors, for instance in the privatization program, the immediate improvement of the infrastructure is a critical condition for interest. Along with a lack of infrastructure services, Guinea has a serious need for managerial talent to run organized businesses; obtaining such skills from abroad and allowing the development of future managers domestically are among the key benefits of the program. The financial markets have long suffered because of capital flight, the poor performance of state owned banks, and currency problems; each of these is being addressed, however, and the financial picture is improving.

It is the team's belief that a successful privatization program can in fact be carried out in Guinea. However, we strongly feel that if the industrial sector program had been framed within a more well-developed and integrated overall privatization scheme, the results derived would be much more

beneficial to the nation. Further, we feel that there is still time for the Government to carry out other privatizations in other sectors, such as agribusiness or public works, within a context which is more systematic and better incorporates the recognition of national needs. As a more rigorous set of criteria and standards for evaluating bids is implemented within an environment in which investors have more confidence in the laws, policies and infrastructure of Guinea, we are confident that the long term success -- and financial benefits -- of the program will be vastly increased.

The team recommends that the Mission move forward with the program outlined in the report, comprised of these four elements:

1. Environmental Assessment: Survey and assess the status the status and condition of the country and a particular sector for privatization programs.
2. Host Country Liaison: Begin a policy dialogue with GOG officials, relating to both intergovernmental matters in general, and privatization in particular.
3. Monitoring and Alert: After opportunities are discovered, utilize a process for getting the message to the appropriate personnel and organizations.
4. Implementation Support: Use mechanisms for assisting the GOG and/or the private sector in carrying out privatization actions.

In the Agribusiness sector, the team believes that events have been such that it is now appropriate to undertake work in the fourth category. We therefore propose that AID assist the GOG by carrying out the program described in the report.

I. PURPOSE AND SCOPE OF WORK

This report sets forth the findings and conclusions of a Center for Privatization team which surveyed the environment and conditions for privatization in the Republic of Guinea during the period August 2 through August 14, 1986. The team was comprised of Dr. Andrea Love of the Center, and Messrs. Lance Marston and Peter Thomas, of The Hay Group.

The underlying purpose of the effort was to identify key factors for an effective Government of Guinea (GOG) privatization strategy, in the process evaluating the existing privatization strategy and plan within the context of U.S. Agency for International Development (AID) privatization policy.

The team carried out a number of discrete initiatives during the survey, including:

- Consultation with AID personnel to review AID involvement and to obtain background documents and data;
- Consultation with AID personnel to identify key actors, organizations, and government agencies involved in the GOG privatization effort;
- Securing documents and data on activities underway;
- Reviewing all such documents and data, developing a set of interview questions, and setting up an interview schedule with each of the key actors as well as representatives of the Guinean private sector;
- Conducting personal interviews with each person to obtain additional insight into privatization program status, to fill in information and data gaps, and to complete the Center's "Country Privatization Checklist";
- Developing background notes summarizing evolution and status of the Guinea privatization program;

- Generating a set of privatization issues that require immediate and long-term resolution; and
- Summarizing the rationale for proposed privatization alternatives.

This report is organized under three principal sections (Country Profile, Accomplishments, and Recommended Follow-up) and a set of appendices. Within the first section, Country Profile, is information on the host government, the political and economic environment, the business climate, the financial markets, external influences on the privatization program, and a review of critical issues. The Accomplishments section summarizes the work of the team, and the Recommended Follow-up enumerates steps the team believes should be taken by U.S. AID and other U.S. Government organizations, as well as by the private sector. The first section of the Appendices comprises the internal documentation for the trip, and the second section consists of data, information and documents relative to the privatization program in Guinea.

II. COUNTRY PROFILE

The Republic of Guinea is an extremely exciting nation in terms of potential for development and growth in business opportunities, one whose situation is perhaps without parallel in Africa or anywhere in the developing world. What gives rise to this situation is the confluence of two factors of basic importance. First, Guinea itself is a nation which is very rich in untapped and unexploited natural resources. As shown in the table below, the mineral and living resource wealth of the country is, hectare-for-hectare, comparable to anywhere on the globe.

The second critical factor is the fact that the 1984 death of Sekou Touré brought to an end more than 25 years of economic and political hardship. During that era the nation was depleted of capital and private enterprise fled, and the financial and technical support of the French and other governments was withdrawn in a dramatic fashion. The current government, the "Comité militaire de redressement national" (CMRN), under the leadership of President and Chief of State Lansana Conte has instituted one of the most far-reaching and complete turnabouts ever seen in Africa. Committed to a policy of liberalization and encouragement of private enterprise, the current "Third Regime" has won the enthusiastic support of a number of governments and the multilateral development institutions, and is now well into a program of building up the private sector, shrinking the size and influence of government, and encouraging business. In short, Guinea is in the midst of a remarkable shift in its development and growth, and is being viewed worldwide as an exciting and potentially profitable target for investment and trade.

REPUBLIC OF GUINEA

FACT SHEET

Official Name: Republic of Guinea

Land Area: 95,000 Square Miles

Neighboring Countries: Senegal, Guinea-Bissau, Sierra Leone,
Liberia, Cote d'Ivoire, Mali

Geographical Regions:

West Coast Flatlands
Fouta Djallon (inland plateau)
Niger Plains
Upper Guinea

Major Rivers: Sources of the Niger, Senegal and Gambia

Population and Health: 5.8 million; annual growth 2.0 percent
80 percent rural, 20 percent urban
Life expectancy 38 years
Infant mortality rate 158/1000
One physician per 16,000

Major towns: Conakry (500,000 est)
Kankan, Labe, Doko (over 200,000)

GNP: \$300/year per capita - Mining 40 percent, agriculture 37
percent, services 18 percent, manufacturing 4 percent

Major resources: Bauxite, diamonds, gold, iron ore, uranium,
manganese, other industrial and precious
minerals. Fisheries, tropical hardwoods. 7-8
million hectares of arable land

Guinea is a member of the Economic Community of West African States (ECOWAS), the Association of African Central Banks, the West African Clearing House, and has observer status in the West African Economic Community (CEAO). Further, it is a signatory to the Lome Convention, and thus targets Europe as the prime target for trade and economic relations. Notwithstanding this fact, however, the United States remains the major importer of Guinea's mineral production which accounts for over 95 percent of its exports.

A. HOST GOVERNMENT

The Conte government is liberal, comparatively progressive, and is committed in both policy and action to the development of the private sector and the improvement of the overall quality of life for the population. It is now quite stable, enjoying a continuation of the massive support of the people it garnered upon coming to power in 1984, and has won the ongoing approval of the World Bank (IBRD), the International Monetary Fund (IMF), and numerous governments, notably France, the United States, Germany, Italy and Japan, all of which are actively working with the Government to implement its policies and increase the well-being of the nation.

1. TOP LEVEL COMMITMENT

The commitment of the Government to liberalization in general and privatization in particular is strong and sincere, a fact discerned by the team during interviews and confirmed by numerous observers and participants in the process, for example the staffs of the World Bank, the IMF, and the USAID personnel resident in Guinea. The commitment is common throughout the highest levels of the ministries, and there is unity in following it down through the ranks in the bureaucracy. Likewise, the domestic and foreign business communities echo the feeling that this is a policy which is strong and long-lasting.

The commitment of the regime had its clearest statement in a December 22, 1985 speech by President Conte and the published document released thereafter (L'Etat au service du développement, République de Guinée, 1ère Ed., 1/86). Also, the official communications of the Government to the IBRD and the IMF in support of financial and technical assistance clearly evidence the commitment.

Subsequent to the delivery of this speech, there have been numerous instances of Government action and decision supportive of a strong commitment, for example the closing of many parastatals, the implementation of programs of personnel layoffs and early retirement, active revision efforts on key laws and regulations, and the encouragement of investment missions.

In reviewing the overall commitment of the Government, one must keep in mind a basic issue of importance to the topic of this study: Privatization. Specifically, the privatizing of governmental organizations and functions is not being carried out in the pursuance of a prime philosophical objective as much as it is as a tool for increasing effective ("liberal") economic functioning. Thus, one will find a number of instances where a parastatal is being reviewed for "privatization" when in fact it will be retained by the Government because it is in fact a viable entity and can function profitably as a part of the public sector. Decisions on such enterprises are not foreordained, however, and any given entity can go one way or the other; the important point is that the Government will be, in many cases, quite willing to maintain parastatals if they make economic sense.

Finally, it should be recognized that the commitment of the Government to liberalization and privatization, however strong, is being to a large extent promoted and driven by the requirements of the multilateral and bilateral lenders and aid providers. The

depth of the commitment in the absence of such pressure is unknown, but the fact remains that it is there and it is strong and longstanding. As long ago as the early 1980s -- in the last years of the Touré regime -- similar pressure existed and, although few are aware of the fact, the former government undertook significant public sector layoffs and closed many parastatals. These facts illustrate the milieu in which the current commitment exists and show how it will readily continue.

2. ENUNCIATED POLICY

The official policy of the Government regarding privatization is formalized in at least three places:

- "Memorandum on the Economic and Financial Policy of the Guinean Government" -- IMF, 12/11/85.
- President Conte's "Statement of Development Policy" -- Prepared for IBRD, 12/19/85.
- The speech of President Conte of December 22, 1985. Published as: "L'Etat au service du développement", République de Guinée, 1ère Ed., 1/86 and containing several basic legal documents relating to privatization:

First Order: Ordonnance: No. 306/PRG/85

Second Order: Ordonnance: No. 318/PRG/85

Additionally, other written documents are cited throughout this report, as are actions and initiatives setting forth or implementing policy. Since the texts of these documents are in themselves crystallized statements relating to parastatal and public sector initiatives, it is worth presenting the full texts of the relevant sections of each. (The texts of each of the cited policy statements are reproduced at Appendix B.)

As detailed in the cited documents, as a matter of policy, the Government appears to be ready to retain ownership of about a dozen industrial firms and the same number of commercial/service companies, along with the public utilities, the railways, the national airline and the port. These retained enterprises can be placed in two categories:

- (a) Industrial and agro-industrial firms in which a substantial investment has been made or which for other reasons may not be capable of attracting a high enough level of new equity for privatization in the short term; and
- (b) commercial and service sector firms considered strategically important, whether temporary (e.g., the pharmaceuticals importer or the national insurance company) or permanent (e.g., the utilities).

In the long term, the GOG intends for parastatals to compete fairly with private firms in all sectors or fail on a commercial basis; institutional reforms to help them operate better are being implemented, including a revision in legal status and internal regulations, and reshaping of management relations with overseeing agencies. As discussed elsewhere, however, this is a very slow and frustrating process. Also, the Government is on record as being unlikely to fund new parastatals due to policy and budgetary restraints, and total subsidies accorded to the electricity, telephone, water, railroad and public transport companies are not supposed to exceed FG 2 billion in 1986.

The overall policy approach of the Government to privatization is integrally tied into its program of public sector reform, including reducing the size and cost of public administration, and the state's withdrawal from the productive sectors of the economy, beginning with banking, industry, and commercial organizations.

The Government has declared itself committed in principle to abolishing all monopolies, including those responsible for the importation and distribution of strategic goods, notably petroleum products. A limited number of enterprises deemed to be in the public interest will be maintained and physically rehabilitated. Pending rationalization of the sector, no new state enterprises or state participations in mixed enterprises would be formed/taken without prior consultation with IDA.

Further, the Government intends to orient the public investment program to supporting the directly productive sectors; particularly urgent is the rehabilitation and maintenance of existing infrastructure, a process sorely needed.

The medium term public investment program would support the adjustment effort by assisting the recovery of smallholders farm production, facilitating other domestic producers' response to the currency realignment, and initiating long term reforms aimed at increasing Guinea's production potential; the agricultural sector would receive first priority and a master plan is being prepared.

Public investment policies are slated to give highest priority to rehabilitation and maintenance of infrastructure and equipment and to encourage private investors willing to use their own money and take their own risks under the protection of the overdue Investment Code. In the public investment program, only those projects agreed with IDA will be undertaken in the near term. In the longer term, a three year investment program, including a portfolio of new investment projects, will be established following completion of sector master plans and other reviews underway in agriculture, transport, energy, water supply, education and health.

3. POWER TO IMPLEMENT

There is no question that the Government has full and adequate powers to implement a comprehensive privatization program as part of a more general public sector restructuring effort. The major questions which are currently being asked relate to the specific provisions of codes and rules in the nature of investments, taxation, labor relations, and property ownership. These govern the rights and obligations of investors and operators after privatization, but in no way lessen the powers of the Government to privatize.

The primary power of the Government to undertake these activities flows from the laws and regulations put in place immediately following the ascent to power of the Conte regime in 1984, namely the "Declaration of Effective Assumption of Power by the Army" (4/3/84) the subsequent "Proclamation of the Second Republic," and Act No. 001/CMRN/84 (4/5/84): Nomination of Members of the Government of the Republic. A pre-Conte enactment of interest is Decree No. 048/PRG (10/8/59) on the Public Function.

Other basic enactments bearing on the privatization process are cited here, although in most cases text is not provided (see Appendix B-3 for the text of several).

- Law No. 005/APN/80 (2/2/80): Institution of an Investment Code.
- Ordonnance No. 239/PRG/84 (10/3/84): Bearing on the Investment Code.
- Ordonnance No. 046/PRG/85 (3/6/85)(85 JO 83): Banking law, including regulation of financial institutions.
- Ordonnances 235 and 236 /PRG/85 of (9/28/85)(85 JO 278 and 283): Statutes of the Central Bank and its administrative organization.

- Ordonnance No. 314/PRG/85 (12/22/85): Liquidation of state-owned banks.
- Ordonnance No. 315/PRG/85.
- Ordonnance No. 316/PRG/85: Creation of the retirement category of Special Availability.
- Ordonnance No. 318/PRG/85.
- Ordonnance No. 319/PRG/85 (12/22/85): Creation of a foreign aid coordination commission responsible for reviewing and monitoring all aid programs, including GOG financial commitments under them.
- Ordonnance No. 320/PRG/85.
- Ordonnance No. 321/PRG/85.
- Ordonnance No. 322/PRG/85.

These grants of power will continue to enable the Government to proceed with its program so long as its current popularity continues.

4. MID/LOWER LEVEL OF COMMITMENT

Certain aspects of the national privatization program currently underway in Guinea have to be facilitated by civil servants at the mid- and lower-levels who have had direct management or administrative responsibility for the very same enterprises that are to be privatized. Such individuals may consider that they stand to lose if the privatization program proceeds successfully, which is why the 1986 IMF Stand-By Agreement, anticipating some implementation difficulties, called for very close monitoring procedures.

In order to get first hand information about the degree to which mid- and low-level commitment exist in the industrial sector, our team conducted personal interviews with the general

director and four management/administrative staff of SOGUIFAB and the production director of SOGUIREP. (Several unsuccessful attempts were made to interview the general director of CMD and a scheduled interview with the sole labor union, Confederation Nationale de Travailleurs was preempted when the union president unexpectedly resigned and immediately left the country for China).

The best characterization of mid/low level staff commitment would be only "somewhat committed". One of the major problems we encountered in determining level of commitment centered on how the interviewees chose to define or characterize privatization, how privatization was supposed to be implemented in the industrial sector and the expected outcomes. For example, the SOGUIFAB group viewed privatization as the process whereby private partners are sought in order to bring in a much needed infusion of working capital, so they could start up the enterprise operations again, with the same staff and organizational structure intact.

This being the case, commitment was high -- "everyone benefits". However, the process was viewed as not beneficial to everyone if it meant the "abandonment" of the SOEs (ergo -- low commitment). The production manager of SOGUIREP characterized the privatization process as "brutal" ("It will increase the number of bandits.") He stated that although privatization would be more beneficial ultimately to foreign interests, he personally viewed privatization as something good because it would result in greater efficiency and the elimination of the type of bureaucratic red tape that had often hindered his production work under the SOE system.

Assessing the degree to which mid-level commitment exists at the ministerial level was a more elusive task. A personal interview with the secretary general suggested that commitment and enthusiasm was high, although the desire for Guineans to have the

opportunity to participate (to hold equity shares in the enterprises) punctuates much of the privatization rhetoric. But the reality of the IMF conditionalities being an overriding factor, officials admitted that they would be willing to accept something far less than the targeted 43 percent private Guinean participation, in the final analysis.

5. ACCESSIBILITY FOR DIALOGUE

Throughout the team's investigations in Guinea, there was a continuing and sincere effort on the part of all representatives of the Government to engage in constructive dialogue with team members and AID staff. From the highest level of the administration (notably the Minister of Industry, with whom the team had two productive meetings) on down, there was an openness and desire to answer questions and provide information. This was, we feel, reflective of Government policy to encourage an open exchange and to stimulate participation in the Guinean economy on the part of foreign business communities.

Likewise, we were able to have productive sessions with the officials of three firms being privatized, with the World Bank representative, the Government's World Bank-sponsored consultants, and with members of the local business community.

Counterbalancing this openness, however, there were several critical problems. Among the most important constraints the team faced was the difficulty in obtaining or even seeing many documents and reports relating to the Government's initiatives. The reasons for this are many. In some cases, such as with the new Investment Code and Investment Plan, copies were not available to anyone, due to bureaucratic delays in drafting and reproduction. Similarly, older documents, such as decrees and laws were unobtainable by the team, just as they are by investors

or members of the public, because of the inert state of the Guinean legal system. When laws and rules are enacted, it is often by a mere public statement on the radio or television, and promulgation of printed versions in the Official Journal, as well as retention in legal repositories is a catch-as-catch-can process. As we learned, many of the "legal rules" of Guinea are learned by word of mouth, and one cannot find paper copies of the texts.

Summaries of the financial, administrative and technical conditions of the vast majority of the parastatals do not exist in detailed or precisely accurate form. Over the years they have been operating with seemingly fictitious financial entries and balance sheets, and formal accountability of the sort common in the U.S. or Europe doesn't exist. Thus, the assembly of data on the parastatals was necessarily a process of poring through consultant reports and, in the case of several industrial companies, administering a questionnaire.

In this regard, the team quickly became aware of a body of analyses and studies done by consultants during the past two years, under the sponsorship of the development institutions. Finding such reports and obtaining copies became a task that necessitated daily efforts by all team members. We were forced to track down, identify and request specific documents, in most instances from a number of sources, and several times in each case. We feel we finally were able to collect a meaningful sample of the current literature for review, but, in retrospect, we feel that there was an excessive amount of protection of the information, for whatever reasons.

Finally, a general observation about the situation in Guinea today is that most individuals know only a small amount about a thin slice of the overall picture. Our discussions, although in

virtually all cases open and frank, usually yielded less information than we had wished for. The principal reason for this is that the individuals we interviewed knew little about the details of what was happening, knew less about why it was occurring, and were unable to see how they fit into the big picture.

6. AWARENESS/AVAILABILITY OF SOE COSTS

There is widespread awareness of the extreme burden that Guinea's SOEs have had on the overall economy of the country. The data currently available must be viewed with some degree of reservation, because regular financial SOE reports were not published as a matter of practice during the previous regime and also because several sources reported that the departing regime managed to destroy many of the records related to SOE operations and accounting. However, the reports of donor organizations, as well as those produced by major consulting groups (CEGIR and IDI), consistently emphasized the heavy losses of Guinea's industrial sector parastatals specifically, and all of the SOEs in general. For example, the manufacturing sector, which is almost totally state-owned, has operated at a capacity of somewhere between 15 to 20 percent for the past decade. According to World Bank reports, budgetary transfers to support all SOEs in recent years represented 30 to 40 percent of receipts.

The Touré regime left behind over 150 SOEs with a payroll of over 25,000 people, representing significant financial drain. The January 13, 1986 IMF Stand-By Arrangement indicated that the balances of all the SOEs have now been declared null and void and the banking transactions of the 121 remaining public enterprises are now being accurately recorded by the new banks. In addition, our team was able to collect new data on the operational costs of at least two of the three industrial enterprises under review for

USAID/Guinea.* For the most part, these industrial SOE's had been able to maintain a pseudo financial equilibrium by purchasing their imported inputs at official exchange rates and selling their outputs at prices comparable to imported prices at the parallel market rate. Since the imported inputs more often than not exceeded the dollar value of the output sold, these industrial SOEs would have reflected huge deficits without the drastic measures that were taken just before the exchange rate adjustment. These measures resulted in the maintenance of only eleven industrial SOEs in activity, the liquidation of seven and "mothballing" of the remaining 17 pending identification of possible private partners. Nevertheless, the 1986 IMF Stand-by Agreement still projects an expenditure of FG 4 billion to rehabilitate 21 parastatals that remain in activity.

7. PRIVATE SECTOR INFLUENCE ON POLICY

The "private sector" in Guinea is difficult to identify for several reasons. In the first place, there is still only a rudimentary formal private sector in Guinea, and the vast bulk of the non-government economic activity is carried out by the "unofficial market" which is not even organized in recognizable companies, let alone organized on the community level. The influence of the domestic private sector, therefore, is weak or non-existent vis-a-vis the formal community, and expansive, though disparate and unfocused on the part of the informal.

* Detailed discussion appears in the Industry/Enterprise companion report.

The Guinean private sector really consists of two very separate and distinct groups. The first group, largely indigenous, has been said to consist primarily of farmers, traders, transporters, and to a limited group of very small manufacturers. The second group is a sophisticated array of major multinationals and large corporate investors. While the former has dealt primarily with the local Guinean markets, the latter has been engaged in large scale contracting/supply activities that focus on the government or the mining companies. The primary thing that these two have had in common is the fact that they were stifled under the previous regime, particularly in terms of overt policy input.

The indigeneous Guinean private sector has just gotten its own formal organization -- The Guinean Chamber of Commerce. Although still in an embryonic stage, the organization members have indicated a strong desire to have some influence on privatization policies and to be involved in the privatization process. In a large group interview held with the president and a half dozen members, the organization's objectives were outlined: (1) to serve as representative for the private sector with the government, (2) promote and organize the private sector, and (3) to provide consultation services to the private sector. If one lasting impression was gleaned from this interview, it was that this group has only a slight notion of what a chamber of commerce is or how it should work, and even if they did, they appear to lack the basic skills needed to elaborate and implement an organizational strategy necessary to influence government policy. It is highly unlikely that they will have a significant influence on the rapidly evolving privatization program, and activities in Guinea without extensive outside assistance. They were already lamenting the fact that they have no opportunity for input into the investment plans. They were also critical of the IDI industrial sector studies which they don't feel correspond to the "political dialogue".

A critical part of Guinea's future indigenous private sector may be represented by expatriate Guineans, who for the most part are educated, skilled, and relatively affluent. They could have an indirect influence on policy if they return (with their capital).

Finally, an especially strong private sector input comes from the international business community. Guinea is viewed by observers throughout the world as a country where the future holds great promise for investment and trade. Thus, in order to maximize the potential for future successes, these business communities have been, for the past several years, exerting influence via both direct and indirect links with the Government. The direct links come in the form of discussions and dialogues taking place between Government officials and private business people in the course of formal and informal trade and investment missions.

The indirect links with the Government are tied to the development and lending institutions. There is little doubt in the minds of anyone that the massive efforts of the multilateral and bilateral institutions are intended to stimulate and solidify the Guinean economy, and that a strong motive force being developed by the institutions is ultimately the worldwide investing and trading community, acting through contributing governments. Thus, it is the desires and needs of the private sector worldwide that are, in part, shaping the institutional programs, which in turn are having a profound influence on the Government.

8. OFFICIALS' DEPENDENCE ON OUTSIDE INCOME

After the recent devaluation of the Guinean franc, estimates are that the salaries of the public sector will have to be increased four to five times to maintain incentives to stay in the Government's employ.

One of the primary problems in the Guinean civil service has been and continues to be the extremely low pay; and as recently as 1985, according to the Investment Climate Study conducted by Equator Advisory Services, government officials' salaries, although supplemented by rice rations and other commodities, still represented only about 25 percent of the cost of living. As a result, civil servants used their official status to leverage their incomes through various means, including the resale of goods imported at the former artificially low exchange rate, and charging commissions for public services that should have been performed free in the line of duty.

While official statistics do not exist regarding the degree to which there has been a dependence on outside income, some estimates had government officials during the previous regime utilizing their positions to supplement their incomes by as much as two-thirds in the parallel market. The new regime has lifted the artificial exchange rate and has or will eliminate most government import monopolies, as well as drastically reducing civil service employment; but this alone may not solve the problem of officials' dependence on outside income. According to the World Bank, public sector salary policy will show significant real increase in remuneration only when staffing has been brought to a level compatible with budgetary resources and administrative needs. A personal interview was conducted with one government official who holds a relatively high mid-level management position and whose background included European undergraduate and graduate

degrees in economics, finance, and banking. He said that his monthly salary was still only USD 80, and that he is heavily dependent on outside income earnings.

9. OPEN ECONOMY VS. MANAGED ECONOMY

The economy of Guinea is complex in that it has long been several economies, one -- the official one -- rigidly controlled (and virtually bankrupt), and the other -- the informal, or parallel -- quite free and unfettered. The country is now in a period of transition in which the official economy is moving quite rapidly toward liberalism, and at the same time political and legal freedoms are being given to the population. The result is a situation in which many controls and constraints still exist, albeit for reasons of stability and order as free market forces take hold.

The result of this situation is a widespread feeling of uncertainty about the near-term. While there is almost universal belief in the future of the country and investments, the speed with which the transition is coming is unsettling to many who wish to participate in the economy. The laws and judicial system, especially relating to investment and business, are inadequate and in many cases unknown. Deals must now be entered into on faith in many instances, and a large amount of investment is being held back.

One of the ironies in Guinea is that the incredible vitality and power of the informal, parallel economy that was able to sustain the nation during its darkest days is unable to be properly tapped due to almost universal lack of expertise and managerial talent. The result is that, although the economy is now officially open, there are few who can make full use of the situation. In the interim, the Government feels it must continue

many controls that were put in place to deal with a disorganized informal private sector.

10. PREVIOUS AND CURRENT EXPERIENCE WITH PRIVATIZATION

A. Background on Guinean Parastatals

In the late 1970s there were about 180 parastatals accounting for 75 percent of employment and 25 percent of GNP; as a group they absorbed more than 90 percent of domestic credit.

B. Actions Taken by the Touré Regime

In preparation for the IMF Standby Agreement talks (which broke off in April 1983) the previous regime had to undertake some privatization activities, a fact which is not generally known. For example:

- The five sectoral holding companies controlling the various publicly owned companies were abolished in October 1981;
- Individual enterprises were given operational autonomy, including matters concerning employment and pricing, leading to price hikes, including petroleum products;
- By the end of August 1982, more than 100 business units within the public enterprise sector were disbanded;
- Institutional pressure toward greater enterprise efficiency was increased;
- 15 percent of total labor was released from the public sector; and
- A plan was created to upgrade to ministry status the office relating to small and medium sized enterprises.

Another important policy of the current Government can be traced to the previous regime. Specifically, since mid-1982 the Government has discontinued transfers from the central budget for covering losses by the public enterprises. Additionally, since mid-1982 banks have not been permitted to increase aggregate credit accommodation to public enterprises.

In 1982, at IMF prompting, the Government introduced increases of 10-67 percent in producer prices for a range of officially procured items. Also, in September 1981 there was a decision to narrow the scope of direct importing by the public sector to certain specified items -- educational, pharmaceutical supplies, fuel, cement, steel, sugar, cooking oil, rice, spare parts, and raw materials for state enterprises.

C. Actions Taken by the Current Regime

Ordonnances 306 and 318 were implemented following an Institute for Industrial Development (IDI) audit and recommendations in November 1985. The actions placed industrial enterprises in four categories:

- Liquidation - sale of shares (19)
- Temporary cessation until privatization (12)
- Temporary cessation and reorientation (4)
- Maintain in public sector (11)

Explanations of the rationale and other related acts are found in the document "Plan d'Action Prioritaire". The most recent official statement of the Government's reasoning behind the requirements and mandates of Ordonnances 306 and 318 was provided in April 1986 in a report prepared by IDI, the World Bank supported consultant to the Ministry of Industry. Additionally, a schedule was laid out, with the intent of the Government being to

act upon a majority of the bids ("dossiers") before the end of June. Within this plan, a certain number of difficulties were anticipated, such as:

- Lack of precision or difference in interpretation of the management of a given firm about decisions taken and the mechanism for implementing them;
- Necessity to define the key rules of operating to be applied to privatized enterprises and guarantees to their future shareholders;
- Problems met regarding enterprises which were mixed from the beginning, or with certain enterprises benefitting from international financings; and
- The absence of firm reorientation programs for three relevant groups.

As noted, the two Ordonnances placed the industrial firms within four categories. The details of the reasoning behind the choices are as follows:

Category I - Liquidation

(Close the Enterprise and Sell the Assets)

In the first group (close and sell) it was felt that the firms either had no industrial activity (e.g., SOMOVA or the BRIQUETERIE DE KOBAYA -- which had a non-functional plant) or a factory capable of being renovated, but without any visible economic profitability in a market economy -- taking account of their make-up, the Guinean market or the possibilities of supply (e.g., HUILERIE DE KASSA, SUKOPA, and SONFONIA).

Both Ordonnances 306 and 318 explicitly contemplated the liquidation by sale of stock as the only option for these firms and no other participation by the Government was envisioned. Very few liquidations had occurred as of September 1986.

The Government and IDI adopted a set of standard procedures for carrying out liquidations, the first step of which is the laying off of all personnel when the entity ceases operations. This is followed by a liquidation of the enterprise (the responsibility of Development Finance Consultants (DFC), another Government consultant sponsored by the World Bank.

Here a sale to bidders of the assets of the enterprise (stocks, equipment and plant) could be realized, either in toto or in lots according to the offers received. This was to be preceded by a published notice in local and international (if justified) newspapers, and was to be undertaken as quickly as possible to prevent further deterioration of the assets. At the same time, the procedures called for an accounting of liabilities.

One firm, SOPEC, presented a special case, since it was a mixed enterprise where the Canadian partner had requested liquidation even before the issuance of Ordonnance 318. Specifically, foreign exchange debt required the immediate retention of an attorney to help.

Finally, there were some enterprises capable of a global sale with renewal of certain activities; examples are UMC, USOA, SONFONIA. Thus, the procedures call for looking beyond price as a sole criterion and asking the bidders to present a dossier identical to the ones required in the privatizations (as the Government and IDI use the term to distinguish from liquidations). Such a process must not burden and slow down the liquidation process. Moreover, in the case of demands for steady payments, any proposals to continue state participation should be excluded; one of the financing formulas laid out in Annex 3 of the IDI report should be used.

Category II - Temporary Cessation Until Private Purchase

The common threat linking these entities was that they had either:

- Never functioned (UOA, BONAGUI);
- Had a very limited and episodic functioning (SOGUIREP, FOULAYA);
- Need a profound renovation (CMD, SIPAG); or
- Had an uncertain profitability (BRIQUETERIE DE KANKAN, HUILERIE DE DABOLA).

It is the official position that Ordonnance 318 and the Plan of Action contemplated the laying off of the staff and the maintenance of a surveillance team, under the procedure of laying off of staff except for a maintenance team (if not already done) and total ceasing of production. This is followed by the application of the procedures for receiving bids (dossiers) which were approved by the Economic and Financial Coordinating Committee (CCEF) (see Appendix B-4).

In these cases, it is felt necessary to determine whether a residual state participation is advisable, with the criteria for this determination being formulated as soon as possible. In any case, the participation should not exceed 20-30 percent, with the understanding that financing problems should be addressed under the terms of Annex 3 of the IDI report.

If it turns out that due to some combination of factors such as customs rules, monopolies, or import prohibitions, some entities cannot become economically viable and therefore are not privatizable, it will be necessary to set a date by which the entity would be liquidated.

Category III - Enterprises to be Reoriented

These firms didn't appear to the Government or its advisers to be economically viable in the information dossiers available in November 1985, but the stakes were so important (international financing, nature of activities, size of the enterprise) as to preclude a decision to stop operations abruptly without a detailed analysis of the potential for reshaping the unit.

The refloating of these units required that some concrete counterproposals be put forth by the relevant partners (Industry Ministry, financial organs, eventual industrial partners) allowing a reorientation toward a profitable path. Except for SIPAR LABE, where an analysis has pointed toward profitability, no supportive information has been found.

While such analyses have only been undertaken in the most cursory manner, IDI carried out a brief analysis of ENIPHARGUI (described in Annex 4 of that report), and it is felt that ORDIK KOUROUSSA and CENTRE PILOTE are identical, thus needing less review.

IDI recommended that SIPAR LABE be shifted to one of the units to keep in the public sector (an action that serves as an example of Government thinking about keeping profitable firms in the public sector).

Regarding the other three in this category, IDI urged that the Government: (1) pick a date beyond which new elements of a liquidation cannot be contemplated; and (2) instruct the appropriate financial organs (BAD and ONUDI) on the necessity to elaborate concrete propositions regarding reorientation in collaboration with the services of the Industry Ministry, and its affiliates, within the allowed time.

Category IV - Enterprises to Maintain

These firms were selected because of their importance to the economy and in the likelihood of their profitability after reorganization and partial privatization (except for IMPRIMERIE PATRICE LUMUMBA, which will be unlikely to show a profit, but is of great national importance). In the case of two units of uncertain profitability (SANOYAH and SOGUIPLAST) the Government has been concerned that it is impossible to improve their operations without burdening them with long-term debt.

The constraints and conditions for the operation of these Category IV firms during the transition phase (before the intervention of new partners) have been spelled out in the Action Plan, and include such elements as progressive reduction in employees, level of production, operating budget, and foreign exchange needs.

Overall, with regard to the firms in this category, there has been a concern about avoiding drastic measures after the conclusion of privatization agreements; one accepted means of addressing the issue is the progressive reduction of employees, according to the requirements of the Action Plan. Also, to avoid an "explosion" of operating losses in the maintained enterprises, it is, in the eyes of the Government, critical to proceed to the adjustment of their rates and prices.

Like Categories II and III, here too there is to be an application of the procedures of privatization approved by the Economic and Financial Coordinating Committee (CCEF) (Appendix B-4). As in the case of the firms whose operation is suspended in anticipation of privatization, the Government feels it is imperative to respect the procedures that have been established to avoid all delays in decisionmaking.

Finally, the policy and rules as enunciated in April, the participation of the state cannot exceed 30 percent, except for the IMPRIMERIE PATRICE LUMUMBA. In the case of difficulties in financing, there must be a reconciliation of the interests of the different parties -- GOG and private bidders.

There is a special and important case, that of mixed enterprises. The preceding criteria cause difficulties in the case of three mixed enterprises, namely: SOGUILUBE (50 percent Texaco, 50 percent GOG) -- the beneficiary of a very advantageous agreement, relating to a monopoly on production and importation; SALIGUIDA (50 percent Government of Lybia, (50 percent GOG); and SOPROCIMENT (30 percent Islamic Development Bank, 70 percent GOG). The Government and its advisers believed it to be essential that a position regarding the future of these three be agreed to, and that negotiations with the concerned partners be undertaken by the Government to develop an accord permitting the privatization to go forward. The problem is especially crucial for SALIGUIDA, an important project for Guinean agro-alimentary sector development, previously a source of foreign exchange and a firm whose development is in jeopardy in the absence of industrial and commercial operators.

Two industrial firms are of concern to the Government because of their use of European Development Fund financing. The two firms (SANOYAH and SOGUIPLAST) pose a problem of profitability which has complicated the search for partners.

Beyond the specific issues discussed in the report of IDI, the Government and consultants have set forth a discussion of particular problems relating to privatization. One of the major problems, actually limiting the conclusion of discussions with potential buyers -- Guinean or foreign -- relates to the absence of a precise formulation of the "rules of the game," in which

future privatized enterprises will evolve. This absence of clearly enunciated rules is based in the lack of action on a new investment code. Its publication is felt by all concerned to be urgent so that established timetables can be met.

It is believed by some that a legal problem has arisen recently in the privatization program. Specifically, the process of privatization requires the drafting of cession agreements which unfortunately cannot draw from the agreements regulating the previous mixed enterprises, since the legal and legislative structure was totally modified by the current economic liberalization. Thus, to preserve the interests of the Government and to avoid foreign litigation, the Government has obtained the assistance of a lawyer specializing in international law to assist in upcoming privatization negotiations.

The shrinking of the public sector workforce is one of the key elements of the Government's privatization program. In the first step of its phased program of public employment reductions it retired 3,000 civil servants by strictly applying the decision to automatically retire civil servants and parastatal employees over the age of 55 or with more than 30 years of service (a small number of senior staff may be retained on a contract basis with CCEF approval).

After reviewing a recent public employee census it will terminate all employees hired in an irregular fashion or listed on the payroll ficticiously or without justification; this may reach 5-8,000. Additionally, staff of public enterprises were removed from the civil service rolls and their salaries made the responsibility of the individual enterprises. The goal for 1986 is to have 20,000 fewer employees on the public payroll on December 31 than were on it on January 1. One of the prime driving forces is the fact that the Government's 1986 salary bill will be contained at FG 18 billion.

Civil servants and parastatal enterprise staff who are terminated will be placed in a "special availability" reserve (disponibilité spéciale) eligible to receive their salaries and rice payments for six months.

The four-fold increase in rice prices created by the reevaluation of the currency is being met by an across-the-board FG 3,000/mo increase for all active civil servants and for six months for those who are placed in reserve. Further, active civil servants in the Conakry area receive an additional FG 3,000/mo as a transportation allowance. However, no general salary increase will be given until there is an overall restructuring of the civil service during the last half of 1986.

The Government has been very active in divesting parastatals during the past year. The 34 provincial enterprises for agricultural trade (EPCOAs) and the public enterprises for the import and distribution of rice and other imported foodstuffs (ALIDI and ALIMAG) were all liquidated at the end of December. In the transportation and public utilities sectors, seven enterprises have been maintained.

Overall, 21 public enterprises have remained active. The firms whose operations have been halted receive the services of caretaker teams which answer to the Ministry of Finance, and the entities to be liquidated have surveillance teams.

As of August 13, the Sub-Commission on Privatization was able to report the following progress:

(A) Agreements signed:

- 1) BONAGUI with Coca Cola and Artois
- 2) SONACAG CARRIERES with Audemard

Both must be ratified by the President.

(B) Dossiers up for decision by the Commission (agreement to be signed or negotiated, or to be completed with regard to finalization)

- 3) SIPECO with Sogeref/Artilin
- 4) UOA with Groupe Shaban
- 5) CMD with Entreprise Bernard
- 6) IMPRIMERIE DE LA REPUBLIQUE with Messrs. Touré and Camara
- 7) ENTA (Matches) with Sotropal
- 8) SOPROCIMENT with Groupe Holderbank
- 9) BRIQUETERIE KANKAN with Sidaf

(C) Dossier given to the Sub-Commission subject to condition:

- 10) JUS DE FRUIT DE KANKAN -- Dossier accepted under the condition of verification of technical and financial support of Mr. Paris Vangelos (a Greek)

(D) Dossier given to the Commission but not acted upon favorably:

- 11) SOGUIFAB (Proposal without a technical partner)
- 12) SOBRAGUI (Supporting information requested from three contenders: Unibra; BGI; Castels)

(E) Dossiers on which examination is advanced before giving them to the Commission in late August/early September:

- 13) ENTA (Tobacco products): Seita/Philip Morris and Caita/Job/Rothmans (presentation of enhanced offers)
- 14) SIPAG
- 15) SIPAR (LABE): Tecotex

(F) Dossiers under examination (*) or to be examined (**):

- 16) SOGUIREP (*) -- 1 dossier
- 17) SCIERIE DE N'ZEREKORE (*) -- 1 dossier
- 18) SONACAG-CARREAUX (*) -- 1 dossier
- 19) BRIQUETERIE DE KOBAYA (*) -- 1 dossier
- 20) HUILERIE DE DABOLA (**)
- 21) FOULAYA KINDIA (**)
- 22) SOGUILUBE (**)
- 23) SOGUIPLAST (**)
- 24) SANOYA (**)
- 25) SALGUIDA (**)

(G) Dossiers of enterprises whose disposition must be determined:

- 26) ODRIK KOUROUSSA
- 27) CENTRE PILOTE
- 28) ENIPHARGUI

All external barriers to the movement of goods, and compulsory sales by farmers to the state were abolished in May 1984, as were the ENCOBEs (state cattle trading companies) and FAPAs (state agro-pastoral farms).

Investment bankers financed under the World Bank's Mineral Sector Management Project are reviewing the Government's participation in Compagnie des Bauxites de Guinée (CBG -- a bauxite mine in which it owns 49 percent of the shares in partnership with Halco, a multinational consortium of aluminum producers) and FRIGUIA, a similar alumina refinery.

Additionally, the Government is liquidating a group of commercial enterprises dealing with books and stationary, records, bicycles and motor vehicles, and foodstuffs and is preparing a

plan for the World Bank on restructuring the non-industrial parapublic sector. It has also set up the Societe Guineenne de Commerce (SGC) in conjunction with two French trading firms to import foodstuffs and building materials during the time between liquidation of parastatals and full operation of the private sector, and it has begun negotiations with international oil companies for the formation of a gasoline and diesel distribution system to compete with the state enterprise ONAH.

Before April 30, 1986, the Secretariat of State for Transport was scheduled to review the statutes of Conakry Port Authority (PAC), the Conakry Airport Authority (AdC) and the Guinean National Railways Office (ONCFG) to ensure sufficient managerial and financial autonomy for their operations.

The overall political and economic environment in Guinea is a complex one. On the one hand, the long-term outlook is excellent, with a stabilizing and strengthening currency, a committed and established government, enthusiastic support from the development and lending institutions, and a bountiful supply of valuable resources, both natural and human.

On the other hand, however, there are many problems to overcome in the near-term. Specifically, the infrastructure is in shambles, the legal system is virtually non-existent, there is a shortage of immediately available foreign exchange, there is at most a tiny nucleus of trained and skilled managers in what is a very small formal private sector, and the most basic needs of the population (for example, health and education) have yet to be met.

With the assistance of the multilateral and bilateral institutions, however, the near-term problems will be overcome and the long-term promise will be fulfilled. The following sections will provide information about how the elements of this large equation affect the potential for privatization in Guinea.

B. POLITICAL/ECONOMIC ENVIRONMENT

1. LEGAL BARRIERS TO PRIVATIZATION

As noted in previous sections of this report, the laws of Guinea allow for all of the privatization initiatives underway, and the Government is committed to the process. Thus, there are no overt barriers or prohibitions to privatizing state enterprises.

On the other hand, though, there are numerous legal impediments to privatization which arise through the many inadequacies and gaps in the legal system.

One of the most critical and often-noted problems confronting a potential investor is the current lack of a set of investment code protections. It is widely recognized in Guinea that the Code (enacted in October of 1984) has some serious omissions with regard to the rights of investors (especially foreign). Additionally, its thrust regarding the process of approvals by the Government for new investment is somewhat skewed, away from factors that target the priority sectors of the economy, and toward those put in place to ensure a system of bureaucratic double checks on investors. The result is a frustrating pattern of long application processes, which in many cases drive investors away from Guinea.

With the recognition of the failings of the current code has come the drafting process for a replacement. While it is expected to be issued "almost immediately," the team was unable to find a draft copy, or even anyone who had ever seen a draft copy. Backing up one step from the code, there is a new Investment Policy statement prepared by the Government. This was created to meet requirements of the World Bank for release of the second tranche of the IDA credit, and there is a consensus that it in

fact exists; copies, however, could not be provided to the team, and we were unable to verify its content.

Each of these situations results in a legal problem for the investor in a privatization or other investment initiative, in that there is no fixed and predictable set of rights and duties for the investor, the Government, and the community. In this legal vacuum few inexperienced investors will venture, and even many of those long used to dealing in Guinea have grown wary.

Land ownership is another major concern to investors. In Guinea today, one can hold title to buildings and appurtenances, but private ownership of land was abolished under the Touré regime and has not yet been restored. Although the Government has been encouraging potential investors to participate in ventures requiring land ownership, with pledges that there is really no problem, or that all will be resolved to the satisfaction of the business community, this is not sufficient for making hard business decisions. The law is unclear, and if anything, it says that the state will own the real property under one's building -- notwithstanding pledges from the Government.

As is the case with the Investment Code, the failings of the land system are notorious, and work is underway to remedy the problem. Again, the team was unable to locate any published documentation on the land question, but it is projected that a revision will probably be based on three elements: the traditional land tenure system; the 1932 law providing registered title to particular parcels; and the right of occupation and use recognized under the Touré regime and continued today.

It should be noted that not all investors are kept away by the problems here. In fact, ad hoc approaches have been applied recently, and likely will be until a permanent solution is found.

Land ownership has in fact been granted to several firms with foreign participation, and special leaseholds on prime land have been granted by some ministries. This practice is not widespread, however, and much depends on the particular facts of the situation. Additionally, there have been some reported efforts to develop ad hoc mechanisms for the use of land as collateral for loans, another extremely important issue for investors.

A third key legal problem which will hinder investment and privatization is the lack of a clear and readily available statement of the rules relating to labor and employee relations. The crux of the problem is that the labor laws enacted during the Touré regime are still on the books, and they are very favorable to employees, a fact not lost on management. Such rules as those governing conditions of termination and severance pay are, when appropriate, cited to protect the rights of an aggrieved employee.

While the pro-investment elements of the Government state that the situation is not at all bad, and that revisions are in the works, the fact remains that the safe fallback position is the according of extensive rights to workers. The most dramatic example of this is the fact that the Government itself is paying vast amounts of severance to public employees who are declared redundant, this may be because it feels bound by Touré-era legislation. Another example is the case of an international accounting firm now opening a representative office in Conakry. Upon seeking to locate local personnel on its own, it was quickly informed that the law (a copy of which could not be produced) prohibited one-on-one hiring; all requests for employees had to be given to the appropriate ministry, which would in due course provide the right people. Failure to follow the procedures would mean a rapid termination of permission to carry out the business.

As was the case with the Investment Code and the land ownership laws, the team was unable to locate copies of new labor rules after numerous attempts.

Taxation is another area where the rules are undergoing dramatic changes (although, as might be expected, copies of new codes and laws are unavailable). Timetables of changes do not exist. The 1966 tax law is currently outmoded and reflective of the former dominance of the parastatals. It provides for a 33 percent tax on company profits and other miscellaneous taxes on salaries, sales, and dividends. It has been applied sporadically, numerous special exemptions and rules exist, and virtually no one can offer expert guidance on what the tax situation is for a given entity.

Finally, note should be made of the state of the Guinean legal system. During the era when Guinea was a part of the French colonial empire, there arose an appropriately sophisticated legal system, drawing heavily from the Code Napoleon. Conakry had a full complement of avocats and notaires, and a functioning court system. Virtually all of this is a thing of the past. The Touré regime introduced, over a quarter century, a vast amount of law to solidify and enhance a socialist philosophy, and, in keeping with the tenor of those times, pro-business rules were weakened or abolished. Likewise, the dictatorial rule of Touré hastened the demise of the court and justice system.

What exists today is a nation seeking to reclaim from its past a functioning legal system. It is only at the very earliest stages of the process, and has much to do. Legal rules are put in force by the mere act of reading a decree on the radio, an act which occurs each morning at 7:00. In some cases, a speech by the President suffices for legal effect. Formal printing and dissemination in the Official Journal (published by the parastatal

IMPRIMERIE PATRICE LUMUMBA) lags by many months, many enactments are never printed, and distribution and collection are spotty. After many days of trying, the team was unable to locate a single law library, or even a legal office in the Government. Understandably, there are very few lawyers in Guinea, and only one notaire of record.

This situation is changing, though. The World Bank is attempting to bring in legal expertise, and there is a program underway to intensively train local lawyers under the sponsorship of the Paris Bar. It is fair to expect that the current and dangerous void confronting investors will in the not-too-distant future be addressed properly.

2. ECONOMIC STABILITY

The Guinean economy has far to go before it can be seen to be fully secure, but the consensus is that the Government, with the advice and counsel of the World Bank and IMF, is making some of the right decisions.

One of the most critical elements of the economic equation is the Guinean currency. The artificial exchange rate imposed by the Touré regime did more damage to the economy than anyone could have imagined. By keeping the official rate at 25 sylis to the dollar, Touré was able to artificially provide the Government, the parastatals and public employees with access to hard currencies. At the same time, however, the thriving parallel market in money was pricing dollars at 400 sylis. This had a multiple effect of encouraging public officials to supply the parallel market with both hard currency and products, of stimulating illegal trade, and complicating the business practices of firms, both private and parastatal, which had to buy material inputs from overseas and sell locally.

The Conte Government is now well into the process of correcting the situation. Between January 6 and January 28, 1986, it introduced the Guinean Franc, exchanged for the syli at a 1:1 rate. This has had the multiple effect of allowing the Government to assess the amount of its currency in circulation, to locate offshore deposits, and to work with a new and untarnished currency toward full integration into West African monetary unions.

Preceding the switch were several other important acts. One of the most important was an initial devaluation of the currency which took place in September 1985 with the opening of second exchange window at the Central Bank for foreigners, diplomats and overseas Guineans. At this time they could buy sylis at 288:1 rather than 25:1; there was, however, little response since everyone anticipated a better deal in the near future. This came in January with the initiation of a weekly currency auction.

At the beginning of the auctions in January the rate was pegged to the dollar at 340:1 (with a parallel market rate of 300:1 for public sector, parastatal and mining company foreign exchange transactions). As the system has moved toward full reliance on the market, there is general satisfaction with the results, although some problems do exist. For example, the price of dollars has been steadily rising toward the traditional parallel market rate of 400:1, and local inflation has been the result. The Government has addressed this for the public employee population by providing increased rice allowances and certain pay supplements. While for the general population the devaluation has shrunk purchasing power, it has at the same time opened up the markets for products, since there is freer trade/exchange; also, the private firms couldn't use old low rate in any case, so they are only marginally affected.

Whatever the pains of transition, the general feeling is that the money auctions will ensure economic stability. Also, as if to cushion the implementation of the auctions, there is a widespread expectation that there will long be a side market for those wishing to hide transactions or for people without access to foreign exchange.

Another element of the economic picture which bodes well for stability is the dramatic restructuring of the banking system. As part of the package of reforms implemented in December 1985, the Government closed down the state banks, restructured the Central Bank, and encouraged the establishment of three new private banks.

One of the principal roles of the Central Bank is oversight of foreign exchange matters. Both the Bank's charter and the foreign exchange control law have been modeled after West African Monetary Union legislation, a fact that will support stability and regional integration.

The exchange control statute requires that all transactions between residents and non-residents be conducted through an authorized agent of the Bank or by the Bank itself. Also, Central Bank authorization is required for Guineans to hold foreign exchange in accounts anywhere; overseas profits must be repatriated; and all import and export transactions must be registered with authorized banks.

Not all the economic factors are quite so promising, however. Currently, bauxite earnings account for over 95 percent of official Guinean foreign exchange earnings, and it is universally recognized that the world market for bauxite and alumina is extremely depressed. Thus, there is a need to diversify in export markets. This is realistically possible, since there is great capacity for growth in the market and economy overall. Guinea is

rich in resources, and there is a potential transport and commercial base, undeveloped and constrained as it may be.

The Government and its advisers are prepared for the expected fallout from actions being taken. For instance, the Government has announced its opposition to consumer price controls and is prepared to let market forces shape the microeconomy. Currently, the parallel market has ensured that most domestically produced and privately imported goods are realistically priced, due to the longstanding reliance on a market value of the currency. On the other hand, however, the inability of the Government to pay for imported goods with artificially undervalued hard currency means there will be a dramatic increase in, for example, fuel prices (to be passed along at all steps, including public transport and electricity). Also, telecommunications and other similar rates are expected to rise when system rehabilitations get underway.

Overall, the economic situation looks good in the long-term. The World Bank, France, and the United Nations Development Program (UNDP) are actively working on planning the country's economic future, with top priority going to the development of an information and statistical base (especially as it relates to the Ministry of Planning and the Central Bank). Calculations of the national external debt are now underway, and estimates are that it is at over USD 1.5 billion, with arrears of USD 200 million.

Since early 1985 there has been a national economic plan, and the Government is taking necessary steps to ensure stability, such as a recent request to the Paris Club for a rescheduling of debt. These well-received actions, coupled with the resilience of the Guineans and the increasing amounts of capital now gradually re-emerging in the economy, point to economic stability.

3. POLITICAL STABILITY

The political picture in Guinea is one of stability brought about by a popular and supported government, the sincere backing of lenders and aid donors, and an improving economy.

The support for the Conte regime flows from several sources, namely the relief of the population at the CMRN for taking over after the death of Touré, and the general good feelings about the content and approach of the liberalization program. Also, it is important to note that political as well as economic items are on the Government's agenda.

In its two and one half years in power, the Government (called the Third Republic since December 1985) has carried out a gradual program of cabinet restructuring, including the reduction in the number of ministries from 35 to 18 (late 1984), and shifts of ministers, in December 1984, December 1985, and summer of 1986. Currently the key ministries in the Conte Government are: Planning and International Cooperation; Human Resources, Industry and Small-and-Medium Scale Enterprises; Natural Resources, Energy and the Environment; Interior and Decentralization; Planning and International Cooperation; and Economy and Finance.

Guinea will continue to be ruled by the military council but there will be more decentralization; each of the four regions will be governed by a local Resident Minister, a member of the CMRN; regional and local institutions will continue to operate as part of the administration, but multi-village districts will be created, along with rural development communities and quarters -- the basis of self rule.

Notwithstanding the general belief in the stability of the Government, it is worth noting the minority view. There is in Guinea, as there is everywhere, an undercurrent of commentary focusing on the regime's weaknesses. One of the points often made is that President Conte is making some powerful enemies through his cabinet reshuffling; while names aren't provided, articles and commentaries allege fissures below the surface of an apparently unified government. Somewhat more serious, especially for the investor, are comments about a problem prevalent throughout Africa: ethnic group favoritism or discrimination. While no one has yet made a compelling case for the Government favoring any one or more groups, there is a widespread belief among some that it either could or must eventually happen, because it has been this way so many times before. In this situation, investors naturally find themselves weighing the ethnic (i.e., political) affiliations of partners, and purely business decisions become more difficult.

Finally, there is growing concern about what could be the most serious threat of all to the stability of the Government, namely the fate of the more than 20,000 terminated government employees whose benefits will begin to run out in several years. This is a group of virtually unemployable people who, by virtue of their government service, have become somewhat more sophisticated than the average citizen. This is a large mass of people with a common bond (polarized feelings about the man who took away their jobs), and they will be a political force to be reckoned with. Hopefully, as a large number of advisers to the privatization program and to the Government are aware of the situation, some adequate provisions can be made to deal with the problem.

4. UNEMPLOYMENT LEVEL

Unemployment is a term that is awkwardly applied to Guinea, for a number of reasons. First and foremost, one cannot look for unemployed persons in the Guinean private sector, since there are only a very small number of formal roles which qualify as jobs. Rather, as explained elsewhere in this report, the overwhelming majority of the private activity in the country takes place in the parallel sector, where individual enterprise and subsistence is the norm. Thus, by this standard, most of the population is either "unemployed" or is fully "employed" by Guinean standards.

Secondly, even if there could be some agreement on what the definitions are, the virtual lack of records and data bases in Guinea would make quantification impossible.

On the other hand, there is a sector in Guinea in which unemployment is a real and growing concern: Public employment. In line with World Bank and IMF conditions, the Government is in the midst of massive layoffs of governmental and parastatal employees. In January 1986, the IMF estimated the size of the civil service to be 64,000, of which 18,000 are in education. In light of the announced goal of reducing the number by 20,000 by the end of 1986, there will soon be a large number of unemployed government workers.

Where will they go? Surveys conducted by consultants during the past year suggest that job creation in the small-scale private sector is off to a good start, with the number of jobs created in the last 18 months exceeding the total employment of the public industrial sector in Conakry. Further, the private sector should be able to absorb recent graduates and some released civil servants, but the vast majority will not be able to find any jobs equal to those they lost, or in many cases any jobs at all.

The Government has announced plans to provide (with development institution support) temporary employment in road maintenance and public works, and has recently begun a campaign to get the former civil servants out of Conakry and back on the undermanned farms.

In short, the Guinean economy is not capable of absorbing the displaced Government employees, and there will be a generation of former civil servants who will either have to survive in the parallel economy or make do in other ways. By the time the newly revived private sector has large numbers of jobs available, there will be an adequate number of young, better trained recent graduates to fill them.

Notwithstanding this situation, the Government is pressing ahead with termination plans for its employees. Under the current program, Government agencies are being induced to reduce staff sizes more rapidly than required in the master plan by allowing them to redistribute in the form of productivity premiums the savings which would have resulted from a faster-than-required reduction in staff.

The program itself has a number of key elements. For one thing, employees of parastatals no longer have civil service status. Another element relates to a recent census of the civil service rolls turned up a large number of fictitious names, and "double dippers" are being weeded out. Perhaps more importantly, the survey also allowed the Government to discover which employees are ready for retirement, bringing into play the new "special availability" program. Under this program, a civil servant can be put by his/her ministry on such a status for six months, at which time the employee can resign and receive payment up to 50 times monthly salary or can remain inactive on the payroll for six months, effectively a year at full salary during which time the

employee can, if desired, remain at home or even take another job. At the end of the year, the employee can either be reappointed to a government position or permanently retired (using standard benefits of the 1959 labor law). The one year term can be extended for an extra six months.

Reserve staff are eligible to compete equally for posts throughout the Government, since a comprehensive testing operation undertaken during 1986 will permit mobility.

5. PHYSICAL INFRASTRUCTURE

The physical infrastructure of Guinea is in a state of advanced decay, the result of decades of neglect. Public works are inefficient, suffer excessive breakdowns, and do not reach the population. From the point of view of businesses, poor services are one of the paramount causes of most problems faced in daily operations.

During the brief time the team was in Conakry, the following conditions were observed:

- The electric power suffered daily outages and constant voltage spikes and surges (virtually every home, business or office the team visited was relying on an individual generator);
- After a rain, streams and culverts are awash with household and sanitary waste, either washed from the surface of the ground or leached from privvies -- both in and outside of Conakry;
- The water from the public system was unconsumable;
- Refuse and garbage was piled throughout Conakry and into the countryside, while sanitation trucks sat on side streets, partially stripped of parts;

- The streets and roads are crowded much of the time, and in very poor condition (only 1100 of 28,000 kilometers of roads in Guinea are paved); this makes deliveries and business meetings very difficult;
- Infrequent, overloaded buses passed by many more riders than they carried; and
- Local telephone service was randomly functioning and overseas calls required a wait from 3 hours at the PTT to 14 hours at a hotel (unconfirmed reports told of a massive system failure just before the team's arrival).

The situation is intolerable from the point of view of foreign investors in the privatization process, even if Guineans have learned to accept it. Time after time the team was told that the problems caused by the infrastructure ranged from the annoying to the serious. For example, business people are regularly forced to drive for up to 45 minutes to reach a facility for a meeting, and learn that the person sought wasn't in, this due to either the target firm's lack of a functioning telephone or even telephone service. At a more serious level, many agro-food firms cannot operate in Guinea at an economical level due to the water, and many manufacturers (such as several the team visited) have curtailed or stopped production because they lacked the foreign exchange to purchase imported diesel fuel to run the generators they bought and use in lieu of public power.

Other problems are more endemic and transcend all service sectors, such as the shortage of housing and office space in Conakry, lack of hotel rooms, restaurants, and taxis/jitneys. Also, the number of motor vehicles in Conakry has risen from 20,000 to 35,000 in the past 18 months. These are mostly private autos, and there has been no commensurate rise in spare parts, repair facilities or parking. As a result, the streets are clogged at certain times of the day, and the sidewalks and shoulders are bearing an increasing number of abandoned and stripped car shells.

In spite of this gloomy assessment of the status quo, the news is not all bad, since virtually all of these problems are readily solvable. In fact, prior to the Touré regime, there was an efficient infrastructure, and the climate and topography of the country are not prohibitive of most efforts.

What it takes is commitment and money. Notwithstanding a recognition of the problem, the commitment and the money are slow. Some excellent actions have been undertaken, such as the mixed enterprise operation of SOGETRAG, the new bus system in which Renault is providing rolling stock and repairs and maintenance. Also, during the team's stay the Government began a campaign to have citizens become more active in cleaning litter and garbage from the streets.

More fundamental programs are underway through the development agencies, which see the Government as intending to orient the public investment program to supporting the directly productive sectors; particularly urgent is the rehabilitation and maintenance of existing infrastructure. Further, the feeling is that public investment should continue to attach highest priority to rehabilitation and maintenance of infrastructure and equipment and to encourage private investors willing to use their own money and take their own risks under the protection of the new Investment Code.

Significant projects have been underway at the World Bank, albeit carried out without any discernible linkage to privatization initiatives. For example, the Power II Engineering and Technical Assistance Project (Credit 1595-GUI) includes an institutional study and development of a least-cost investment program to meet electrical energy needs into the early 1990s, and

continues institution-building efforts at the power utility (SNE) -- which are showing good progress. The power sector investment plan would form the basis for a Second Power Project.

The Government has expressed interest in secondary center and rural water supply needs as a matter of priority and a Second Water Supply Project, part of an overall sector investment program with carefully defined institutional and financial targets is being prepared.

Institutional arrangements under the FY84 Highways III project correct many earlier project implementation problems and establish a unit that could be the basis for a local public works enterprise. Also, the Transport Plan study financed under Highways III will be the basis for a medium-term investment and rehabilitation program to be reviewed with other donors on its completion in 1986 and a possible IDA transport sector rehabilitation and adjustment project.

The Conakry Port project removes a major bottleneck to Guinean development, and introduces an organizational model for an autonomous public enterprise which could be used elsewhere.

Overall, the activity of the World Bank in Guinean infrastructure is shown in the following table.

For its part, the Government has stated that public services for water supply, electricity and telecommunications will be granted financial and managerial autonomy in new statutes that will be promulgated during 1986. Their tariffs will be increased periodically to fully reflect costs (especially of foreign inputs). No investments for water or energy will be undertaken except those identified under the master plans now under preparation. A telecommunications investment and maintenance

WORLD BANK STRUCTURAL ADJUSTMENT CREDITS

<u>Credit Number</u>	<u>Year</u>	<u>Purpose</u>	<u>Amount (US\$ Million)</u>	
			<u>IDA</u>	<u>Undisbursed</u>
870-GUI	1979	First Water Supply/Sanitation	12.50	0.74
952-GUI	1980	Rice Development	10.40	1.53
953-GUI	1980	Second Highway	13.00	0.26
1063-GUI	1981	Livestock Development	2.11	0.15
1085-GUI	1981	Power	28.50	0.66
1234-GUI	1982	Industrial Rehab & Promotion	19.00	12.03
1341-GUI	1983	Second Education	11.00	8.55
1382-GUI	1983	Conakry Port	13.00	4.25
1438-GUI	1984	Petroleum Explor Promotion	8.00	5.81
1457-GUI	1984	Third Highway	28.00	26.07
1466-GUI	1984	Conakry Urban Development	10.70	9.55
1559-GUI	1985	TA for Economic Management	9.50	9.29
1595-GUI	1985	Second Power & Tech Assistance	<u>8.00</u>	<u>8.00</u>
		TOTAL:	202.70	86.89

program, including recommendations for financial and management reforms for this important sector, is under preparation. The Government will avoid the use of suppliers credits for their investments, and will see that the commercial risks are borne by these companies.

Unfortunately, the team was unable to locate documentation on these initiatives.

6. REGULATORY CLIMATE

In general, the country is going through a period of deregulation and liberalization in both the economic and social realms. As discussed in prior sections of this report, the Conte Government is taking a slow but steady approach to undoing 25 years of political repression and economic stagnation. The immediate result is a complex mixture of freedom and regulatory restraint.

The freedom flows from the philosophy and policy of the Government, i.e., liberalization and encouragement of private investment and market-driven activity. Throughout the economy there is a push to grow and build, to invest and to create capital wealth; likewise, the prisons have been cleared of victims of the prior regime and there is a sense of relief in the ability to interact with the Government on a more open basis.

The regulatory constraint comes from several sources. The first is the need by the Government to ensure an orderly transition into the new, liberal era. This is manifested by requirements for entry formalities, currency controls, import/export restrictions, investment approvals, and lingering (although vastly lessened) exchange rate requirements on certain transactions.

The second regulatory restraint is tied to the form and substance of the rules and the administering institutions. In short, many of the regulations now in place are vestiges of the former regime or are the result of early initiatives of the Government. They are many times inconsistent, seldom enforced systematically, and almost always not completely known or understood by those affected. Delays, excessive filing and paperwork requirements and other administrative impediments have

had the effect of causing many would-be investors to withdraw from the local marketplace. For example, about 60 signatures are required for a private firm to carry out an import transaction.

While many changes have already been announced, such as a new tariff regime (a flat and uniform 10 percent on all imported goods with a 20 or 30 percent surcharge on luxury items), others are still in the pipeline, and details are unknown. As for the privatization program, there is a fear by some that lack of early and positive changes will keep away a majority of potential participants, and privatization will go forth with only a diminished pool of bidders from which to draw. In other words, they fear the cart has been put before the horse.

7. PARASTATAL SHARE OF ECONOMY

The predominantly state-owned manufacturing sector's contribution to the GDP has been about 2 percent over the past years. Real output in commerce declined by 4 percent between 1979 and 1983 reflecting poor performance of state trading enterprises. The Government had to transfer 5.5 billion Syllis to public enterprises in 1982. In fact, on-tax revenues consisting of transfers from the parastatals to the equipment budget fell by 25 percent following reduced profits from IMPORTEX, the state trading company, as its "de jure" monopoly was eroded by private importers. Non-tax revenue in the form of transfers from the parastatals to the capital budget dropped sharply due largely to reduced profits and heavy losses.

Outside of the mining group, public sector rate of investment averaged about 10 percent of GDP over the period October 1973 through December 1978. The 1981-1985 plan projected 31 percent investment in collectivized agriculture and 14 percent in industry, however it is unlikely that these targets will be

reached. Approximately 20,000 persons were employed in SOEs (excluding the mining sector) toward the latter part of 1985. However, a reduction of between 15,000 and 20,000 employees (combined public enterprise and civil service) is projected for the end of 1986, and a further 20,000 by the end of 1987. Future plans call for those SOEs that will not be liquidated to be rehabilitated primarily with external assistance. The objective is to render the remaining parastatals financially self-sufficient, autonomous in management, and more responsive to market forces.

The following chart shows the enterprises in the industrial sector owned by the Government at the beginning of the current round of privatization. The number in parentheses tells which category for privatization it is in.

STATE OWNED INDUSTRIAL ENTERPRISES (Ordonnance Category)

I. Agriculture and Food Industries

Salguida (4)
Sobragui (4)
Sipag (2)
ENTA (4)
Huilerie de Dabola (2)
Usine de Jus de Fruit de Kankan (2)
Usine de The de Macenta (1)
Bonagui (2)
Gari-Faranah (1)
Usine de Quinine de Seredou (1)
Sipar Labe (3)
Sukoba (1)
Huilerie de Kassa (1)
Conserverie de Marmou (1)
Foulaya Kindia (2)

II. Chemical Industries

Soguilube (4)
Sipeco (4)
Soguirep (2)
Eniphargui (3)
Soguiplast (4)
Sopec (1)
UOA (2)
IGAT (1)
Sofab (1)

III. Construction Material Industries

Soprociment (4)
Sonacag Carreau (2)
Briqueterie de Kankan (2)
Briqueterie de Kobaya (2)
Ceramique de Matoto (1)

IV. Metals Industries

Centre Pilote (3)
Soguifab (4)
Usine d'Outils Agricoles de Mamou (USOA) (1)
CMD (2)

V. Wood Products Industries

Scierie de N'Zerekore (2)
Usine de Meubles de Sonfonia (1)
Usine de Panneaux de Seredon (1)

VI. Textiles Industries

Sanoyah (4)

VII. Diverse Industries

Imprimerie Patrice Lamumba (4)
Imprimerie de la Republique (2)
Usines Modernes de Conakry (1)

Other

Odrik Kouroussa (3)
Complex Industrial Militaire
Laboratoire Central de Control de Qualite
Samova (1)
Gari Kindia (1)
Projet Marais-Salants (1)
Projet Sucrierie de Bainan (1)

8. REASONS FOR PARASTATALS

The reasons for the creation of parastatals in Guinea are several. Some created by the Touré regime to further political purposes, and some were nationalized holdings of foreign (usually French) interests that remained after the French Government presence in Guinea ended.

Other parastatals were created as joint enterprises with specialized foreign firms; an example of this is the venture with Alcoa which is now SOGUIFAB.

While many of the parastatals are being liquidated or sold to the private sector, many others are being retained by the Government, after either rehabilitation (see Category III) or after the inflow of some private capital and transformation into a mixed enterprise (see Category IV). In addition to these economic reasons, some parastatals, of which the IMPRIMERIE PATRICE LUMUMBA is the prime example, are being kept for reasons of national significance.

C. BUSINESS CLIMATE

The business climate in Guinea is one in a state of transition, in that it is moving from a state of repressive anti-business, anti-private sector repression to what is expected to be one of the most open and vibrant economies in Africa.

The historic background is simple and straightforward. During the era of French colonial domination, Guinea was a flourishing center for enterprise and tourism, albeit mostly French. It had a sound infrastructure, and numerous business activities supported by the French colonial system. With the coming of the Touré regime, there was a precipitous decline in the quality of the environment, brought about in part by the dramatic French pullout of infrastructure (literally a physical removal of capital plant, structures, records and technical skills), and by the virulently anti-capitalist policies and actions of the Touré Government. In a few years Guinea became one of the least hospitable locations for business, trade and investment in the world.

Since the ascent of the Conte Government in 1984, there has been a gradual, and increasingly rapid, rise in the quality of the business environment. While at this time much remains to be done, and many investors are understandably wary about being among the first to reenter the market, there is uniformity in the belief that the future is extremely bright.

The information contained in this section of the report is based on data collected in 1985, covering that year and 1984. It is useful as a base for extrapolating data for the current time, as the rule of thumb is that in general matters have improved in all areas. Newer data are not available, due in large part to the fact that the Government and its advisers are so deeply involved in putting improved systems in place -- for instance the

privatization program -- that collection and analysis of environmental data are not feasible. It is fairly certain, however, that future reviews of the 1985-87 era will show a pattern of improvement in a typical S-curve. Guinea is now at the lower left end of the curve, just beginning its ascent up the steep middle growth and improvement line.

Manufacturing Sector

Overall in Guinea, manufacturing activity is relatively weak and of a limited size in the national economy; in 1981, for example, the value added was about 2.2 percent of GNP. Within the pre-privatization system, it was primarily in the public sector; the private sector was long stifled by government policy and few statistics are available. State manufacturing activity represented 20 percent of manufacturing value added in 1984.

At least 50 percent of manufacturing takes place in Conakry, where about 350 small and medium enterprises make an important contribution. About 10,000 unincorporated "enterprises" in the parallel sector (primarily outside Conakry) round out the manufacturing picture.

In 1984 there were about 7,600 salaried employees in the manufacturing sector of which 4,500 were in operating state companies; to this must be added about 15,000 non-salaried personnel in the private sector.

Private operators were responsible for about 80 percent of total value added in 1984 (2.4 billion syl) and 99 percent of investments (1.8 billion syl). Conakry represents only 63 percent of value added but 91 percent of salaried employees and 100 percent of investments.

Most industrial activity comes from small enterprises -- 55 percent of value added from firms with 10 or fewer employees and 84 percent from those with 50 or less. Only 14 manufacturing enterprises had more than 100 employees (and only one was private).

The manufacturing sector has traditionally depended on foreign suppliers for about 90 percent of primary materials, and only placed an infinitesimal fraction of its products abroad. Most energy needs are supplied from outside the country (primarily because of deficiencies in the electric power system).

Two continuing factors had a dramatic effect on the performance of the sector:

- 1) The double foreign exchange market, with the official rate being arbitrary and causing an insufficiency of hard currency; and
- 2) The juridical, administrative and bureaucratic character of price fixing in supplies for both public and private enterprises; this resulted in price distortions.

In general, these resulted in a reduction of foreign credits and a fall in currency value. Thus entities dependent on official funds had shrunken inventories and others had significant supply disruptions.

Public Enterprise Sector

By common definition, the public sector includes enterprises in which the state participation is at least 50 percent. Under this definition there were in 1985 41 state industrial enterprises of which 36 were 100 percent controlled and five were 50/50. Only 23 of them were in production in 1984, the others being either in restructuring or dormant.

A common problem in analyzing data on parastatals is that figures are often suspect because official constraints e.g., the price of a recapped tire by SOGUIREP set at 2,000 syl when the market price was 10,000 syl. Thus, in general the real value of public deliveries could be three to four times the actual reported value, and the cost at the factory of materials imported in the state manufacturing sector could rise by a factor of four (non-imported could rise three-fold). Also, the value-added of the state sector could rise by 50-100 percent.

Other factors (that have not been sufficiently analyzed include:

- 1) CAF price of imported materials in cases of liberalization of exchange markets;
- 2) Indirect tax structures (customs charges, tariffs, commercial margins, miscellaneous taxes);
- 3) Personnel improvement measures (layoffs and salary shifts);
- 4) Price shifts in non-imported materials;
- 5) Price shifts for manufactured output; and
- 6) Shifts from increased production volume.

Of the 23 operating state firms in 1984, 16 were in the Conakry urban zone. These 16 resulted in 96 percent of total deliveries, 98 percent of new investments and 100 percent of value added in 1984. Thus, the ones outside of Conakry have been especially badly affected by the cited problems.

The greatest hindrance to the public entities was in securing primary inputs; this was due to scarcity of hard currency and fixed prices discouraging local suppliers. Due to this and other factors such as a woefully inadequate infrastructure, the rate of

capacity usage never passed two percent in 1984. The operating entities had 4,500 employees, of which 1/3 worked for l'Entreprise Nationale de Tabacs et d'Allumettes (ENTTA). Employees were -- and in many cases still are -- as numerous at the production as at the management level.

Pay has traditionally appeared to be insufficient to keep employee interest in their firm (6,000 syl/mo for production workers and 12,000 syl/mo for senior management).

Total value of production in 1984 has been estimated at 1.5 billion syl; almost half of this was in the agricultural-food sector (fruit juice, beer, lemonade, bread, cigarettes, tea, peanut oil). About the same amount in all of the following of production can be attributed to the totality of the following sectors: Chemical products (paint, lubricants, perfumes, medicines, tires); Construction materials (cement); Metals (corrugated steel, utensils, agricultural tools); and Diverse industries (painting, laboratories). A residual part of the total was in Wood products.

The value added of the public sector in 1984 barely passed 400 million syl with investment at 15 million syl. Public enterprises depended on foreign sources for 95 percent of supplies and packaging. On the other hand, less than one percent of production was exported; the greatest part of production was sent to local market at a predetermined price, especially using the local commercialization societies.

Among the general reasons most often given for the poor performance of the public enterprises are:

- Power system;
- Worker absenteeism;
- Dearth of hard currency;
- Lack of creation/shedding of management; and
- Inefficiency of supply and distribution.

There is no question that they apply equally to all enterprises in Guinea.

Small and Medium Enterprise Sector

Another key component of the business environment is the privately run small and medium sized businesses ("Petit and moyen enterprises" -- PME's). These are heavily favored in the Government's plans and operations, with a ministry looking after their interests.

There are an estimated 356 such enterprises in Conakry, plus four nearby; others are considered to be marginal. The breakdown of the total (as of 1984) is: 190 bakeries; 130 woodshops/boilerworks; and 40 brickworks, aviculture, and miscellaneous. These typically have a proprietor and several workers at FG 2,500-7,500/month, plus several apprentices -- unpaid but benefits are provided.

The universe of PME's has about 4,800 total employees (500 proprietors, 3100 salaried, 1200 apprentices). Three-fourths of them have fewer than 10 employees, one-fourth have more.

PME's have minimal overall investment capital tied up in them. Thus, only an estimated 1.8 billion syl invested in 1984. They are a comparatively good contributor to the economy, though, with an estimated value added and deliveries running at twice that of state firms.

PMEs produce "at the will of" of suppliers, this being principal constraint to operations. Their materials are 90 percent imported, and are difficult to obtain; there is an absence of market fluidity due to foreign exchange problems. Additionally, all have long had severe power problems, and are faced with a widespread lack of investment capital. The problem here is that investors in the sector have not yet been able to shake the attitudes and beliefs of the Touré regime, which translates into fear of getting into a visible portion of the economy, as contrasted with invisible efforts in the parallel market.

PMEs are fragmented, little organized, badly managed, entirely dependent on local market, and caught in provisioning problems. In 1985, over 40 percent of PME's were under five years old.

Finally, looking at the overall business environment in Guinea, it should be noted that few foreigners have invested risk capital in Guinea, and they have generally tied in with the Government, a multinational corporation or a donor. The majority of foreign companies in Guinea got started as contractors/suppliers to the Government or the mining firms. They are now sophisticated and looking for long-term investments.

The smaller, independent investors who are looking at Guinea are primarily French, and there is reported to be active participation in Lebanese. It has been noted that individuals look at the service sector: restaurants; business services; sales and maintenance operations; small and medium export or consumer goods production, e.g., bakeries. Multinational corporations, on the other hand, look at housing construction, fishing and agro-industry.

1. ROLE OF INFORMAL SECTOR

The informal sector, most commonly referred to as the unofficial or non-official sector (or parallel market), executed a major influence on the business climate of Guinea until 1985. In fact, it was the source of most of the productive and commercial activity, as well as virtually all foreign exchange trading, outside the mining sector; operating on an open parallel market, it accounted for three-fourths of the economic net output, met about 80 percent of urban consumer demand and virtually all consumer demand for marketed goods outside the capital city of Conakry. The IMF estimated that the unofficial sector imports on the parallel market exceeded USD 200 million in 1985.

Expectations that the new floating rate and devaluation will result in immediate equity between unofficial and official sector exchange rates, may be optimistic. Some are of the opinion that the "historical pervasiveness" of the parallel market and that weekly auctions of foreign exchange will not meet the demand are two factors that will continue to fuel the parallel money market. However, a gradual decline is expected to occur as the new banking system develops and foreign exchange becomes available to more purchasers.

Decline in informal sector parallel market activities involving commodities, such as basic foodstuffs, is also expected as substantial quantities are imported through the newly established mixed enterprise, Société Guinéenne de Commerce (SGC), which has foreign participation. But the problem of informal sector activities involving the distribution of petroleum products in Conakry, has been the source of large illegal profits in recent years and still awaits final resolution, even though negotiations are reportedly underway with international companies that might establish a new distribution network.

2. MANAGEMENT/ENTERPRENEURIAL POOL

In light of what is known about the performance of Guinea's parastatals, the dearth of modern sector management skills comes as no surprise. During our interview with the Guinea Chamber of Commerce, it was suggested that the World Bank ought to take the initiative in conducting studies and providing technical assistance to train Guineans to become owner/operators. However, World Bank reports reflect no immediate plans to upgrade private sector management/entrepreneurial skills, but rather those of the public sector managers. Expectations are that the private sector will assume the lead in developing the type of management capabilities it needs among indigeneous groups. This may be an erroneous expectation, however, because current trends seem to reflect a private sector preference for expatriate managers, and in fact, most of the employees of the newly formed banks are not Guineans. Nor does it appear likely that the large pool of civil service workers to be laid off will meet the demand for skilled managers, in that their ranks are supposed to be swelled with several thousand former civil servants whose performances on the 1986 civil service comprehensive competency testing exam were inadequate.

Some have suggested that in the long run the private sector will find that it is more cost effective to train Guinean managers, because of the high compensation that skilled expatriate managers demand to live and work in Guinea. But this assertion will have to be demonstrated with concrete figures that project realistic training costs; costs that take into account the fact that the Touré regime produced an entire generation of adults who have been educated in indigeneous languages as a result have low French language literacy rates, and who have received an education that gave the same emphasis to ideology as to technical skills development.

An unexplored potential for managerial/entrepreneurial skills is the Guinean diaspora reputed to be somewhere near 100,000. USAID/Conakry reportedly has access to a detailed census of Guineans in the U.S. which might well uncover positive information for managerial and entrepreneurial skills needed by the private sector. Additionally, the private sector survey being undertaken by USAID/Conakry will provide additional insight into the existing management pool.

3. STATUS OF POPULATION GROUPS

A. Ethnic Minorities

Guinea has four main indigeneous groups: the Peuls (often referred to as Foulani); Malinkes (or Mandigos); the Soussous; and the Forestal group. Until President Conte, whose background is Soussous, took control of the government in 1984, the Malinke group dominated the key government posts and much of the commercial activity, under the regime of Sekou Touré (himself a Malinke). The current regime, which has a radically different political orientation, has emphasized the cohesiveness and the collaboration of all indigeneous groups and collective national identity. While it does not on the surface appear that any one of these groups will exert undue influence, some observers are more apprehensive and point to the fact that politically, the President's most inner circle is composed entirely of Soussous and that unspoken resentment and distrust of the Malinke lingers. It is far too early to tell whether or not the extreme measures that are being undertaken to reduce the civil service rolls will surface historic indigeneous group animosities ("potentially disruptive ethnic cleavages").

As for the private sector, the composition of joint ventures between private Guineans and private foreign partners will have to be watched carefully and here again, it is too early to see if any predominate trends are emerging based on indigeneous cultural groupings; and, of course, cultural/historical private sector activities should be allowed for in this context (i.e., the Malinke and Peul groups have always dominated licensed trading).

B. Other Groups

Non-indigeneous groups are only about 3,500 in number and do not appear to play a prominent role in the private sector at this point in time.

4. PERMITS TO START/EXTEND BUSINESS

Currently it is possible to start a business in Guinea, but one must be sophisticated and well advised. The prime reason for this is the fact that the current investment code is not adequate to fully protect the investor from the various requirements in force. Many of these requirements have been in place for a number of years, but there is surprisingly no current set of business registration laws. Enforcement is on a seemingly ad hoc basis, and often one learns about a requirement by running afoul of it during a business start-up.

The Investment Code now in force has been in place since October 1984, but it cannot meet general needs, let alone the demands placed on the system by a privatization or investment program. As of March 1986, only about six firms had been identified as having been helped by the code. A new code is being drafted, but copies of drafts are unavailable.

There is a widespread belief that business registration restrictions and procedures form the single greatest hindrance to investments in Guinea. The bases for the system are a 1962 law which recognizes six types of enterprises, informal instructions published over the years by administrative agencies, the October 1984 Investment Code, and a May 1985 commercial enterprise law. This law recognizes four types of companies:

- Société en commandité simple (US limited Partner);
- Société en nom collectif (US general partnership);
- Société à responsabilité limitée (US close corporation);
and
- Société anonyme (US public corporation).

The statute is loosely based on French law governing "SARLs" -- limited liability companies (March 1925) and "SAs" -- joint stock companies (July 1867), with provisions common in Francophone Africa. It is, however, unclear whether the law applies to all companies doing business in Guinea, or only those in commercial sector.

All companies must secure an entry in the Register of Commerce maintained by Ministry of Commerce. There is uncertainty as to whether approval of non-trading companies must be sought from the Ministry of Commerce, or if the procedure applies only to companies engaged in import-export and trading activities. There are no statutes governing cooperatives and mutual organizations.

The following are examples of requirements for setting up a general regime company (not even seeking Investment Code benefits):

- Formation of company and payment of registration tax;

- Filing of request for approval with the Small and Medium-Sized Enterprises Promotion Office of the Ministry of Industry (or a similar office in the Ministry of Rural Development if outside Conakry);
- Review and approval by Ministries of Plan, Health, Labor, Justice and Finance as well as the sectoral oversight ("tutelle") ministry;
- Approval by the Ministry of Commerce;
- Inscription in Registry of Commerce and registration with Ministries of Labor and Finance; and
- Announcement of establishment in the Official Journal.

In theory, firms seeking investment code benefits must address themselves only to the National Investment Commission under the Ministry of Planning, which forwards the file to other regulatory institutions for review. The extent of relative jurisdiction, especially with regard to the Small and Medium-Sized Enterprise Promotion Office is unclear.

There has been a general acknowledgement that many firms have been frustrated and that paring down of the system must occur soon, and it is hoped that a new Investment Code will solve the many problems.

Not everyone has the same degree of trouble, though. Some firms, especially those seeking to expand the operations of existing companies (which entered Guinea as government contractors) have had little trouble; another route for minimal trouble is to have the support of development institutions or embassies. Also, Guineans have had less trouble than foreigners.

Among the reasons for the failure of the 1984 Investment Code to work properly are that it is too procedurally burdensome and complex and the National Investment Commission has not yet

established a technical staff capable of the detailed analysis required.

Another basic complaint about the code is that eligibility criteria for the three preferential regimes relate to the size of the investment and number of jobs created, rather than providing a framework for directing investment to critical sectors needing development. The new code would target these sectors more specifically and would reduce the discretion given to reviewing officials, making the process more automatic.

5. FREEDOM TO HIRE/FIRE PEOPLE

The world of Guinean law and regulation concerning employment is full of unknowns, most notably the terms and interrelationships of the various relevant systems of employee protection. What is known, however, is that there are requirements on the books that are often invoked and most often adversely affect the manager.

For example you cannot hire people directly but must go through a Government office which will provide you with your candidates. Also, serious questions exist about the true ability of investors to fire prior employees.

On the whole, Government interference with personnel issues is typically limited to ad hoc reviews of pay scales and other salary-related issues, with the principal exception being mixed enterprises (which have had close scrutiny and have been required to hire from the civil service and to provide generous benefits). The mining companies are a good example of this, and it is conceivable that mixed enterprises formed from the industrial firms in Category IV of Ordonnance 318 will be subject to similar problems.

The compensation question is key, and is one that is likely to assume a greater prominence in privatization. The Government has long encouraged employers to maintain a reasonable range between public and private salaries. Wage levels and benefits in the public sector are very low and officials anxious to keep private pay in line, either by constraining private increases, or sometimes by forcing them up. This was the situation in the January 1985 when civil service pay increases were forced on the private sector (although it is felt to be unlikely that this step will be repeated).

Organized labor is not a critical force in Guinea, as statutes adopted in the fall of 1984 dissolved all prior labor syndicates and set forth the conditions for their formation in the future. At this time there is only one (semi-active) union in Guinea. A new labor code and several collective conventions in particular sectors have been prepared and are under consideration. Copies of the draft, as with most other documents, were unavailable.

Retirement programs, especially for civil servants, are of some importance in Guinea. Legislation in May of 1985 set up new social security system and made the National Social Security Fund autonomous, as a financially independent organization. In the context of retirement, under the privatization program the Government is terminating about 20,000 employees, in many cases ensuring that they receive the generous retirement benefits they are entitled to under law.

The Government, however, stripped the employees of the parastatals of their status as civil servants recently. The degree to which a privatizing investor is going to be caught in a dispute between the employees of the firm bought and the Government about liability for vested rights is a central issue in negotiations. As there are no clear rules to review beforehand, the investors in the privatization program must be especially wary.

Due to the general lack of skills and expertise in the Guinean workforce, the use of foreign personnel is a frequently sought option. Visas and residence permits for foreigners have long been hard to get, and the situation may be worsening, as the Government seeks to impose identity cards on non-nationals. Expatriate employment contracts must be presented to the Labor Ministry for approval, and immigration regulations have been sporadically administered; thus, uncertain status of foreign employees is a prime concern.

In the final analysis, labor rules have not typically been an impeding factor regarding investors, but it has to be recognized that the dramatically increasing importance of employee issues under a privatization program -- where an entire workforce within an enterprise has to be appropriately dealt with, by either the Government or the incoming owner -- will cause new attention to be paid to the rules. In view of the potential costs flowing from a worst-case scenario, any reasonable investor will demand more information about the degree of exposure to employee claims or Government mandates in Guinea.

6. PARASTATAL PREFERENCE

The current picture in Guinea is complex, with preference in some sectors (e.g., banking and manufacturing) leaning toward the private, and others (such as transportation and basic services) leaning toward the public, or at least mixed enterprises. The reason for the complexity is the lack of full consonance between the Government's policy of liberalization and private sector growth (as manifested in true privatization), and traditional parastatal preferences, evidenced by plans to "maintain" or "rehabilitate" certain industrial firms with private money and expertise and keep them in the public sector, even if only as mixed enterprises.

The Government is not approaching privatization from a philosophical position; rather, they are being pragmatic: sell off the losers and keep the profitable or powerful ones:

Historically, it is difficult to judge the true feeling of the current regime about parastatals. (The extremely anti-private sector policy of the Touré regime is certainly plain.) Perhaps it is fair to say that the position of choice for the Government is to get out of the business of running 100 percent state-owned companies (except in special cases like the printer), but to look favorably on mixed enterprises where the state exercises some control, and the private partner brings capital and technical and management expertise. Not only is this how the privatization program is shaping up, but it is part of the two-year practice of this Government.

Three of the four mining companies representing the largest investments in Guinea are mixed enterprises; the largest is Compagnie des Bauxites de Guinée (CBG) formed in 1973 and 51 percent owned by a consortium of U.S., Canadian and European firms. Another mine is operated by Friguia, and also dates from 1973; it is a joint venture between a European consortium (51 percent) and the Government (49 percent).

A third is the Association pour la Recherche du Diamant et de l'Or (ARETOR) established in 1980; it involves a 50/50 ownership split between the Government and a consortium of Australian, British and Swiss firms. The fourth is the wholly owned bauxite mine established in 1979 and managed by the Soviets (Office des Bauxites de Kindia (OBK)).

Recent events also point to the desirability of mixed enterprises. SOGETRAG (Société Générale des Transports) is a new venture that is 60 percent Government owned, with the remainder

being held by a joint venture established in 1984 with Renault and Transtec, a French engineering firm. The company and project are supported by a 15-year French government loan for procurement and technical assistance.

Another example is the case of SGC (Société Guinéene de Commerce) a mixed enterprise that is 40 percent owned by the Government, and 30 percent each by CFAO and SCOA (both French trading companies). SGC was established to ensure a flow of essential goods to the market during the transition period following the termination of operation of several parastatals. It is backed by French and EEC funding, and aims at importing into Guinea FF 200 million of commodities, with distribution to private merchants from five points in Conakry. It will be dissolved as soon as the private sector is able to carry out the work effectively.

7. TAX CLIMATE

A discussion of the tax climate is difficult, since a clear understanding of the tax code is hard to find.

In general, it can be said that the tax law is outmoded and reflective of the former dominance of parastatals. It calls for a 33 percent tax on company profits and other assorted taxes on salaries, sales, and dividends. The law is applied sporadically.

A revision of the tax code is underway, but a timetable doesn't exist, and the team was unable to obtain a copy of the draft document.

8. ACCOUNTING/AUDITING REQUIREMENTS

What rules exist in this field flow from the National Accounting Plan, adopted in 1961. It has been revised several times, especially to facilitate accounting among interconnected parastatals (i.e., liaison accounts).

The system, for example, makes no distinction between operating and non-operating accounts and between inventory and long-term assets -- more of a critical weakness for a private firm than for a parastatal.

An Order of Chartered Accountants was established in February 1985 under the supervision of the Finance Ministry in order to enable compliance with a law that requires that all individuals and corporations doing business in Guinea provide the Ministry with annual accounts audited by a chartered accountant. However, as late as December 1985 there were no chartered accountants in Guinea. While they are not compelled to do so, most of the large enterprises hire international CPAs to do audits.

New regulations now being developed are expected to resemble Francophone African accounting practices, specifically the OCAM Plan. The team was unable to locate anyone who had seen the draft or had access to a copy.

9. OTHER DONOR PRESENCE/SUPPORT

International donors have done analyses of the utilities and will soon do so with transport to determine needs for rehabilitation programs.

The World Bank and the International Monetary Fund constitute by far the most prominent donor presence, with each of these organizations having in-country resident advisors. The IDA of the World Bank was initially involved in the development of the national privatization plan, while two different World Bank divisions (WAPID and WAPPS) are now handling all of the privatization issues and consultancies related to industry and banking and the liquidation of enterprises in all sectors. The IMF has been orchestrating Guinea's Stand-By arrangement for 1986-87 and has been leveraging the release of USD 36.3 million contingent on the Government's meeting specific performance criteria related to banking (including credit extended to public enterprises), foreign exchange sales, increases in foreign reserves, ceilings on new external loans, civil service reduction, etc.

Guinea's most important country economic partner and donor is certainly France, which signed a USD 26.7 million agreement with the Caisse Centrale de Cooperation Economique (CCCE) (the French equivalent of AID) for quick disbursing assistance. It has been reported that Japan, via its Organization for Economic Cooperation and Funding, will provide an untied USD 24.8 million equivalent at 1.25 percent interest rate for 30 years, plus USD 3.0 million for highway maintenance equipment; and expected from Germany is a special joint financing grant equivalent to USD 9.4 million; while Switzerland is supposed to provide a bilateral grant of USD 4.8 million. The U.S. had made no comparable major commitments at the time of this study.

A statement by the World Bank outlining the position is found at Appendix B-6.

D. FINANCIAL MARKETS

The financial markets in Guinea are going through a period of profound change on several fronts: the banking system has been restructured; the parastatal banks have been closed and replaced by private institutions; foreign exchange rates are being determined under a new auction system; and mechanisms are being developed to lessen capital shortages.

Looking first at the banking system, one sees significant changes brought about under the guidance of the World Bank-supported consultants. The former banking system was one of the most pronounced examples of the previous state of the nation: mismanagement, illegal activities, and inability to carry out its basic functions. Major changes began in March 1985 with the adoption of a modern banking law. The new banking law was modeled after franc zone statutes with two types of financial establishments; deposit banks and professional (individual or corporate) financial services organizations. There is a regulatory commission under the direction of the Governor of the Central Bank, and it can issue and enforce banking regulations, which are expected to be lenient.

Subsequent to this, in September of that year, the Central Bank got a new charter, becoming the lead institution in the banking system and in the formulation of credit policy. It is still in the process of developing that policy, however, as it has been preoccupied with the introduction of the Guinean Franc in January and with its own internal organization. Credit instruments are being issued and will closely mirror those of the West African Central Bank (BCEAO). This is an extremely critical action, as Guinea is expected to seek membership in West African Monetary Union (UMOA).

Beginning in 1985, three new banks were opened: Banque Internationale pour l'Afrique de l'Ouest en Guinée (BIAG); Banque Internationale pour le Credit et l'Industrie en Guinée (BICIGUI); and Société Générale de Banque en Guinée (SGB).

BIAG is a joint venture between the Banque Internationale pour l'Afrique de l'Ouest (BIAO) group (34 percent), the Société Financière pour les Investissements et le Développement en Afrique (SIFIDA)(15 percent), and the Guinean Government (51 percent). Started in August 1985, it had about 1,000 accounts by mid-December; retail deposits are now coming in at a good pace.

BICIGUI was started in January of 1986, and is associated with the network of BICIs which the Banque Nationale de Paris (BNP) has established in Senegal, Cameroon, Ivory Coast and elsewhere. Its capital holdings are: 50.7 percent in the Government, financed by IBRD and the European Development Bank (EDB)(the Government is a private participant without overriding management control); about 20 percent held by an international consortium (Société Financière des Pays d'Outremer -- SFOM), led by the Banque Nationale de Paris (BNP), and including Banque Bruxelles-Lambert, Dresdner Bank, Bank of America and one from Luxembourg; and about 30 percent held by foreign aid institutions: IFC, CCCE (France), EDB, and DEG (Germany). All of them have shares, an act undertaken to avoid the necessity of creating a development bank in Guinea, a losing proposition in the eyes of all concerned. The bank is operated by the BNP under a management contract. SFOM has the option of buying out the aid institutions' interests after four to five years.

SGB is entirely private, owned 60 percent by a consortium of European banks led by the Société Générale de Banque and 40 percent by private Guinean shareholders.

It should also be noted that there is a fourth private bank, of longer standing. Dar al Maal Islami (DMI) was established in 1983 as a joint venture between the Government and the Saudi-owned DMI group, and some few shares have been issued to Guineans. The institution is based on Islamic banking principles, and is rumored to be less than successful.

While the new banks were coming into existence, the old banks began to close down, with official termination occurring on December 22, 1985; branches of the Crédit National were transformed into Central Bank or Treasury offices.

All of the banks operating before the changes (except DMI) were 100 percent Government owned. The liquidation process is continuing with an ongoing review of accounts by World Bank consultants, leading to an early final closing of the books.

It is expected that for some time equity financing is going to be in short supply; foreigners are going to be cautious and Guineans are going to still have trouble putting capital together. The new banks will be excellent in providing short term finance for, e.g., trade, but will suffer from a pan-African inability to do long-term programs. The dearth of commercial banking expertise and experience will make reviews of creditworthiness very difficult. Local resources will be supplemented by special development institution credit facilities (IBRD: SDR 9.9M; EEC: ECU 4.5M; CCCE: FF 30-45M) in hard finance to small and medium enterprises repayable in local currency. Little of this has been used, however. Constraining factors include: few strong project proposals; 13 percent interest rate; and a 40 percent cofinancing requirement.

Management of the World Bank line has been transferred to BICIGUI, which also does the EEC; the CCCE facility is managed by all three of the new banks.

Adding to financial complications, there is now a shortage of working capital and current operators rely on clients (such as the Government or the mining companies) to secure financing. It is believed, though, that the currency auction should help alleviate local liquidity problems.

E. EXTERNAL INFLUENCE

1. UNITED STATES

Although Government officials have repeatedly expressed strong interest in and desire for U.S. involvement, the U.S. to date has had a relatively low profile in Guinea. The USAID/Conakry office is not a full fledged mission and the American Embassy staff is not that large. USAID/Conakry has initiated a policy reform dialogue with the Government that is focused on the removal of all restrictions on the private marketing of agricultural produce and the eventual elimination of all state enterprise monopolies in the area of agricultural marketing. (At the time of our team's visit, USAID/Conakry was still waiting for the Government's response to the conditionalities already presented by USAID/Conakry).

In addition, USAID funded a project designed to support private sector investment and joint ventures between U.S. and Guinean businessmen with a special focus on the agricultural sector. The project, called CNPIP (Centre National de Promotion des Investissements Privés), recently co-sponsored a trade mission with OPIC (March 1986). While actual joint ventures between American and Guinean private entrepreneurs could not be verified, the mission was reported to have been well received and a couple of agricultural joint ventures are supposedly in the making.

There was some criticism from a key Ministry of Industry official regarding the CNPIP/OPIC trade mission. He felt that CNPIP had not done its job because too few opportunities were made to identify potential private partners for the industrial enterprises up for sale and because the Ministry of Industry had not had sufficient opportunity for input. While the potential influence of CNPIP as a U.S. organization is good, the future of the project is questionable because of the resignation of its dynamic director, a former Ambassador to the U.S., and also because a study of all organizations doing private sector promotion in Guinea is being undertaken by a French consulting firm (SODI) and the results of this study will determine whether CNPIP is to be absorbed by one of the government Ministries; in which case USAID funding, currently on hold, will almost certainly be terminated.

2. FRANCE

To say that the French influence in Guinea is overwhelming would be a gross understatement. France is not only one of the leading donor countries, it also exerts tremendous indirect influence on policy via an intricate network of French consultants and consulting firms under World Bank financed technical assistance contracts; via the in-country presence of IMF and World Bank resident advisors who are of French nationality. The French consulting firm IDI, orchestrating industrial sector privatization, is also responsible for identifying private sector partners for those enterprises, many of whom have been French. A French citizen was recently appointed vice-governor of the Guinean Central Bank. CCCE, the French government agency equivalent, has taken shares in the BICIGUI (one of the four banks in Guinea which is associated with Banque National de Paris). Two of the most visible new joint venture companies in Guinea (SOGETRAG -- transportation, and SGC -- commodity imports) involve Frenchmen.

Finally, the lawyer who will handle the final negotiations for the sale of parastatals is French, and the French Government has an arm (PROPACO) that takes equity positions in private sector ventures that promote interests of French businessmen.

3. OTHER

Other Western countries have only a moderate influence in Guinea in terms of policies that affect the private sector or issues related to the economic reform and the privatization program underway. Interestingly, the most technically competent, comprehensive study in Guinean's industrial sector that we could locate was done by the Canadian firm CEGIR; however, no evidence of Canadian influence in the framing of the Guinean national or industrial privatization program was apparent. Also, the influence of other Muslim countries is negligible.

F. CRITICAL ISSUES

Privatization Program Planning. In this section we discuss a number of critical issues related to the privatization program underway in Guinea. One of the key "lessons from the experience" that CFP has learned is that successful privatization efforts must be organized to an excruciating level of detail. All the policy issues need to be clearly articulated well in advance. Definitions, goals, and objectives need to be clearly laid out for all sectors. The selection and assessment of target enterprises must be done in a systematic, standardized fashion. The AID Policy Guidance on Privatization indicates that the appropriateness of the sector selected for privatization ought to be related to the likelihood that the sector will produce the greatest economic benefit. Program implementation must be highly elaborated to include specific action plans and a calendar of

events established so that the entire movement of the program can be carefully monitored. The Guinean national privatization program appears to have skipped some of these key steps.

Although our team was not able to interview representatives of the commission that has taken the responsibility for coordinating privatization activities in general, issues that have emerged point to a very hastily prepared program in which key issues involving legal, labor, investment, etc., are being resolved simultaneously with the privatizations that are taking place; and in the case of the industrial sector, the privatizations may precede the resolution of these issues. The haste with which events are taking place in the industrial sector have been attributed to the need to respond with concrete action to the December 22 presidential mandate. But a more critical analysis suggests that other issues may well have had equal bearing on identification of the industrial sector for rapid privatization.

In a recent paper on divestiture in developing countries, a World Bank consultant pointed out that one of the major obstacles to sales is that developing country governments rarely want to sell profitable state enterprises and the money losers that they do want to sell are unattractive to buyers at prices or terms that the government is willing to accept. The stark reality is that the current Guinea regime inherited what has been poorly functioning as a very mediocre industrial manufacturing sector with decrepid equipment and installations. The fact that most of the factories have never operated at capacity, because they lacked sufficient raw materials and parts, reliable electric supply and skilled management, simply served to compound other macro level planning issues, including: (1) the lack of any kind of interdependence between different national action plans; (2) lack of interrelationships between the industrial enterprises and the other productive sectors of the economy; (3) the development of

industrial enterprise studies and plans for carrying out those studies that were poorly elaborated (i.e., the establishment of factory sites far from the sources of raw materials and devoid of the necessary transport infrastructure, etc.). In this context, the selection of the industrial sector for immediate privatization becomes even clearer.

Processes for Soliciting/Evaluation Offers. The procedures being utilized for the solicitation and evaluation of offers for industrial sector enterprises are disturbingly "loose". Reports are that in the other sectors, procedures are proceeding in a similar fashion. A not inaccurate characterization of the process to date is "something just short of a free-for-all", with investors negotiating with various Ministry officials in a one-on-one basis. In fact, our team personally encountered an instance where a private investor representative went directly to the enterprise manager to present his client's offer. Additionally, we encountered instances in which private sector individuals reported that they had made agreements with various ministries to do joint ventures in a variety of enterprises, but we had difficulty establishing just where and how certain privatizations had taken place.

In order to get a handle on how the processes had occurred in the industrial sector, our team interviewed IDI and OFC consultants (who are the primary World Bank funded technical assistance advisors for the industrial and banking sector privatizations, respectively) and the Secrétaire Général of the Ministry of Industry. Our primary objective was to clarify how the industrial enterprise classification decisions had been arrived at (that is, how the decisions were reached to either liquidate, look for private partners, or keep and rehabilitate).

The solicitation/evaluation process for the industrial sector involved the establishment of the four classifications categories by a team of Ministry of Industry Officials and IDI consultants; and the establishment of an evaluation criterion set that encompassed factors related to financial, economic, and offeror credibility. A candidate dossier is described in Appendix B-4. In an April 1986 report, IDI acknowledged that several "process" related problems emerged due to time pressures and the need to act quickly on measures presented by the Chief of State. These included:

- A lack of precision or differences of interpretation in the accuracy of the list of decisions made and the modality for putting them into play;
- The need to define the principle functional rules that would be applied to the privatized enterprises;
- The guarantees to their future shareholders;
- Problems encountered with certain mixed enterprises which had originated or that had benefitted from international financing; and
- The absence of concrete re-orientation plans for the three relevant companies to which such measures applied.

How these issues were resolved, if indeed they were ever resolved, is unclear.

The process for soliciting and evaluating offers for enterprise scheduled for sale is sketchy, to say the least. Outside of the completed sample candidate dossiers we obtained, written procedures were unavailable. Our interviews with IDI, DFC, and the Secrétaire Général established the fact that criteria by which the candidate dossiers were to be judged were not published, nor were plans underway to publish such criteria. However, they did indicate that there would be a best and final competition.

Serious flaws exist in the solicitation/evaluation process that will undoubtedly cast future clouds on the credibility of the privatization process in Guinea (DFC has already reported a known instance, the sale of a supermarket, where the Government had not followed recommended procedures).

Negotiation/Execution. Another hazy area is the oversight/enforcement process related to the negotiation and execution of privatization agreements. For example, how are relevant commercial, investment, labor codes, etc., being applied. In the absence of an official calendar of events, it is difficult to project whether or not the French lawyer, reportedly scheduled to handle all the final negotiations, will be working in a context where such legal issues have been finally resolved; whether he will wait until they have been resolved; or whether he will go ahead and interpret the existing French law in order to avoid delaying the privatization process.

The imprecisions in the privatization process underway in Guinea, notwithstanding, the bottom line issue/question for USAID is:

"Does the business climate, indicate that successful privatization be done in the industrial sector, specifically, and other sectors, generally?"

It is the team's belief that a successful privatization program can, in fact, be carried out in Guinea. The program underway in the industrial sector suffers from a number of infirmities, described elsewhere in this report; but it is, in fact, proceeding. If one chooses to base "success" on a definition meaning any, even slight, improvement in financial performance or any new participation of the private sector, then it is successful. However, we strongly feel that if the industrial sector program had been framed within a more well-

developed and integrated overall privatization scheme, the results derived would be much more beneficial to the nation. Further, we feel that there is still time for the Government to carry out other privatizations in other sectors, such as agribusiness or public works, within a context which is more systematic and better incorporates the recognition of national needs. As a more rigorous set of criteria and standards for evaluating bids is implemented within an environment in which investors have more confidence in the laws, policies and infrastructures of Guinea, we are confident that the long term success -- and financial benefits -- of the program will be vastly increased.

In short, the current state of the business environment is one of a number of factors which together keep the privatization program from reaching its full potential; any improvement in any of the elements of the equation will stimulate private participation.

III. ACCOMPLISHMENTS

This CFP privatization reconnaissance trip was highly unusual in that it was necessary to accomplish in 10.5 days what is usually done over a much longer period. The need to do a focused preliminary review of three industrial enterprises (utilizing the CFP industry/enterprise guidelines) was superimposed on the CFP regular requirement that a privatization reconnaissance trip of two weeks be undertaken before a specific look at an enterprise occurs. While the regular CFP approach is sound and valid under usual circumstances, the situation in Guinea is unusual because of the advanced progression of the privatization program. The opportunity for U.S. AID to have an impact is unique in light of the historical/political background of this country. Therefore, the flexibility which USAID/Conakry, as well as PRE/CFP have used in responding to the special needs of the Guinea privatization effort is an important factor in this process.

For this reconnaissance, the team consisted of three individuals. Lance Marston, of The Hay Group assumed major responsibility for directing the input and design of the final reports. However, this was indeed a group effort and the experience, insights, and recommended actions are the results of a collective brainstorming effort that has incorporated the ideas and knowledge of not only our team, but those of the PRE and Africa Bureaus; a clear indication of the priority and interest with which Guinea's privatization program is being viewed.

The USAID/Conakry Mission has to be commended for providing us with the type of assistance and for specially assigning a staff person to facilitate our efforts in country. They arranged for our space, set up our appointments, provided us with key documents, and made it possible for us to talk to GOG officials

at every level, in spite of the limited staff resources at their disposal. Especially commendable are the efforts of Emmanuel Diarra, a new staff member of USAID/Conakry, who along with our team has become expert on privatization as it is occurring in Guinea.

Our methodological approach for obtaining the information required by both CFP and USAID/Conakry was to utilize the country and the enterprise/industry checklists to guide all of our discussions and interviews with the Government, the donor community representatives and consultants involved in the privatization program, as well as with individuals from the private sector. First we prepared background notes utilizing the available secondary data sources (primarily documents of the Guinean Government, consultant groups and donor groups involved in the Privatization Program) most of which were obtained in-country. Where data gaps still existed, and there were several, we sought to obtain primary source information via personal interviews with major informants identified for us by USAID/Conakry; and in the case of the three enterprises, we utilized an excellent survey questionnaire developed by CEGIR, the Canadian firm. Data from this survey were used extensively to complete the preliminary analyses of SOGUIFAB and SOGUIREP, two of the three enterprises targeted for review by our team. In this context, our team conducted more than 20 personal interviews with a cross-section of key individuals.

Unfortunately, two of the most important interviews did not materialize with representatives from Ministry of Plan and the Sous-Commission, which is the body recently designated responsible for the coordination of Guinea's privatization program, including the industrial privatization still to be completed.

In light of the widespread interest that generated this particular privatization reconnaissance trip, our debriefing on September 8, 1986 was of interest to policy level and program personnel not only within Africa and PRE Bureau, but also within the Office of the AID Administrator. At that time, draft reports were circulated for comment.

This final report incorporates all of the comments and changes received from reviewers at the Conakry Mission, the Africa and PRE Bureaus, and other organizations.

IV. RECOMMENDED FOLLOW-UP

The context within which the recommendations for follow-up are made is of great importance. Basically, it is that Guinea is an increasingly important country for the United States, in strategic, economic, political, and philosophical ways. As the Government turns from socialism to a free market economy, there are and will continue to be numerous opportunities for profitable initiatives by private firms, and by governments. ("Profitable" here relating to the many different facets of the picture.)

Therefore, if a commitment is made by the U.S. Government, it must be as strong as that of other nations in terms of resources, coordination and, very importantly, visibility. There should be a narrowing of focus to efforts in which the United States is the best source of help, or at least among the best.

The "window" for participation is closing in the area of privatization, since the program is proceeding at a rapid pace at this time, and decisions should be made without delay.

There is a need for a four-part general mechanism for dealing with privatization, this to be coordinated by the Mission. The components are:

1. Environmental Assessment: Survey and assess the status and condition of the country and a particular sector for privatization programs. This involves a follow-up on fast-changing events identified in this report in general, and ongoing investigations into agribusiness and new areas, such as infrastructure/public works.
2. Host Country Liaison: Begin a policy dialogue with GOG officials, relating to both inter-governmental matters in general, and privatization in particular. There should be information sharing and the identification of opportunities.

3. Monitoring and Alert: After opportunities are discovered, there should be a process for getting the message to the appropriate personnel and organizations. There should be a formalized system for conveying key data and insights, and for efficiently moving into the next phases of action.
4. Implementation Support: Finally, the program should include mechanisms for assisting the GOG and/or the private sector in carrying out privatization actions. This would include personnel, data, logistic, and other resources.

In the Agribusiness sector, the team believes that events have been such that it is now appropriate to undertake work in the fourth category. We therefore propose that AID assist the GOG by carrying out the following:

- Assessment and analysis of the overall agribusiness sector in order to identify two or more agribusiness parastatals to determine their privatizability;
- Advising the GOG on privatization methods and processes;
- Preparing the privatization mechanism (including documentation);
- Searching for and locating potential investors;
- Assisting in the selection of the successful candidate(s); and
- Assisting in the transfer of the parastatal to the private sector.

It is the team's belief that this process will result in at least four benefits to AID. First, it will allow for the development of an in-house expertise in the privatization process in the Mission, thus facilitating a continuing role for in-country personnel in the future. Next, it demonstrates the value of the three-level approach to privatization assessment (country wide, sectoral, and company-specific), allowing for refinement and use

in other locations. Third, it facilitates the liaison between Mission personnel and the GOG, in a number of areas, notably policy dialogue, information exchange, and monitoring. Finally, it enables AID to better utilize financial and technical assistance programs to ensure the most widespread benefits to both countries.

Appendix A

INTERNAL DOCUMENTATION

A.1 TRIP AND INTERVIEW CHRONOLOGY

CFP Team

Lance A. Marston, Chief of Party
Andrea J. Love
Peter A. Thomas

USAID Team

Mark A. Wentling, Mission Director
Teddy Stervinou
Robert G. Hellyer
Emmanuel Diarra

Sunday, August 3

Team Arrival in Conakry

Monday, August 4

Team meeting with USAID/Conakry staff to discuss scope of work; obtain briefing on background events affecting Guinea privatization developments; Emmanuel Diarra assigned as facilitator for CFP team work.

Meeting with William C. Mithoefer, Charge D'Affaires Ad Interim of the United States of America to discuss background events and team's scope of work.

Protocol meeting and personal interview with Guinea's Minister of Human Resources and Industry, Mr. Kemoko Keita, to introduce team and for team to obtain general information about the privatization program underway in the industrial sector; specifically in terms of the primary goals and objectives.

Tuesday, August 5

Personal interview with the Director of Small and Medium Enterprises, Ministry of Human Resources Industry, Mr. Lauawana Diallo, to obtain briefing about overall privatization program in the industrial sector and specific information about how process had been developed and was being implemented.

Meeting with representative for the Comité de Coordination, Mr. Babacar N'daye, to obtain detailed information about structure organization of the privatization program.

Tuesday, August 5 (continued)

Personal interview with Mr. Mamadou Conde, Director of CNPIP to obtain information about the business climate for privatization and investment in Guinea.

Wednesday, August 6

First site visits to three industrial enterprises (SOGUIFAB, SOGUIREP, CMD) to interview general managers, obtain preliminary information for the industry/enterprise checklist, and get first-hand look at facility and equipment.

Interview with Lucien Stervinou, Resident Conseiller for CNPIP, to obtain answers to specific information on business climate checklist and obtain background information on investment climate, as well as socio-political variables important to the national privatization program underway in Guinea and problems of small private businessmen.

Thursday, August 7

Interview with World Bank Resident Representative, Jean-Claude Balcet, to determine specific plans and activities of World Bank, re the national privatization program, and to determine how World Bank is orchestrating the program; also to obtain specific documents, such as the revised investment code. Revisions being developed by World Bank consultants.

Interview with consultants involved in Guinean privatization program under World Bank auspices, Phillippe Seigneur and Joyce Symington (DFC), to determine the specific role being played by their organization in the privatization program underway, and to obtain information on how the implementation was actually occurring.

Interview with Chemonics consultant Donald J. Rhadigan (conducting an extensive survey -- 12 weeks -- of the private sector in Guinea) to determine exact nature of his assignment and what aspects may have implications for the CFP privatization reconnaissance study.

Friday, August 8

Group interview with Mr. Lasagne Traore, General Secretary, of the Guinean Ministry of Human Resources, Industry, Small and Medium Enterprises; together with Mr. Patrick Mastrale, the IDI consultant advising this Ministry, to obtain answers to specific questions about the process for classifying and

Friday, August 8 (continued)

evaluating the industrial enterprises up for sale, and the process being used to sell these enterprises; including specific detailed information on the dossiers received for SOGUIFAB, CMD, and SOGUIREP.

Continuation of interview with Phillippe Seigneur (DFC) to discuss role of his company in the privatization program in Guinea.

Saturday, August 9

Interview with Mr. Jean Paul Duval, Delegué Commercial, Société B. Guillouard (a private sector company looking into opportunities for large scale investment in Guinea) to determine problem issues being confronted by foreign private sector interests trying to do business in Guinea.

Tuesday, August 12

Group interview with Mr. Mohamed Said Fofana, Secretary General of the Chamber of Commerce (and approximately 10 chamber members) in order to determine the influence of the private sector on policy and what input they have had into the privatization program.

Return site visit to SOGUIFAB to hold group interview with Lt. Mamadou Alpha Diallo, SOGUIFAB General Director, a three SOGUIFAB staff members to assess low/mid level commitments and to obtain up-to-date information on financial operations of SOGUIFAB.

Return site visit to SOGUIREP for interview with Mr. Ousmane Diakite, Production Director of SOGUIREP, to determine low level commitment and to obtain up-to-date information on financial and operations of SOGUIREP.

Return site visit to CMD (twice) to interview General Director and obtain up-to-date financial information on financials and operations of (unsuccessful due to absence of General Director).

Wednesday, August 13

Interview with Mr. Marcel Lelo, Guinea's Secretary General of Plan, was cancelled by government.

Thursday, August 14

Exit interview with Guinea's Minister of Industry, Mr. Kemoko Kieta, to advise him of the progress of our work and our plans for follow-up with USAID/Conakry.

Debriefing meeting with USAID/Conakry and American Embassy personnel (W. C. Mithoefer, T. Stervinou, R. G. Hellyer, E. Diarra) to discuss findings of our team thus far, indicate timetable and nature of forthcoming report.

A-2. BACKGROUND CORRESPONDENCE

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AID/AFR/CCWA:MEARES

AID/AFR/PRE:HIMUNSON

AID/AFR/DP:JWOLGIN

AID/PRE:RANDERSON

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AIDAC, ABIDJAN FOR REDSO/WCA

E.O. 12356: N/A

TAGS:

SUBJECT: GUINEA AEPRP - PRE-PRIVATIZATION STUDY

1. PRE BUREAU HAS A CENTRALLY FUNDED PRIVATIZATION CONTRACT WHICH IT WOULD BE WILLING TO USE TO ASSIST GOG TOWARD EVENTUAL PRIVATIZATION OR DIVESTITURE OF AGRIMA AND SEMAPE. THEY WOULD AGREE, IN PRINCIPLE, TO FUND A PRE-PRIVATIZATION ASSESSMENT WHICH MIGHT INCLUDE THE FOLLOWING ILLUSTRATIVE TASKS:

- A. EVALUATE THE PERSONNEL SITUATION OF EACH AGENCY, INCLUDING NUMBER OF EMPLOYEES, ROLE/FUNCTION, COMPENSATION AND BENEFITS, STATUS WITHIN CIVIL SERVICE, COSTS FOR SEPARATION, ETC.
- B. ANALYSIS OF HISTORIC AND CURRENT ROLE OF ORGANIZATIONS IN TERMS OF CLIENT RELATIONSHIPS AND PAST/PRESENT DEMAND FOR PRODUCTS.
- C. INVENTORY FACILITIES AND EQUIPMENT AND LOOK INTO AVAILABILITY OF PARTS, CONDITION OF EQUIPMENT, OPERABILITY, CONSTRAINTS UPON USE, ETC.

CP *AK*
 HRH *77*
 MM *MM*
 JW *AK*
 HIM *AK*
 RA *AK*

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D. FINANCIAL ANALYSIS WHICH WILL INCLUDE: APPRAISAL OF BOOK AND MARKET VALUE OF ASSETS, NATURE OF OBLIGATIONS, BALANCE SHEET, REVENUES, EXPENDITURES, CASH FLOW, CASH RESERVES, ETC.

E. ORGANIZATION AND MANAGEMENT ANALYSIS TO ASSESS CAPABILITY AND EFFECTIVENESS OF MANAGEMENT AND WAYS TO IMPROVE ORGANIZATIONAL EFFICIENCY THROUGH STAFF REDUCTIONS, TRAINING, REORGANIZATION, DELEGATION OF RESPONSIBILITIES, ETC.

F. CONSIDERATION OF POTENTIAL FOR PRIVATIZATION, INCLUDING:

{A} ASSESSMENT OF DEMAND FOR PRODUCTS AND POTENTIAL FOR ORGANIZATIONS TO OBTAIN PLACE IN MARKET;

{B} ASSESSMENT OF FINANCIAL REQUIREMENTS AND REVENUE/COST COMPARISONS {CASH FLOW PROJECTIONS};

{C} STRATEGY/PLAN FOR ATTEMPTING PRIVATIZATION;

{D} IMPLICATIONS OF CLOSE-OUT, ESPECIALLY IF PRIVATE SECTOR IS NOT INDUCED TO COME FORWARD.

2. IF YOU ARE INTERESTED IN PRE'S OFFER, SUGGEST YOU DISCUSS INFORMALLY WITH GOG OFFICIALS AND PREPARE A DRAFT SCOPE OF WORK AND SUMMARY OF LEVEL OF WORK AND SUPPORT COSTS REQUIRED. IF NOT INTERESTED, PLEASE ADVISE ASAP. 44

PAGE 01 STATE 232688

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 AID/D/AA: JMONRIS (INFO) AID/AFR/CCWA: MMCARES (INFO)
 AID/AFR/PD: LHAUSMAN (INFO)

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AIDAC AAO MARK WENTLING REDSO/CWA

E. O. 12388: N/A

TAGS:

SUBJECT: SURVEY OF PRIVATIZATION POTENTIAL IN GUINEA

1. HAY ASSOCIATES, A TOP FLIGHT CONSULTING FIRM, HAS A VICE PRESIDENT, LANCE MARSTON, EXPERIENCED IN PRIVATIZATION WHO IS COMPLETING AN ASSIGNMENT IN ABIDJAN THIS WEEK. AT A MEETING WITH THE AA/PRE AND DEPUTY ADMINISTRATOR WE AGREED THAT IT WOULD BE HIGHLY ADVANTAGEOUS AND ECONOMICALLY TO HAVE MR. MARSTON PROCEED TO GUINEA EARLY NEXT WEEK FROM ABIDJAN TO DO A FIVE TO TEN-DAY SURVEY OF PRIVATIZATION ACTIVITIES AND OPPORTUNITIES IN GUINEA. DR. ANDREA LOVE, A FLUENT FRENCH SPEAKER WHO HAS WORKED ON PRIVATIZATION ACTIVITIES FOR PRE, WILL ACCOMPANY MR. MARSTON TO ASSIST IN THE SURVEY AS WELL AS PROVIDE TRANSLATION SERVICES.

2. BROADLY, THE TEAM WILL BECOME FAMILIAR WITH SUCH CONSIDERATIONS AS: GOVERNMENT AND WORLD BANK ACTIONS TO ASSESS PARASTATAL VIABILITY AND INITIATE STEPS TOWARD DIVESTITURE; RELEVANT GOVERNMENT POLICIES AND PROCEDURES; RELATED MARKET AND PRICE INTERVENTIONS; AND LOCAL BUSINESS COMMUNITY ATTITUDES TOWARD AND CAPABILITY TO PARTICIPATE IN THE PRIVATIZATION PROCESS. BASED ON FINDINGS THE TEAM WILL SUGGEST TO THE MISSION HOW AID

MIGHT COOPERATE WITH THE PRIVATIZATION PROGRAM AND ACTIVITIES NOW UNDERWAY. PRE'S CENTER FOR PRIVATIZATION, IN CONSULTATION WITH HAY'S WASHINGTON OFFICE, IS PREPARING A DRAFT SCOPE OF WORK WHICH WE WILL CABLE TO YOU TOMORROW. MISSION SHOULD TAILOR THE DRAFT AS APPROPRIATE TO LOCAL CONDITIONS AND CIRCUMSTANCES.

3. THERE IS MUCH INTEREST AND RECOGNITION HERE FOR THE GUINEAN RESOLUTION TO RESTORE THE PRIVATE SECTOR. THE AA/AFRICA AND ALL OTHER COGNIZANT BUREAU EXECUTIVES SUPPORT HAVING THE TEAM PROCEED TO CONAKRY TO DO A PRIVATIZATION SURVEY WHICH WILL BE TOTALLY FINANCED FROM CENTRAL FUNDS. ACCORDINGLY, WE WILL APPRECIATE YOUR CONCURRENCE BY RETURN CABLE AND YOUR SUPPORT IN ARRANGING APPROPRIATE MEETINGS WITH KEY WORLD BANK BUSINESS AND GOVERNMENT EXECUTIVES. MR. MARSTON AND DR. LOVE ARE NOW ARRANGING VISAS AND FLIGHTS TO CONAKRY. TRAVEL SCHEDULES WILL BE CABLED TO YOU ASAP. SHULTZ

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E. O. 12356: N/A
 TAGS:
 SUBJECT: HAY PRIVATIZATION SURVEY

REF: STATE 232660

WE HAVE NOW BEEN ADVISED BY HAY THAT THE LANCE MARSTON
 WORK DESCRIBED IN REFTEL CANNOT BEGIN FOR ANOTHER TWO
 WEEKS AS MARSTON MUST RETURN BRIEFLY TO THE U.S. TEDDY
 STERVINDU HAS BEEN CONTINUOUSLY INVOLVED IN THESE
 DEVELOPMENTS AND WILL BRIEF YOU UPON HER ARRIVAL IN
 CONAKRY ON MONDAY. WE BELIEVE THIS TIMING CHANGE WILL
 BE ACCEPTABLE TO THE MISSION AND WILL TRANSMIT
 ADDITIONAL INFORMATION ON SCHEDULE AND SCOPE EARLY NEXT
 WEEK. AFMACOST

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AID/W FOR AAPRE AND AFR/CCWA
ABIDJAN FOR REDSO, WCA PASS LANCE MARSTON

E. O. 12356: N/A
SUBJ: SURVEY OF PRIVATISATION POTENTIAL IN GUINEA

REF: STATE 232660

1. REFTEL IS VERY TIMELY AS IT CAME WHEN AAO WAS PREPARING A CABLE TO REPORT ON RECENT EFFORTS TO BECOME INVOLVED. THESE EFFORTS INCLUDED A MEETING WITH THE MINISTRY OF INDUSTRY ON JULY 23. DURING THIS MEETING A NUMBER OF PARASTATALS WERE IDENTIFIED BY THE MINISTER AS ONES HE WOULD LIKE USAID ASSISTANCE IN PRIVATIZING. FROM THE PARASTATALS, AAC HAD SELECTED THREE THAT APPEARED TO POSSESS HIGH POTENTIAL AND WAS ON THE VERGE OF ASKING FOR AAPRE ASSISTANCE WITH STUDYING THESE THREE WHEN REFTEL ARRIVED. THEREFORE, AAO REQUESTS THAT MARSTON AND LOVE ALSO DO INITIAL REVIEW OF PRIVATIZATION POTENTIAL OF THESE THREE ENTITIES DURING THEIR TDY IN CONAKRY.

2. IT SHOULD ALSO BE NOTED THAT UNDER OUR CONTRACT WITH CHEMONICS WE ARE INITIATING THIS WEEK A PRIVATE SECTOR SURVEY AND A STUDY FOR THE ESTABLISHMENT OF A PRIVATE GUINEAN BANK. AT THE SAME TIME, A STUDY FINANCED BY IBRD ON GOV ENTITIES FOR THE PROMOTION OF PRIVATE INVESTMENT IN GUINEA IS BEING INITIATED. IT IS THEREFORE BELIEVED THAT THE WORK OF MARSTON AND LOVE WILL COMPLEMENT WELL THESE ACTIVITIES.

3. AAO WILL ARRANGE PROGRAM, MAKE HOTEL ARRANGEMENTS AND PROVIDE FOR PICKUP AT AIRPORT AS SOON AS WE HAVE CONFIRMATION OF ETA OF MARSTON AND LOVE. THANKS FOR KEEPING US IN MIND. MITHOEFER

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FOR. CENTER FOR PRIVATIZATION. PRE BUREAU FOR P. HAIRE

E. O. 12356: N/A
SUBJ: GUINEA PRIVATIZATION RECONNAISSANCE

1. IN LIGHT OF MISSION REQUIREMENT TO REVIEW 3 INDUSTRIAL SECTOR PARASTATALS IN ADDITION TO CFP COUNTRY PRIVATIZATION RECONNAISSANCE, REQUEST MODIFICATION PN HAY TASK ORDER.
2. ESTIMATE ADDITIONAL 12 PROFESSIONAL DAYS NEEDED FOR ENTERPRISE SPECIFIC RESEARCH ANALYSIS AND REPORT PREPARATION IN WASHINGTON. INCREASE HAY INDIRECT LINE TO COVER ADDITIONAL TYPING, REPRODUCTION ETC.
3. DRAFT REPORT AND DEBRIEFING IS SCHEDULED FIRST WEEK IN SEPTEMBER.
4. REQUEST FELICIA BROWN (AGI) DEPOSIT LOVE PAYCHECK.
5. PLEASE ADVISE MRS THOMAS (703 524 4628) ALL WELL AND ON SCHEDULE.
6. CONSULANTS WORKING MISSION 6 DAY WORK WEEK.
7. THANK YOU FOR YOUR AYSISTANCE. MITHOEPER

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TAGS:

SUBJECT PRE PRIVATIZATION PROJECT (940-0008) GUINEA
PRIVATIZATION RECONNAISSANCE

REF CONAKRY 2923

RE PARAS 1 AND 2 OF REFTTEL REQUESTING ADDITIONAL PERSON DAYS TO COMPLETE SUBJECT ENGAGEMENT PRE REQUIRES ADDITIONAL INFORMATION AND CLARIFICATION IN ORDER TO RESPOND SPECIFICALLY PRE NEEDS TO KNOW (A) WHICH INDIVIDUAL ANALYSTS WILL PERFORM THE ADDITIONAL WORK (B) WHAT IS VENUE FOR ADDITIONAL WORK (C) IN GUINEA OR IN THE U.S. (D) WHAT SPECIFIC LINES OF INQUIRY WITH RESPECT TO THE THREE INDUSTRIAL SECTOR PARASTATALS WILL BE PURSUED AND HOW IS THIS LINKED TO THE BASIC POLICY DESIGN MANDATE OF THE MARSTON LOVE TEAM ADVISE ASAP. SHULTZ

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E.O. 12356: N/A
SUBJ: GUINEA AEPRP - PRE-PRIVATIZATION STUDY

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1. REGRET DELAY IN RESPONSE TO REFTEL.
2. AAO/GUINEA IS INTERESTED IN PRE OFFER TO FUND THE SUBJECT STUDY OF AGRIMA AND SEMAPE ALONG THE LINES OF THE ISSUSTRATIVE TASKS OUTLINED IN REFTEL. A MORE DEFINITIVE ANSWER CANNOT BE GIVEN UNTIL THE GOG'S REACTION TO THE AEPRP CONDITIONS PRECEDENT WHICH CALL FOR THE PRIVATIZATION OF SEMAPE AND AGRIMA IS RECEIVED. ONCE THIS IS RECEIVED MISSION WILL WORK WITH GOG TO DRAFT SOW, ETC. AND CABLE THIS INFORMATION TO PRE. MITHOEFER

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3. IMPACT ON DEVELOPMENT
4. ESOP POTENTIAL
5. SMALL BUSINESS GENERATION POTENTIAL

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AGLE-01 /020 AB

3) PLEASE ADVISE WHEN STUDY WILL BE POUCHED TO MISSION.
MITHOEFER

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FOR PRE AND AFR/PRE

E.O. 12350: N/A
SUBJ: PRE PRIVATIZATION PROJECT (940-0200) GUINEA
PRIVATIZATION RECONNAISSANCE

REF: A. STATE 206913 B STATE 248475

1) FOLLOWING RESPONSE IS KEYED TO QUESTIONS RAISED IN REFTEL
PLEASE CONFIRM RESPONSES TO (A) AND (B) BELOW WITH A LOVE
(CENTER FOR PRIVATIZATION).

2) PER REF, PARA 1' (C) WORK TO BE EQUALLY SPLIT BETWEEN NAY
CONSULTANTS P. THOMAS AND L. HARSTROM.

(B) AGAIN, TIME TO BE EQUALLY SPLIT BETWEEN GUINEA AND THE
U.S.

(C) AT THE REQUEST OF MINISTER OF INDUSTRY, THE TEAM WAS
ASKED THAT IN ADDITION TO PREPARING AN ASSESSMENT OF THE GUINE
PRIVATIZATION STRATEGY/PLAN, IT CONDUCT AN OPERATIONAL REVIEW
AND MARKET ASSESSMENT OF THREE (3) ENTERPRISES. THIS
WAS LISTED AS COMPONENTS B AND C IN DETAILED SOM IN REF B.
THE LINES OF INQUIRY PURSUED INCLUDED THE FOLLOWING
FACTORS:

FACTORS CURRENT STATUS AND TRENDS

A. ECONOMIC VIABILITY

1. PROBABILITY TRACK RECORD
2. SUBSIDY ELEMENT
3. PROTECTION ELEMENT
4. MARKET SHARE
5. IMPORT COMPETITION
6. DOMESTIC MARKET POTENTIAL
7. EXPORT MARKET POTENTIAL
8. STAFFING/ORGANIZATION/MANAGEMENT
9. WAGE AND SALARY STRUCTURE (INCL. PERKS)
10. PLANT PRODUCTIVITY (BLDG./EQUIPMENT/PARTS)
11. ADEQUACY POWER/UTILITY/TRANSPORT
12. DEPENDABILITY OF ACCOUNTING RECORDS

B. DEAL "BO-ABILITY"

1. POTENTIAL OPERATING INDEPENDENCE
2. GOVERNMENT ACCEPT/PAPER/LOVER PRICE
3. GOVERNMENT RESCHEDULE DEBT/ASSUME LIABILITIES
4. OTHER CREDITORS FLEXIBILITY
5. UNION CONTRACT FLEXIBILITY
6. LOCAL COST AND IMPORT FINANCING REQUIREMENTS
7. FULL DIVERSITURE VS LEASE, MANAGEMENT CONTRACT, ETC.

C. OTHER FACTORS

1. STRATEGIC/SOCIAL SIGNIFICANCE
2. NATURAL MONOPOLY

A-3. EXIT INTERVIEW CABLE

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PAGE 01
ACTION AID-00

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AGEE-01 019 40

INFO LOG-00 AF-00 /000 W

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FM AMEMBASSY CONAKRY
TO SECSTATE WASHDC 0772

UNCLAS CONAKRY 3022

RECEIVED AUG 20 1986

AIDAC

FOR PRE R. ANDERSON AND P. HAIRE
AER. PRE-B. MUNSON
AFR/CCWA-MEARS
AFR/CCWAP-HELMAN

E. O. 12356: N/A
SUBJ: GUINEA PRIVATIZATION SURVEY: ~~CENTER FOR~~ PRIVATIZATION (CFP)

1. CFP RECONNAISSANCE TEAM OF L. MARSTON AND P. THOMAS (HAY GROUP) AND ANDREA LOVE (CFP) COMPLETED WORK ON SUBJECT SURVEY ON AUGUST 14, 1986. USAID/GUINEA VERY SATISFIED WITH PRELIMINARY WORK/FINDINGS.
2. DURING THE PERIOD AUGUST 4-14, MEETINGS WERE HELD WITH NUMEROUS HIGH LEVEL GOG MINISTRY OF INDUSTRY OFFICIALS AS WELL AS REPRESENTATIVES FROM THE WORLD BANK, INTERNATIONAL DONORS AND PRIVATE SECTOR.
3. MISSION LOOKS FORWARD TO EARLY FEED BACK ON RECOMMENDED ACTIONS SINCE PRIVATIZATION ACTIVITIES ARE MOVING AT RAPID PACE IN GUINEA.
4. MISSION PERSONNEL WILL MAINTAIN CONTACTS WITH TEAM MEMBERS REGARDING VARIOUS PRIVATIZATION INITIATIVES WHICH COULD BE UNDERTAKEN (I.E. POLICY DIALOGUE, REGIONAL COORDINATION, OTHER SECTORIAL PRIVATIZATIONS, ETC.)
5. USAID/GUINEA WISHES TO EXPLORE POSSIBLE SHARED FUNDING FOR FOLLOW UP ACTIVITIES WITH PRE.
6. PLEASE POUCH DRAFT OF REPORT AS SOON AS IT IS AVAILABLE MITHOEFER

Appendix B

SUBSTANTIVE DOCUMENTATION

B-1. BIBLIOGRAPHY

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World Bank. "Report and Recommendations of the President of the International Development Association to the Executive Directors on a Proposed Credit of SDR 9.7 to the Republic of Guinea for a Technical Assistance Project for Economic Management", February 20, 1985.

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POLICY STATEMENTS AND ORDONNANCES

I. MEMORANDUM ON THE ECONOMIC AND FINANCIAL POLICY OF THE
GUINEAN GOVERNMENT (IN PART) -- IMF, 12/11/85

"4. PUBLIC ENTERPRISES

After conducting an exhaustive study of the public enterprises with the assistance of consultants financed from a World Bank credit, the Government has decided to keep 23 enterprises regarded as public utilities (such as the water and electricity companies) or as potentially viable from a commercial stand point. Each of these enterprises will open an account in one of the three new banks, and the Treasury will credit these accounts with the required working capital. Some 14 public enterprises will be moth-balled pending further investigation, while all other public enterprises will be closed, and their assets liquidated with the assistance of a specialized group of consultants.

"Private partners have already expressed interest in obtaining a share in the ownership of some ten industrial enterprises. As in the case of the new banks, the new managements will be empowered to decide the number of employees and the level of their remuneration. Subsidies to industrial enterprises will be determined in agreement with the World Bank, but the total amount will not exceed 4 billion Guinean francs in 1986.

"The staff of mining companies will no longer be subject to civil service regulations, thus providing them with greater flexibility in their wage and employment policies. In view of the

unfavorable world market conditions for bauxite and alumina, efforts will be made to reduce production costs and improve Guinea's competitive position.

"As regards public utilities, tariffs will be adjusted from January 6, 1986 on the basis of recommendations made by the World Bank in respect of electricity, telephone, water, and rail transportation, and by the CECC for urban mass transit. Total subsidies to the companies applying these services will not exceed 2 billion Guinean francs in 1986. Air Guinea's international flights will be suspended from January 2, 1986, and fares for domestic flights will be adjusted to assure the financial soundness of that company."

II. PRESIDENT CONTE'S "STATEMENT OF DEVELOPMENT POLICY" (IN PART) -- PREPARED FOR IBRD, 12/19/85

"RESTRUCTURING OF THE PARAPUBLIC SECTOR

"43. In support of its decision to create a liberal, private sector oriented economy, and to very substantially reduce and eventually eliminate the heavy burden of the state enterprises on Guinea's public finances, the Government has decided to undertake a systematic review and reduction of its interventions in these companies. The basic principles of this policy to remove the State from the productive sectors, are:

- (a) The encouragement of private initiative and the reintroduction of free commerce;
- (b) The elimination of State monopolies in the industrial, commercial and transport sectors;
- (c) The final liquidation of an important number of non-performing public enterprises;
- (d) The systematic search for private investors or partners to take charge of viable companies; and
- (e) A moratorium in 1986 on the creation of any new public enterprises (with the possible exception of a telecommunications agency) or on the Government's taking participation in any entities except banks."

"44. The Government has already embarked on a program for its progressive withdrawal from these activities, aimed at limiting the financial involvement of the state and the role state enterprises play in the economy. The Government has already liquidated IMPORTEX. It has also established a program for the rehabilitation of viable enterprises, with private partners bringing capital and management expertise, as indicated in Ordonnance No. ___ and ___ of December ___ 1985. The Government will respond favorably to initiatives from private interests to

engage in activities heretofore undertaken by public enterprises. For the enterprises whose financial and economic viability is shown but for which private partners display little interest by June 30, 1986, the Government will decide whether to liquidate these enterprises or turn them over to their employees. In the case of the public utilities (SNE, DEG, telecommunications, urban transport), the Government plans to negotiate "contrats-plans". In light of specific and targeted recovery programs, these agreements will set out the functions, objectives and respective responsibilities of the enterprise and the state.

"Restructuring of the Non-Industrial Sector"

"45. In recognition of the general principle that in a liberal economy the role of Government as a sovereign regulator need not be expressed by its holding shares in a company, the Government intends to withdraw from the economic sectors in which private agents are already operating and in which they indicate their interest. In the area of non-industrial companies, the Government intends to:

- (a) Define the classification of companies which might be maintained in the State's portfolio (with rehabilitation or eventual mergers) and those which are to be liquidated or privatized; and
- (b) Carry out, before March 31, 1986, the action program on non-industrial public enterprises, which were examined in the preliminary report prepared by DFC of November 30, 1985. This document gives the general principles for divestiture, develops the detailed and dated action program and designates those responsible for carrying it out. Interim measures will be taken while the action program is being carried out, including definition of working capital and credit requirements, and rules for access to foreign exchange, as agreed with the IMF.

"46. The Government also intends to begin discussions in early 1986 with international petroleum companies, with a view to making them responsible for the distribution and sale of petroleum products throughout the country.

"Restructuring of the Industrial Sector

"47. The restructuring of the industrial sector will be driven by the same principles of economic viability and the association of private Guinean or foreign partners to replace Government departments that currently manage and control these companies. It is particularly important in the industrial sector that private interests bring their management and organizational skills, and their capital, to return these companies to the levels of capacity utilization and quality needed to ensure their profitability. The Government intends to proceed quickly to the closure and liquidation of those companies that are not viable, whose equipment is too outdated, or for whom partners cannot be found.

"48. The 45 industrial companies will be evaluated before the end of 1985, and partners will be sought during the first half of 1986. Companies for whom partners have not been found by June 30, 1986, or for whom negotiations with prospective buyers are not set up, will be liquidated."

III. ORDONNANCE 318

REPUBLIC OF GUINEA

WORK-JUSTICE-SOLIDARITY

PRESIDENT OF THE REPUBLIC
GENERAL SECRETARIAT OF GOVERNMENT

ORDER No. 318/PRG/85
THE PRESIDENT OF THE REPUBLIC,

IN VIEW OF the declaration of effective taking of power by
the Army dated 3 April 1984;

IN VIEW OF the proclamation of the Second Republic;

IN VIEW OF Orders No. 329 and 330 of 18 and 19 December 1984,
nominating Members of the Government;

ON THE motion of the President of the Committee on Economic
and Financial Coordination

ORDERS

ARTICLE 1: In the plan for the restructuring of the
Industrial Sector, the following corrective measures will be
applied to Industrial Enterprises effective 1 January 1986:

- 1) ENTERPRISES TO BE LIQUIDATED - SALE OF SHARES:
 1. SOPEC
 2. USOA
 3. SUKOB
 4. USINE DE THE DE MACENTA
 5. USINE DES MEUBLES DE SONFONIA
 6. USINE DE QUININE DE SEREDOU
 7. GARI DE FARANAH

- 2) ENTERPRISES TO BE TEMPORARILY CLOSED WITH A SURVEILLANCE
TEAM UNTIL PRIVATE PURCHASE:
 1. CMD
 2. BRIQUETERIE DE KANKAN
 3. SOGUIREP
 4. UOA
 5. HUILERIE DE DABOLA
 6. BONAGUI

7. FOULAYA KINDIA
8. USINE DE JUS DE FRUIT DE KANKAN
9. SIPAG
10. SCIERIE DE N'ZEREKORE
11. SONACAG CARREAU
12. BRIQUETERIE DE KOBAYA
13. IMPRIMERIE DE LA REPUBLIQUE

3) ENTERPRISES TO BE TEMPORARILY CLOSED WITH A SURVEILLANCE TEAM, AND TO BE REORIENTED:

1. SIPAR LABE
2. ODRIK KOUROUSSA
3. ENIPHARGUI
4. CENTRE PILOTE

4) ENTERPRISES TO BE MAINTAINED:

1. SONACAG CARRIERES
2. SIPECO
3. SOGUILUBE
4. ENTA
5. SOBRAGUI
6. SALGUIDIA
7. SOGUIFAB
8. SOPROCIMENT
9. SANoyAH
10. SOGUIPLAST
11. IMPRIMERIE PATRICE LAMUMBA.

ARTICLE 2: The rules to be applied to personnel in the enterprises being liquidated or ceasing operation shall be established by the Secretary of State for Labor and the Minister of Economy and Finance.

ARTICLE 3: The Head of the Gendarmerie shall take all necessary steps to assure the surveillance of the facilities of the enterprises being closed or temporarily ceasing operations.

ARTICLE 4: The Minister of Industrial Development, the Minister of Planning and Natural Resources, and the Minister of Economy and Finance are charged, each in his area of cognizance, with the implementation of this order, which shall be registered and published in the Official Journal of the Republic.

CONAKRY, 21 DECEMBER 1985

GENERAL LANSANA CONTE

The Privatization of the Public Industrial Sector ("La Privatisation du Secteur Public Industriel" Annexe 1, Institut de Développement Industriel: Restructuration du Secteur Public et Parapublic Guinéen, 4/86)

THE PRIVATIZATION OF THE PUBLIC INDUSTRIAL SECTOR

I. GENERAL PRINCIPLES

At this point in the efforts undertaken by the consultant retained by the Government of Guinea to assist it in its policy of disengaging the state from the public industrial sector, it is important to enunciate some fundamental principles for the finalization of negotiations:

Except in the case of the IMPRIMERIE NATIONALE PATRICE LUMUMBA, which the Guinean authorities intend to keep in the public sector, the wish of the Guinean leadership is to disengage as much as possible from the public industrial sector, and the resulting level of state participation in the enterprises that are maintained or terminated in the course of privatization shall not exceed 20 to 30 percent.

The government hopes that the bidders will establish firm foundations and that the privatization will be irreversible; it thus rejects all contracts for management, leasing, lease-management ...

With the wish to develop an industry that is strengthened by healthy competition, the government will seek only those who do not require the use of artificial barriers (Customs rules which deviate from the general tariff, agreements providing exclusivity in production and distribution ...).

Priority status must be accorded to effective divestiture of diverse industrial entities in the best time. The consultant will thus present to the government the bid summaries that are in its possession as soon as they appear to it to be acceptable, without waiting for the ultimate offer which never comes.

II. PROCEDURE FOR PRIVATIZATION

Each time the characteristics of the enterprise and the quality of the bids permits it, priority shall be given to private Guinean operators.

It is always true that the extent of the problems confronted by certain enterprises implies that in many cases their privatization cannot be undertaken without the participation of foreign industrial operators. It is thus necessary to select this operator in the first instance; this operator has the responsibility for organizing the complete program for the financing of the planned divestiture, a program which must include the private Guineans who have expressed a desire to participate in the initiative. The procedure for choosing the operators is as follows:

Since September 1985, the consultant and the Ministry of Human Resources, the Ministry of Industry, and the Ministry of Small and Medium Enterprises have had discussions with firms that have become candidates for an eventual divestiture, either on their own initiative, or following invitations from IDI.

Within the terms of reference, in collaboration with the principal senior officials of the ministry, the consultant has collected the proposals and has led negotiations on the principal elements of one offer.

Today, certain proposals seem fully developed. The consultant will present them according to the enclosed schedule to the Economic and Financial Coordinating Committee. To permit the committee to make a determination in the matter, the consultant will provide to its members a detailed report 15 days before the decision-making meeting of the committee.

III. PRINCIPAL CRITERIA RELATING TO A CHOICE BETWEEN
TWO DIVESTITURE PROPOSALS

The proposed price will be, certainly, an important element for consideration, but there are also other fundamental criteria:

- The quality of the industrial partner.
- The quality of the divestiture plan proposed. It is important that the divestiture be a success and that an eventual failure not be allowed to compromise the success of the policy of disengagement adopted by the government.
- The participation of Guinean investors in the divestitures ... or the firm contractual undertaking by the foreign bidder to vest a portion of the ownership within an agreed time in Guinean investors.
- The importance of planned investments.
- The creation or the preservation of maximum jobs, if it doesn't jeopardize the proposed plan.

IV. SCHEDULE OF CONSULTANT'S ACTIVITIES

During the months of March and April, the consultant will guarantee a virtually full-time presence in Conakry, to permit the completion of a maximum number of divestitures. Calculating from the month of May, in conformity with the terms of reference and the established budget, the consultant will only assure a half-time presence in Guinea and will continue in Europe its work relating to searches for partners for the enterprises with the most delicate problems.

PRIVATIZATION

BASIC SCHEDULE

MARCH-APRIL	BRIQUETERIE DE KANKAN SIPECO SOBRAGUI SONACAG CARRIERES U.O.A.
MAY-JUNE	C.M.D. ENTA IMPRIMERIE DE LA REPUBLIQUE SIPAG SOGUIFAB SOGUIREP USINE DE JUS DE FRUITS DE KANKAN
AFTER JUNE	FOULAYA-KINDIA HUILERIE DE DABOLA SCIERIE DE N'ZEREKORE SIPAR LABE SOGUILUBE SONACAG CARREAUX
REORIENTATION EFFORTS	ODRIK KOUROUSSA ENIPHARGUI CENTRE PILOTE

Enterprises in which privatization will be difficult
(problems of profitability, legal problems): BONAGUI*, SALGUIDA,
SANOYAH, SOGUIPLAST, SOPROCIMENT.

Enterprise which will not be privatized: IMPRIMERIE NATIONALE
PATRICE LUMUMBA

* The problem appears to be resolved at this date.

B-4. "ENTERPRISE DIVESTITURE: BID SUMMARY"

Enterprise Divestiture: Bid Summary ("Réprise de Société: Dossier de Candidature" Annexe 2, Institut de Développement Industriel: Réstructuration du Secteur Public et Parapublic Guinéen, 4/86)

ENTERPRISE DIVESTITURE:
BID SUMMARY

NB: A bid summary must be prepared for each divestiture planned. In the case of a bid for a group of enterprises, there must be an accompanying summary for the overall effort, its value, synergies foreseen, and the proposed organization.

1. BIDDER DESCRIPTION SHEET

NB: A complete bidder description sheet must be completed by each participant (individual or organization) in the bid process.

- NAME
- COMPLETE ADDRESS (GUINEA/FOREIGN)
- BANK REFERENCES

A. INDIVIDUALS

- PROFESSIONAL BACKGROUND:
 - 1) DEGREES (DIPLOMES)
 - 2) PROFESSIONAL EXPERIENCE (NAME OF PLACE OR ORGANIZATION - FUNCTIONS CARRIED OUT)

- 3) ACTUAL JOB (DESCRIBE EXACTLY THE FUNCTIONS CARRIED OUT)
- 4) PROFESSIONAL REFERENCES (NAMES OF PERSONS WHO CAN CONFIRM 2 ABOVE)

OUTSIDE FINANCES (BANK BALANCE, GOODS, REALTY)

B. ORGANIZATIONS

NB: In the case of organizations which are part of larger groups, the following information must also be furnished for the group.

- PRECISE ACTIVITIES OF THE ORGANIZATION
- CAPITALIZATION
- FINANCIAL STATE (3 PREVIOUS YEARS AND PROJECTION FOR CURRENT YEAR)
 - SALES
 - OPERATING RESULTS
 - NET RESULTS
 - INCLUDE A COPY OF THE ACCOUNTS FOR THE 3

PRIOR YEARS

- NUMBER OF PERSONNEL
- COMMERCIAL REFERENCES (PRINCIPAL CLIENTS AND SUPPLIERS)
- LEGAL STATUS (CHARTER, INCORPORATIONS)
- MANAGERS (INCLUDE RESUMES)

2. PRECISE DESCRIPTION OF THE PROPOSAL

- PRECISE NATURE OF THE DIFFERENT ACTIVITIES DESCRIBED AND SCHEDULE FOR IMPLEMENTATION
- VOLUME OF PRODUCTION AND SALES PREDICTED FROM ANALYSIS OF GUINEAN AND/OR EXPORT MARKETS

- PLANNED INVESTMENTS
- WHAT DISTRIBUTION CHANNELS WILL BE USED AND/OR ESTABLISHED?
- ROLE OF EACH PARTNER IN THE EFFORT (IN PARTICULAR, STATE PRECISELY WHICH WILL BE THE TECHNICAL PARTNER AND WHAT WILL BE THE MECHANISMS FOR THE RELATIONSHIP OR FOR ASSISTANCE)

3. FINANCIAL SUMMARY

- EVALUATION OF THE ENTERPRISE BY THE OFFEROR (IN DETAIL)
- INITIAL FINANCIAL INPUTS:
- CAPITAL/LOANS
- GUINEAN FRANCS/FOREIGN EXCHANGE
- PREDICTED OPERATING INCOME DETAILED FOR 3 YEARS
- FINANCING PROGRAM FOR THE SAME PERIOD

4. LEGAL ASPECTS

- CAPITAL STRUCTURE AFTER DIVESTITURE AND EVENTUAL EVOLUTION
- CONDITIONS AND MECHANISMS OF THE DIVESTITURE
- LEGAL FORM OF THE NEW ENTERPRISE (INCLUDE THE PROPOSED CHARTER)
- GUARANTIES OFFERED BY THE BIDDER(S) (DEPOSIT, BANK GUARANTIES, MORTGAGES ...)

BID SUMMARIES:

COMMENTARIES

THE PREPARATION OF BID SUMMARIES CAN PRESENT CERTAIN DIFFICULTIES FOR PRIVATE GUINEAN PARTICIPANTS WHO HAVE LITTLE PREPARATION AND EXPERIENCE IN COMPLETING SUCH DOCUMENTS.

TO PREVENT THESE DIFFICULTIES FROM EXCLUDING THEM FROM THE PRIVATIZATION PROCESS, IT IS HOPED THAT THE MINISTRY OF INDUSTRY WILL ESTABLISH AN ASSISTANCE GROUP TO AID PRIVATE GUINEAN BIDDERS IN DIVESTITURE ACTIVITIES.

Financial Mechanisms in Divestitures ("Modalities Financières de Reprise" Annexe 3, Institut de Développement Industriel: Réstructuration du Secteur Public et Parapublic Guinéen, 4/86)

FINANCIAL MECHANISMS IN DIVESTITURE

With a double objective:

- Of clarity, and with a firm linkage of the partners; and
- Of flexibility and with adaptability to economic constraints.

Three approaches to divestiture must be foreseen:

1. "Cash" payment in foreign exchange for the assets divested on a valuation base that is jointly negotiated (cf: the case of BONAGUI).
2. When the economic constraints (profitability of the enterprise, complementary investments ...) don't permit the adoption of the first approach, it is hoped that the financing of the divestiture of the assets takes place in the form of a loan from the Guinean Government to the new enterprise within strictly defined conditions (retained value, term of the loan, interests, deferred repayment).
3. In the last case a formula of lease-sale could be proposed, with the new enterprise becoming the exclusive owner of the properties at the end of the rental term.

These formulas can be completed by a partial contribution of assets by the state when it remains as a shareholder. In any case, this contribution must not be viewed only in this alternative, so as to avoid the multiplication of partial conveyances by the state

for the benefit of other partners, this being the cause of subsequent litigation and/or the advancing of commitments of the purchasers.

Finally, regarding the valuation of assets, it is necessary to recall that in the framework of current liberalization processes, these can only work with economic value bases that can be extrapolated from the initial cost of the investments, including consideration:

- Of units often overvalued in relation to the market;
- Of expensive technical choices; and
- Of frequent over-invoicing in the past.

In certain cases, the interests of the Guinean Government must be guaranteed by "return to better condition" clauses in operations, for instance the increasing of productive power of units.

WORLD BANK POLICY ON GUINEA

"The proposed IDA Credit and Special African Facility Credit would provide US \$42 million to support the Government's economic recovery program and allow economic activity to expand while current and future reform measures are implemented. The adjustment program focuses on economic liberalization measures and reform of public administration and public enterprises. The policy package includes full decontrol of agricultural prices, simplification of tariffs and customs procedures, streamlining of conditions for investment and commercial activities, especially for industrial, mining and petroleum operations, and a complete overhaul of the banking sector. The public administration is to be reorganized and reduced by about 25,000 staff (some 30 percent) over the next 14 months, after a comprehensive census, testing and rationalization process. The Government has launched an ambitious program to restructure the public industrial sector by privatization and liquidation; initial investor reaction has been encouraging. Non-industrial public companies, their activities now largely undertaken by Guinean traders and small-scale companies, will be closed down. With the support of France, the IMF and IDA, economic management is being strengthened to carry out the program and to improve fiscal and monetary policy, public investment programming, external debt management and economic data collection and use.

"The Credits would be disbursed in two tranches, the second of US \$17 million equivalent following a performance review in mid-1986. Estimated period of disbursements: March 1986-January 1987.

"Consultants financed by IDA and FAC (Fonds d'Aide et de Cooperation) are assisting the Government in reviewing its holdings, under the general rule that industrial activities should be restricted to economically viable activities undertaken by private interests.

"A USD 300,000 SPPF advance supports the civil service census and reorganization and helps establish controls in MEF over the level of employment and salaries, consistent with budgetary resources. The following are the conditions for release of the second IDA tranche:

- 1) Satisfactory progress on the program;
- 2) promulgation of an investment code and suitable implementation procedures, a revised commercial law and a petroleum code acceptable to IDA;
- 3) negotiation of a multilateral debt rescheduling;
- 4) start of a liquidation program for the state-controlled primary banks;
- 5) reduction in the number of public employees by 10,000 persons below the number on duty on January/1, 1986;
- 6) a review of the rice stocking and distribution arrangements for 1986; and
- 7) adjustment of the price of rice, coffee, palm kernels, and petroleum in a manner acceptable to IDA and on the basis of a review of these prices in the second quarter of 1986."

**A REVIEW OF PRIVATIZATION IN
THE REPUBLIC OF GUINEA/CONAKRY**
(Part II)

REPORT BY

Lance Marston, Peter A. Thomas,
Andrea J. Love

CENTER FOR PRIVATIZATION

1750 New York Avenue, N.W.
Washington, D.C. 20006

Center Project No. 18

October 31, 1986

Prepared for the
BUREAU FOR PRIVATE ENTERPRISE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



CENTER FOR PRIVATIZATION

The Center For Privatization was established in 1985 to provide expert advisory services to developing countries and their indigenous private sectors in planning and implementing programs to divest and privatize their state-owned or controlled enterprises and activities. The Center is fully funded under a major contract between Analysis Group Inc. and the Agency for International Development. Participating sub-contractor companies include:

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- Strategic Planning
- Taxation

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A REVIEW OF PRIVATIZATION IN
THE REPUBLIC OF GUINEA/CONAKRY

PART II:

THE POTENTIAL FOR PRIVATIZING
CONSTRUCTIONS METALLIQUE DE DIXINN (CMD)
SOCIETE GUINEENE DE FABRICATION (SOGUIFAB)
AND
SOCIETE GUINEENE DE RECHAPPAGE (SOGUIREP)

REPORT BY

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TABLE OF CONTENTS

	<u>Page</u>
TRANSMITTAL LETTER	v
EXECUTIVE SUMMARY.	vi
I. PURPOSE AND SCOPE OF WORK	1
II. Constructions Métalliques De Dixinn (CMD)	3
A. Economic Viability.	4
1. Profitability Track Record	4
2. Subsidy Element.	8
3. Protection Element	8
4. Market Share	8
5. Import Competition	9
6. Domestic Market Potential.	9
7. Export Market Potential.	9
8. Staffing/Organization/Management	10
9. Wage and Salary Structure (Including Perks).	12
10. Plant Productivity (Building/Equipment/Parts).	12
11. Adequacy of Power/Utility/Transport.	14
12. Dependability of Accounting Records.	14
B. Deal "Do-Ability"	15
1. Potential Operating Independence	15
2. Government Acceptance of Paper/Lower Price	16
3. Government Reschedule Debt/Assume Liabilities.	17
4. Other Creditors' Flexibility	17
5. Union Contract Flexibility	17
6. Local Cost and Import Financing Requirements	18
7. Full Divestiture vs. Lease, Management Contract	18

TABLE OF CONTENTS

(continued)

	<u>Page</u>
C. Other Factors	18
1. Strategic/Social Significance.	18
2. Natural Monopoly	18
3. Impact on Development.	19
4. ESOP Potential	19
5. Small Business Generation Potential.	19
D. Critical Issues	19
III. Société Guinéene De Fabrication (SOGUIFAB).	20
A. Economic Viability.	22
1. Profitability Track Record	22
2. Subsidy Element.	25
3. Protection Element	25
4. Market Share	26
5. Import Competition	26
6. Domestic Market Potential.	26
7. Export Market Potential.	27
8. Staffing/Organization/Management	27
9. Wage and Salary Structure (Including Perks).	29
10. Plant Productivity (Building/Equipment/Parts).	29
11. Adequacy of Power/Utility/Transport.	33
12. Dependability of Accounting Records.	33
B. Deal "Do-Ability"	34
1. Potential Operating Independence	34
2. Government Acceptance of Paper/Lower Price	38
3. Government Reschedule Debt/Assume Liabilities.	38
4. Other Creditors' Flexibility	38
5. Union Contract Flexibility	39
6. Local Cost and Import Financing Requirements	39
7. Full Divestiture vs. Lease, Management Contract	39

TABLE OF CONTENTS

(continued)

	<u>Page</u>
C. Other Factors	39
1. Strategic/Social Significance.	39
2. Natural Monopoly	40
3. Impact on Development.	40
4. ESOP Potential	40
5. Small Business Generation Potential.	40
D. Critical Issues	41
IV. Société Guinéene De Rechappage (SOGUIREP)	42
A. Economic Viability.	44
1. Profitability Track Record	44
2. Subsidy Element.	47
3. Protection Element	47
4. Market Share	48
5. Import Competition	49
6. Domestic Market Potential.	51
7. Export Market Potential.	52
8. Staffing/Organization/Management	53
9. Wage and Salary Structure (Including Perks).	54
10. Plant Productivity (Building/Equipment/Parts).	54
11. Adequacy of Power/Utility/Transport.	57
12. Dependability of Accounting Records.	58
B. Deal "Do-Ability"	58
1. Potential Operating Independence	58
2. Government Acceptance of Paper/Lower Price	60
3. Government Reschedule Debt/Assume Liabilities.	60
4. Other Creditors' Flexibility	61
5. Union Contract Flexibility	61
6. Local Cost and Import Financing Requirements	61
7. Full Divestiture vs. Lease, Management Contract	62

TABLE OF CONTENTS

(continued)

	<u>Page</u>
C. Other Factors	62
1. Strategic/Social Significance.	62
2. Natural Monopoly	62
3. Impact on Development.	63
4. ESOP Potential	63
5. Small Business Generation Potential.	63
D. Critical Issues	64
V. ACCOMPLISHMENTS	65
VI. RECOMMENDED FOLLOW-UP	68

APPENDICES

- 1 - Visit and Interview Chronology
- 2 - Background Correspondence

November 13, 1986

Hay
Management
Consultants

The Center for Privatization
1750 New York Avenue, N.W.
Washington, D.C. 20006

Dear Sirs:

The Hay Group is pleased to transmit this two-part Report on privatization in the Republic of Guinea/Conakry, which we prepared in conjunction with the Center. The Report reflects the findings and conclusions of the team that conducted an in-country review in Guinea during August, as well as all of the comments, insights, and inputs received from U.S. AID (Private Enterprise and Africa Bureaus), and the Mission in Conakry during the extended review period which followed our formal briefing at AID.

The Report is reflective of the two-part nature of the effort: Part I describes the general environment for privatization throughout Guinea, and Part II discusses the backgrounds of three industrial firms preselected for privatization actions. As the Report notes, the overall picture is complex, and privatizers are faced with both significant opportunities and numerous areas of potential mis-step.

We trust that this report will enable decision-makers -- public as well as private -- to maximize the opportunities and minimize the risk in privatizations in Guinea.

Yours truly,



Peter A. Thomas
Executive Consultant



Lance Marston
Vice President and Director,
Government Consulting
Services

Enclosure

EXECUTIVE SUMMARY

All three of the reviewed companies -- CMD, SOGUIFAB, and SOGUIREP -- have at least some interesting potential for investors seeking a finite range of resources, including:

- Sound physical plant and usable machines and equipment;
- Trained labor force available to work;
- Support of the Government in the divestiture process;
- Good locations for production and delivery; and
- A marketplace that is destined to grow.

They all have certain weaknesses, however:

- Lowered or non-operating conditions show them in a bad light;
- Customer bases have diminished;
- Heavy debt burdens them;
- They are very small in magnitude in an absolute sense;
- There is uncertainty about government policies (investment code, plan, tax, labor laws, dispute resolution, property ownership) affecting operations;
- They have not yet secured stable sources of raw materials;
- Each needs capital infusions for repairs, rehabilitations, and physical improvements;
- They operate in an environment of minimally functioning infrastructure and public services;
- None deals with processes or products that are either proprietary or difficult to make, and there is little to prevent quickly appearing competition from new enterprises; and

- None is protected in any special manner by GOG subsidies or other programs, such as import barriers.

Thus, each of the firms might conceivably be a good investment for some narrowly focused, experienced and creative organization, which is prepared to make notable short-term sacrifices in anticipation of longer term gains. This is especially so if the firms are bundled together, or with other Guinean entities. The investor must be experienced in the ways of doing business in Francophone West Africa, and must negotiate an acceptable package with the GOG (including understandings about the importance of investing in these particular firms as part of the privatization program, as opposed to starting competing operations from scratch, and avoiding most of the negative aspects of the three).

When such bidders come forward, we recommend that the Conakry Mission provide a broad range of assistance to them. It should be as expansive as necessary to meet their requirements within resource constraints, but at the least should involve facilitating access to each facility, its personnel, and its accounts. If the needs of such investors can be summarized, they are as follows: these divested parastatals are not being divested because they are excellent firms, but rather because they have not worked. Each has visible problems, and not-so-visible ones; the latter begin to appear as more detailed analyses are done.

Beyond the unique case of these specially situated bidders, we cannot recommend that the Mission devote time or money to looking further into the privatization of these three firms. They are small, marginally operational, and in fields in which the Mission lacks in-house expertise. Thus, to go further in investigations would require importing outside advisors to review three organizations that, even in the most optimistic of scenarios, would generate only small outside investor interest.

The three were selected for analysis well into the industrial sector privatization program, and the latter is moving along rapidly, independent of the AID review of the three firms. The problem thus arises that to review them in more depth (except in the case of ad hoc interest noted above), would force either a slowing if the privatization program or a speeding up of the review. Neither is a desirable outcome in view of what we perceive as a small return on an investigation sponsor's investment.

Had the firms been different, or the commissioning of the research been at the beginning of the privatization program, the recommendations might well have been different. The facts being what they are, however, the team recommends that future work on the three firms be limited to ad hoc support of investors who come forward, and the attention of the Mission be directed toward the recommendations made in the report. In a condensed form, they are:

1. Environmental Assessment: Survey and assess the status the status and condition of the country and a particular sector for privatization programs.
2. Host Country Liaison: Begin a policy dialogue with GOG officials, relating to both intergovernmental matters in general, and privatization in particular.
3. Monitoring and Alert: After opportunities are discovered, utilize a process for getting the message to the appropriate personnel and organizations.
4. Implementation Support: Use mechanisms for assisting the GOG and/or the private sector in carrying out privatization actions.

In the Agribusiness sector, the team believes that events have been such that it is now appropriate to undertake work in the fourth category. We therefore propose that AID assist the GOG by carrying out the program described in the report.

I. PURPOSE AND SCOPE OF WORK

This report is the written record of investigations on the subject of three firms in the Guinean parastatal industrial sector, carried out by the Center for Privatization and The Hay Group during August 1986. The firms (CMD, SOGUIFAB and SOGUIREP) are all fairly small manufacturing enterprises, the first two working in metal and the last with rubber tires. These firms were selected by the Guinean Ministry of Industry and the AID Mission in Conakry as good examples for investigation, as they were all slated for some sort of privatization, were capable of producing products of some use in the local economy, and would benefit from a review by a U.S.-based team.

It should be kept in mind that this investigation was intended by the team and its sponsors to be a first-pass review of the three firms. Rather than going into detailed analyses of the firms, their products and their marketplace -- in other words conducting a full pre-investment study -- the team carried out what might be called a preliminary overview study. We reviewed the literature available, visited the facilities, and carried out interviews with firm officials, Government officers, and others knowledgeable about the companies.

This report is designed to present in a concise form a distilled version of the background of the three firms, along with the team's recommendations to AID on how to proceed. Thus, rather than stating whether any of the firms should be invested in, our approach is to say whether detailed research by industry specialists is advisable and cost-effective; it would remain for the advanced researchers to make ultimate recommendations about investment.

Finally, as one reads through these reports, certain themes arise over and over. Paramount among them are the following: Accounting records for Guinean parastatals are weak and the accuracy or completeness of data cannot be assumed; the progressive change from the Syli to the Guinean Franc in January 1986 complicates reading of financial statements over several years; and the demise of the fixed 25:1 rate of exchange for U.S. Dollars and the rise of the free market rate (approximating 400:1) makes translation of values an occasionally arbitrary activity.

All of these companies are on greatly diminished or non-work schedules, and are carrying out virtually no commercial activities.

II. CONSTRUCTIONS METALLIQUES DE DIXINN (CMD)

CMD is a small metalworking enterprise in which door and window frames and other metal products are produced. It is 100 percent Government owned.

Address: Zone industrielle No. 1
KM 9.5 Route de l'Aviation
Conakry III
Telephone: 46 13 71 or 46 20 06

SUMMARY (Million sylis)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Turnover	27.8	44.2	26.0	NA
Operating Income	(16.5)	(13.6)	(21.1)	NA
<hr/> Employees	156	207	205	NA

CMD was created in 1952 as a "SARL" (U.S. limited liability company) with 10 million CFA francs in capital. Between 1952 and 1971, it functioned as a normal domestic enterprise, but it was nationalized in 1971. Before nationalization, the enterprise was valued at 8.3 million sylis. In 1975, SAMOPEM, another adjacent small metal product fabricator was annexed into the CMD operation, and the enterprise reached the physical proportions it now has.

In 1978, CMD purchased a set of equipment for a total of 7.2 million sylis, or about 3 million French francs. The recent era has not seen good business at CMD. For instance, between 1982 and 1985, CMD ran only three months per year, due to lack of material inputs -- and 1986 appears to be little different. During the rest of the year, the facilities have been productively used by local artisans, many of whom are or were employees. They can be

seen there daily making use of machines and tools for small projects they undertake.

Securing its materials principally in France, Spain and Brazil, CMD in most instances manufactures the following products to order:

- Large door frames (Stores, schools, and hospitals);
- Small and medium door frames (Houses and garages);
- Metal works, such as doors, windows, grilles, ramps and stairways; and
- Miscellaneous metallic equipment, such as tubs, electric poles, wheelbarrows, beds, and crane rails.

Frame manufacturing in fact comprises 70 percent of the firm's activity.

A. Economic Viability

1. Profitability Track Record

As illustrated by the following income statement, CMD's financial record is quite poor. The 1985 results could not be obtained by the team, but they are expected to be received soon, and will be appropriately factored in.

INCOME STATEMENT
(Million Syllis)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Turnover	27.8	44.2	26.0	NA
Change in Stocks of Finished Product	<u>(12.0)</u>	<u>(1.5)</u>	<u>(7.2)</u>	NA
Production Total	15.8	42.7	18.8	NA
Material Consumption	11.1	35.1	16.7	NA
Salaries and Related Costs	11.5	11.9	11.5	NA
Taxes etc.	1.3	1.9	2.5	NA
Outside Works and Services	3.5	1.8	2.8	NA
Transportation and Removal	1.7	0.6	2.6	NA
Management Fees	0.1	-	0.2	NA
Financing Fees	-	1.7	0.8	NA
Amortization	<u>3.1</u>	<u>3.3</u>	<u>2.8</u>	NA
Total Charges	32.3	56.3	39.9	NA
Profit (Loss)	(16.5)	(13.6)	(21.1)	NA

CMD's deficit-ridden background has been consistently been attributed to irregular supply availability only permitting operations for 3-4 months per year, a fact reiterated in the team's interviews and confirmed in previous analyses. Thus, an erratic rate of material consumption exists. The figures shown are always very high (from 82 percent of value of production in 1983 to 62 percent in 1985), but the figures are universally suspect.

Because of a large number of employees, there is an excessively high labor cost. This occurs despite the modest average salary structure.

Sales and product pricing present another set of general problems. On the one hand, the sales prices for CMD products are often set too low and/or not all production is invoiced on sale. One of the key elements of this problem is the fact that CMD has traditionally done a great deal of work for the Government, but it has never been able to benefit from the syli-induced artificial profits. Purchases and sales going into the financial statements are based on the former official 25:1 rate of conversion of syli into dollars. Thus, sales to other buyers at the 25:1 rate could not bring in sufficient local currency to offset necessary expenses incurred at the parallel rate (of up to 400:1). Also, Government sales in most parastatals are linked to long-standing patterns of late or non-payment, loose bookkeeping practices, and unbusiness-like transfer pricing in accounts with State banks or other Government firms.

A number of identifiable management errors have also contributed to the poor performance. In 1985, for example, the firm preferred to resell products and materials to artisans without transformation. The latter were thus able to benefit from the syli conversion profit. This is believed to be the case with about one-third of CMD's supplies. Although the transactions included a 32 percent margin, this was probably less than the cost of the deal to CMD.

Also, to occupy its staff, CMD has often accepted sub-contracting work, but it has never invoiced properly.

The CMD books show the seriousness of the financial situation, as shown in this balance sheet. As with the income statement, presented above, the team was not able to obtain 1985 figures from

the firm during the course of the stay in Guinea, but they are expected and will be factored in to the report as soon as they become available.

BALANCE SHEET
(Million Syllis)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Credits</u>				
Buildings Stocks	15.1	12.2	8.4	NA
Primary Materials	64.3	57.9	46.5	NA
Other	<u>12.0</u>	<u>10.8</u>	<u>3.1</u>	NA
	76.3	68.7	49.6	NA
Misc Debtors	<u>3.8</u>	<u>3.8</u>	<u>14.2</u>	NA
Total Credit	95.2	84.7	72.2	NA
 <u>Debits</u>				
State Funds	15.0	11.7	7.9	NA
New Reports		(16.5)	(30.1)	NA
Losses	(16.5)	(13.6)	(21.1)	NA
Non-reimbursable Amortization	3.1	3.3	6.1	NA
Long-term Loans	61.3	61.3	61.3	NA
Misc Creditors	31.8	33.2	36.2	NA
Banks	<u>0.5</u>	<u>5.3</u>	<u>11.6</u>	NA
	95.2	84.7	72.2	NA

Several machines bought in 1978 (though mostly inoperative) and a crane truck comprise the "other" category in the credit section. While the stocks on hand have some value, they are generally recognized as being overinflated. In general the stocks carried on the books are raw materials for large door frames which have been stored unprotected outside for several years, and the firm appears to have little or no use for them.

2. Subsidy Element

While there is no discoverable outright subsidy provided to CMD, there are several patterns of behavior by the Government over a period of years that can have the effect of a subsidy. The first of these was the provision of low-cost foreign exchange (i.e., 25:1 rate) to the firm to purchase raw materials from overseas, the second the availability of artificially priced credit from State banks, a third a continuing purchase of products by the Government, and a fourth the considering of employees as civil servants (thus allowing an invisible costing of many of their benefits). All of these activities have been eliminated at this time.

3. Protection Element

There is no evidence of any official action by the Government to restrict the importation of products which would compete with CMD's.

4. Market Share

There can be no accurate determination of the market share held by CMD in its product lines. In the first place, the market for its products is nebulous and constantly changing. For one thing, most of the work done has been on a to-order basis, with fabrication following the needs of a narrowly defined set of requirements. For another, orders have been small and thus have placed CMD in competition with individual artisans -- of the very type who are now using its plant -- and the relative position of each group within the marketplace is highly volatile.

5. Import Competition

CMD has never been faced with import competition of any notable magnitude, since the product lines, values, transportation costs to Guinea, and scattered buying population have never induced a foreign supplier to compete in the market.

6. Domestic Market Potential

The potential for sales in the domestic market exists, as there will always be a need for the type of product and service CMD can theoretically offer. In fact, when the Guinean economy picks up as the result of the programs and policies of the Co. te Government, there will be an increase in construction and manufacturing. This will of course translate into more sales opportunities for CMD, and for other groups entering or growing in the field. These competitors, however, consist of the parallel market artisans (who don't carry the burden of the past that CMD has), and newly created firms (which will in many cases benefit from new plant and equipment, and new capital).

Growth or new entry into the area will be comparatively simple, as CMD's products can be created with simple processes on basic machinery -- a classic case of a field ready for further dispersion of supply. Thus, CMD's position in the market will be shaped by the degree to which it competes effectively with a formidable array of competitors, principally by looking and acting more like them.

7. Export Market Potential

The potential for exporting CMD's products is virtually non-existent. They are, in the first place, of low value in comparison to their weight and size, and thus not economically

transported. Adding to complications here is the fact that the transport infrastructure of Guinea would make most such ventures expensive and troublesome in any case.

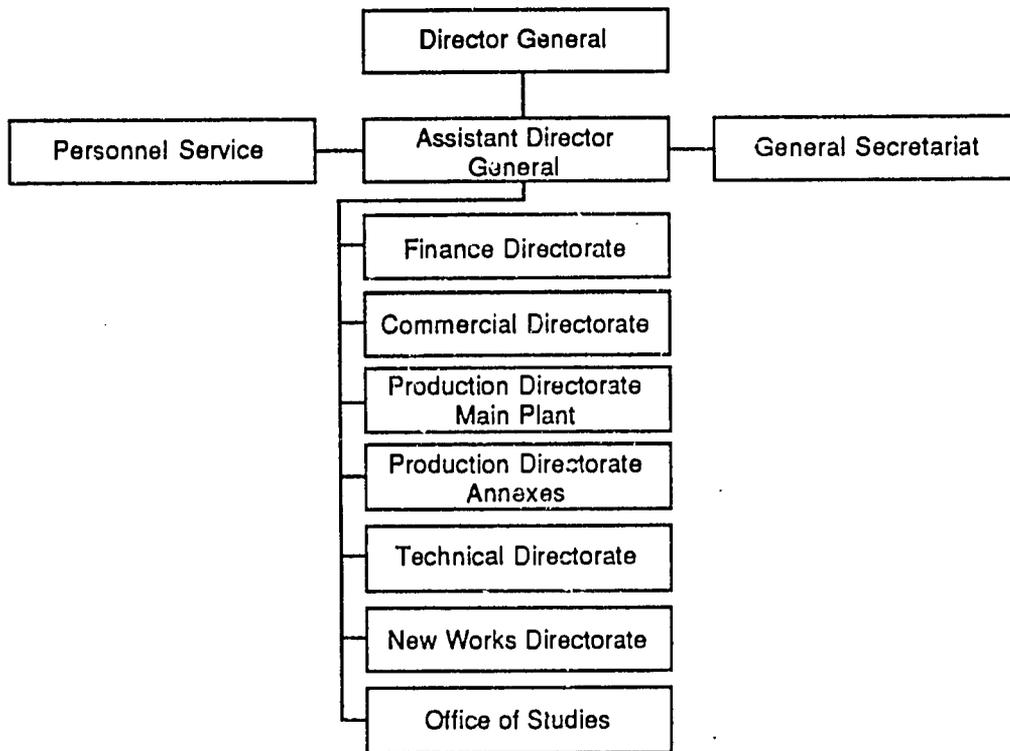
While neighboring West African countries have the same market needs as Guinea for these products, they also have the same import substitution drives to manufacture locally. CMD uses no proprietary processes and deals with imported materials, so there is no compelling reason for another country to not start or nurture a similar firm. All other factors being equal, the savings in transportation and duties (on the CMD product or possibly on the original raw materials, if a duty is lower than Guinea's 20 percent) in themselves would prevent purchase from CMD. The arguments against sales to countries outside of West Africa are even more pronounced.

8. Staffing/Organization/Management

CMD is extremely overstaffed for a plant doing what it does. Along with the traditional pattern of parastatal manufacturers being overmanned, several reasons exist for the CMD situation. It should be noted that the products made at CMD have been very labor-intensive, notwithstanding the use of tools and machinery. This given has been the basis for management allowance over the years of a large labor force. In an environment where there is little capital for machinery repair, replacement or modernization, and where there is a ready supply of what is perceived as cheap labor, it is easy to put people to work in larger numbers to take over the functions of broken equipment. This has been done for many years and the results are now apparent.

As the following organizational and personnel charts show, CMD has a personnel structure that is much more appropriate for a larger and more active firm. The job classifications in the Employment chart (A-G) reflect a nomenclature common in Guinean industry, showing descending status.

ORGANIZATION



EMPLOYMENT - 1984

	<u>Salaries etc.</u> <u>(Mil Syllis)</u>	<u>Men</u>	<u>Women</u>	<u>Adminis</u>	<u>Production</u>	<u>Total</u>
A	-	-	-	-	-	-
B	1.411	13	-	9	4	13
C	2.636	33	1	11	23	34
D	2.234	31	5	10	26	36
E	4.411	102	2	8	96	104
F	.753	17	1	4	14	18
G	-	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	11.444	196	9	42	163	205

9. Wage and Salary Structure (Including Perks)

The overall total cost for salaries and employment-related benefits in 1984 was 11.444 million sylis. One key figure to note is the preponderance of employees at the lowest end of the ranks. As will be seen in the cases of SOGUIFAB and SOGUIREP, a popular mechanism is to lay off people at the bottom and add at higher levels.

10. Plant Productivity (Building/Equipment/Parts)

The theoretical capacity of the CMD plant is greatly in excess of recent production, and the difference is growing dramatically. In theory, CMD has the ability to treat 5,000 tons of steel per year, but, as shown in the following chart, capacity utilization has been weak during the last three years.

CAPACITY UTILIZATION

	<u>1983</u>	<u>1984</u>	<u>1985</u>
Capacity	5,000 T	5,000 T	5,000 T
Production	1,050 T	830 T	800 T
Rate of Utilization	21 %	16.6 %	16 %
Rate of Decline (One-year base)	-	-20 %	-4 %
(Two-year base)	-	-	-24 %

The rate of utilization, however, is within the range of all parastatals, i.e., 15-20 percent. On the other hand, observers of the CMD situation have long said that real utilization is even weaker than that reported, and the team agrees with the assessment.

In the area of materials and tools, CMD has two series of machines are working to some degree. Some were installed in 1952; these are obsolescent and very inefficient. Some of them can still be used, however, because of massive amounts of patch-up repairs over the years.

Other machines were purchased in 1978, and their condition is as follows:

- 23 welding sites (Sarazin manufactured); two-thirds of these are broken due to lack of maintenance;
- Two guillotine shearers (by Perrot); they have been out of commission for over three years with hydraulic problems;
- Two punch stampers (by Moubea); they experience sporadic functioning and need maintenance;
- Two universal folding machines (by Bombled) are working;
- One rolling machine (by Favrin) is working; and
- Two cutters (by Ednor); one is working, one is broken.

The absence of an overhead crane severely complicates many operations.

As for power, CMD has no generator of its own and relies fully on Société Nationale d'Electricité (SNE) power; it thus experiences the full range of electric power problems, such as extremely frequent outages, spikes, surges, voltage shifts, and administrative headaches.

In the area of vehicles and rolling stock, CMD possesses assorted vehicles, most of which are non-functioning. Only a recently purchased truck, a 14-ton crane and a lift truck are operable and of interest.

The buildings, comprising several offices adjacent to large, wall-less work and storage areas (with corrugated roofs) are in good condition. However, there is not enough room between the ceiling and the structural members in the main work area to allow for the installation of a crane.

11. Adequacy of Power/Utility/Transport

While water is not a critical element in CMD's operations (and the poor quality and supply are not of great importance), power and transport are. As noted above, CMD relies completely on SNE electric power, and is one of the small minority of parastatals doing so. Until the power infrastructure is improved dramatically, CMD will be a prisoner of the system.

The geographic location of CMD is good, in that it is on the edge of Conakry and can be readily reached by truck from the port, railway and airport. For the record, there is a large railway station located nearby, but it has been out of use for years. On the other hand, the poor condition of the transport sector in Guinea tends to negate any savings which might accrue from location, as difficulties in moving materials or products are pervasive.

12. Dependability of Accounting Records

Accounting and financial records of the sort to which Europeans and Americans are accustomed are non-existent. Data and information are collected on occasion by specific request for analyses such as this. When reviewed, the numbers in different documents are often different and the names of categories or account lines have many variations.

While Guinea is in the process of stabilizing the process of financial accounting in general, the changes have come too late to ensure that CMD's data are fully accurate. In cases like that of CMD, the information presented should serve as a guidepost to show the investigator what specific questions to ask during a detailed analysis.

B. Deal "Do-Ability"

1. Potential Operating Independence

For the most part, the team agrees with observations of previous analysts regarding the status of CMD and the potential for its success in a privatization action.

CMD is really not much more than a small mechanical shop without the production tools or money for proper business operations, and one must seriously consider dramatic changes if there is to be meaningful participation in the future marketplace.

As noted previously, CMD has been and will be in competition with artisans, at least so long as it acts as an independent organization limited to its traditional product lines. Thus, unless a creative combination of CMD and some other firm is formulated (for instance comprehensive, multisite vehicle repairs with SOGUIREP, or large-scale construction product manufacture with SOGUIFAB), it will be unlikely that CMD can attract a buyer. Exceptions might be an investor seeking the real estate, some machines and equipment at depressed prices, or a chance to use the purchase as leverage in some other, unrelated transaction with the Government.

At the time of this writing, there is a bid for CMD (from Entreprise Bernard) under review by the Government, but the team was unable to view or obtain a copy of the dossier, and we cannot comment on the proposed terms of the deal.

2. Government Acceptance of Paper/Lower Price

Since CMD has been classified by the Government as a Category II firm for privatization, i.e., terminate operations pending the sale of the assets to a private party, it is theoretically possible that the Government will be very willing to sell CMD in a transaction which is very favorable to the buyer.

However, the team was explicitly told by Government officials that it is their desire to conduct the privatizations in conditions of maximum competition, and to have as many bidders as possible compete to offer better terms. Countering this desire is the externally imposed schedules of the multilateral lenders (specifically the World Bank and IMF) which are requiring showings of privatization progress before release of upcoming tranches of credits and loans. This tends to put intense pressure on the Government to make quicker-than-desired agreements on terms favorable to buyers.

The team must unfortunately conclude that the extremely short time period between the research in Guinea and the scheduled tranche deadlines (3-4 weeks), combined with the almost non-existent communications links with Conakry, have prevented us from providing accurate information about how the Government is resolving this dilemma.

In the case of CMD, as with any other particular firm, the Government could either sell cheap or hold out for competition; it would depend on the whole complex picture of lender requirements and official strategy.

3. Government Reschedule Debt/Assume Liabilities

As with the preceding discussion of the sale price, we must conclude that Government decisions are unpredictable at this time. Unlike the situation with the banks, where a World Bank supported team of specialists has spent many months supporting an accurate assessment of debt relationships and a smooth transition to new banking actors, the debt and liability picture vis-a-vis the manufacturers has received only broad-brush review.

While we are aware that the CMD debt problem is not minor, we were unable in our limited investigation to explore it in detail. Likewise, we could not determine either the extent of the Government's understanding of its exposure, or the degree to which it was addressing it. A review of the dossiers of offer will shed light on the question.

4. Other Creditors' Flexibility

Specifics on this issue also must remain unknown in the absence of a more detailed analysis than could be done on the current schedule. One of the main hindrances is the dramatic change in the banking system in Guinea. Until all accounts and relationships are sorted out, very little will be known about the answer to this question regarding any parastatal.

5. Union Contract Flexibility

There is virtually no concern about this issue, as union activity in Guinea is negligible. The labor movement has only recently been legitimized by the Government, and organized labor concerns are seldom considered.

6. Local Cost and Import Financing Requirements

Financing of the massive foreign inputs into CMD production traditionally was tied to Government-provided low cost foreign exchange, and transactions were integrally linked to State trade parastatals and State banks. All this is changing, with evolving requirements to deal with private lenders and traders. The degree to which CMD is both sophisticated and creditworthy enough to survive in the new environment remains to be seen.

7. Full Divestiture vs. Lease, Management Contract

Full divestiture has been selected by the Government, with the advice of its World Bank consultants. The team feels this is the only appropriate choice, since there is insufficient activity and resources in CMD to attempt the latter. An investor must virtually start from scratch, and the tools available to a new owner will be necessary.

C. Other Factors

1. Strategic/Social Significance

Neither CMD as an organization, nor its products, possess any discernible strategic or social significance in the ongoing life of Guinea. This is the underlying premise in placing it in privatization category II (in which it would disappear if no buyer is found), and the team is in agreement with the Government's position.

2. Natural Monopoly

CMD has nothing approaching a natural monopoly. In fact, as stated above, its operations are not much more than the use of a

small number of machines to speed up a widely available set of fabrication and repair processes.

3. Impact on Development

The impact of CMD on the development process in Guinea and the region is negligible. There is no skills or technology training (other than simple machine operation) being given to the population, very little wealth is being created, and the products are largely end-items that seldom can be used to create other products or capital.

4. ESOP Potential

While the team could not gather specific information on the capital base from which the employees might draw, we are confident in saying that the working population of CMD is neither well-endowed nor sophisticated enough to consider an ESOP. Further, the recent termination of the civil service status of parastatal employees put the financial status of CMD employees in great jeopardy, and investment is far from the minds of the staff.

5. Small Business Generation Potential

CMD's activities show little in the way of generating small business activity. It buys from large suppliers and sells to small purchasers. If anything, it must be treated as a small business itself.

D. Critical Issues

Any discussion of critical issues in the CMD situation must await a more detailed analysis, if any, of the organization.

III. SOCIETE GUINEENE DE FABRICATION (SOGUIFAB)

SOGUIFAB is a Conakry-based manufacturer of aluminum products, specializing in door and window frames, flat and undulated sheets, and kitchen utensils. It is currently 100 percent State-owned, and is listed by the Government in privatization Category IV - An enterprise to be maintained by the Government.

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 B.P. 523
 Dixinn Gare
 Conakry

Telephone: 46 11 61 or
 46 27 05 or
 46 33 49

SUMMARY (Million syllis)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Turnover	287	129	57	62.4
Operating Income	68	45	(26)	4.9
<hr/> Employees	132	134	124	151.0

On June 15, 1964 SOGUIFAB was constituted as a private society. It had evolved from (and the statute was based on) a convention signed on October 1, 1963 between Alco and the Government, under the aegis of the accords relating to the bauxite mines at Boke. The initial capital was all put in by Alco, and it was progressively replaced by Government capital.

The objective of the arrangement was that at completion there would be a sharing on a 50/50 basis. The purpose of the firm would be "the manufacture of aluminum sheets and kitchen utensils," but events subsequently have shown a shift into other related areas of endeavor.

SOGUIFAB began operations on May 1, 1966, and continued as a private firm until January 29, 1972 when it was nationalized. However, the decree of nationalization defining the charter and the modes of functioning was not published until August 6, 1983. The capital then was 36.7 million sylis.

In 1980, the factory was expanded by the addition of a metal joining shop. It was bought from Alusuisse, for the production of doors, windows, bays, and balconies. The investment in this effort was FF 2 million and 6.8 million sylis. At the end of 1982, Alco ended the supply contract which linked it to SOGUIFAB. This marked the beginning of the supply problems constantly faced by the firm.

SOGUIFAB has three very different areas of activity:

- The production of flat and corrugated sheets, ridges and gutters/drainpipes. Annual capacity is 3 million sheets (2m x 1m).
- Manufacture of household utensils, in a relatively large range, comprising 22 articles (basins, pots, casseroles, plates, couscoussiers, platters). The theoretical capacity is 100-150 tons per year.
- The aluminum shop (doors, windows, bays, balconies, fanlights). This is a new line and could produce 12,000 m² of product per year with a single shift.

In fact, these activities don't offer any complementarity or synergy; their only point in common is the material. This offers a chance to aggregate the volumes purchased and negotiate the purchase price.

Until 1982 (thanks to the supply contracts repeatedly made with Alco), the firm functioned with relative effectiveness -- with regard to both sheets and utensils.

A. Economic Viability

1. Profitability Track Record

The record of SOGUIFAB in the area of profitability has been spotty, and for the past several years the company has been in steady decline. It has claimed a profit of 4.967 million sylis in 1985, but the team was unable to verify this.

INCOME STATEMENT
(Million Syllis)

	<u>1982</u>	<u>1983</u>	<u>1984*</u>	<u>1985*</u>
Turnover	287.4	128.5	57.1	62.422
Consumption of Primary Material	170.9	63.5	57.4	NA
Salaries and Related Costs	8.4	9.0	4.2	28.208
Taxes etc.	29.7	0.7	13.7	NA
Outside Works and Services	4.0	3.3	4.6	13.595
Transportation and Removal	1.8	1.8	0.6	1.781
Management Fees	0.4	0.3	0.3	0.502
Financing Fees	NA	NA	NA	3.37
Amortization	<u>3.8</u>	<u>4.7</u>	<u>2.5</u>	<u>3.008</u>
	219.0	83.3	83.3	91.446
Operating Income	68.4	45.2	(26.2)	NA
Taxes on Income, Losses and Diverse Profits	<u>23.4</u>	<u>15.3</u>	<u>4.2</u>	NA
Net	45.0	29.9	(30.4)	NA

* The 1985 numbers were gathered from several sources, and their full consistency has not been established. Also, the 1984 figures are suspect enough for them to be excluded by the World Bank consultants from their 1984 financial computations.

One of the more critical downward turns in SOGUIFAB's fortunes came in 1983, following the break in supply contracts with Alco. At that time the turnover fell dramatically (55 percent), but production was strong. The net equalled 23 percent of production. This circumstance was due to SOGUIFAB's real strength: without any real commercial effort, it resells at a 100 percent markup products and materials it buys, on which it makes only minor modifications. For example: cutting sheets; running aluminum disks on a lathe; or assembling aluminum shapes and glass. This takes place in a context where there is a necessity for low investment and thus little amortization. This can happen here because of the low salaries in Guinea, and the lack of a true marketing/commercialization function at SOGUIFAB.

BALANCE SHEET
(Million Syllis - 12/31)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Credits</u>				
Realty				
Buildings	16.2	15.6	16.2	NA
Other	<u>26.0</u>	<u>23.1</u>	<u>18.6</u>	NA
	42.2	38.7	34.8	NA
Stocks	41.5	22.5	12.7	26.8
Misc Debtors	1.7	118.5	75.1	NA
Banks	<u>118.3</u>	<u>26.0</u>	<u>24.5</u>	NA
	203.7	205.7	147.1	NA
<u>Debits</u>				
State Funds	38.4	32.8	32.3	NA
New Reports	30.1	-	-	NA
Income	45.0	29.9	30.4	NA
Amortization	3.8	4.7	2.5	NA
Misc Creditors	13.0	64.8	142.7	NA
Banks	<u>73.4</u>	<u>73.5</u>	<u>-</u>	NA
	203.7	205.7	147.1	NA

Among the important issues illustrated by these figures are:

- The low value of SOGUIFAB's equipment;
- The reduced importance of stocks, well down from 1982 (1984: 12.5M syl vs 1982: 41.5M syl);
- The size of the miscellaneous debtor and creditor lines; illustrating:
 - 1) The debts of BATIPORT and IMPORTEX (both parastatals) vis-a-vis SOGUIFAB, and
 - 2) The debt of SOGUIFAB to the public treasury.

Overall, however, in the absence of accurate numbers, a market assessment is difficult.

2. Subsidy Element

Here the situation is very much as it is with CMD, in that there is no discoverable outright subsidy provided to the firm. However, there are again the patterns of Government behavior over a period of years that can have the effect of a subsidy. First was the provision of low-cost foreign exchange (i.e., 25:1 rate) to purchase imported raw materials, and second the availability of artificially priced credit from State banks, third a continuing purchase of products by the Government, and fourth the considering of employees as civil servants. As has been noted before, all of these activities have been eliminated.

3. Protection Element

Also as with CMD, there is no evidence of any official action by the Government to restrict the importation of products which would compete with SOGUIFAB's.

4. Market Share

As is typically the case with smaller Guinean enterprises, it is virtually impossible to readily make an accurate determination of a company's market share, other than to guess how close to or far from a monopoly it is. In the case of SOGUIFAB, its markets are constantly changing, with construction products expected to increase, and utensils predicted to drop.

5. Import Competition

Like the other firms studied, SOGUIFAB has never been faced with import competition of any notable magnitude (with the possible exception of undulated sheets), since the product lines, values, transportation costs to Guinea, and scattered buying population have not induced foreign suppliers to compete in the market. With regard to the sheets, there has been some entry into Guinea of Japanese and European roofing components. These are imported by default, in that those who can afford them will purchase from foreign suppliers who can supply to specifications which SOGUIFAB cannot match. The products are quite expensive, however, and one can see thousands of buildings sitting roofless due to lack of money to buy the sheets.

6. Domestic Market Potential

Domestic market sales potential exists, as increasing construction activity will generate a need for the company's product. One can expect that the utensil business will stagnate or shrink -- as aluminum utensils are somewhat of a luxury compared to other types.

7. Export Market Potential

The potential for exporting CMD's products is better than that of CMD. Although they are of low value in comparison to their weight and size, certain items, such as door and window assemblies might be economically transported, assuming a significant increase in transport system efficiency.

Neighboring West African countries have much the same market needs as Guinea for these products, but they also have the same import substitution drives to manufacture locally. As SOGUIFAB uses no proprietary processes and deals with imported materials, there is, as is the case with CMD, no compelling reason for another country to not start or nurture a similar firm. The arguments against sales to countries outside of West Africa are much the same.

8. Staffing/Organization/Management

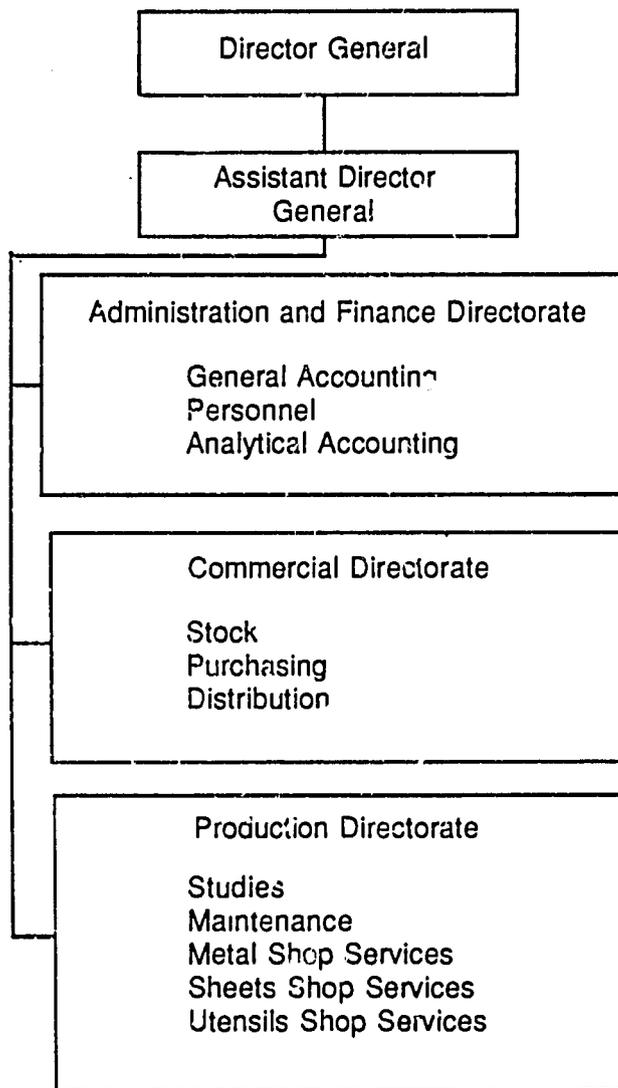
The staffing and organization of SOGUIFAB is laid out in the following charts. While the size of the workforce is not strikingly large, considering the range of products and the historic size of the operations, the level of employment seems premature and wasteful, as the firm is in a holding pattern pending the finding of a partner and eventual maintenance in the Government.

The figures for 1984 and 1985, although somewhat suspect, do show an interesting phenomenon, in that employment has actually risen during the period of slowdown. There has been a decrease in lower level workers and an increase at the higher levels.

EMPLOYMENT - 1985

	<u>Men</u>	<u>Women</u>	<u>Admins</u>	<u>Production</u>	<u>Total</u>	<u>(1984)</u>
A	15	3	12	6	18	(16)
B	39	7	21	25	46	(34)
C	23	7	8	22	30	(12)
D	30	2	9	23	32	(13)
E	24	1	2	23	25	(49)
F						
G						
	<u>131</u>	<u>20</u>	<u>5</u>	<u>99</u>	<u>151</u>	<u>(124)</u>

ORGANIZATION



9. Wage and Salary Structure (Including Perks)

The reported total salaries and related costs reported in 1985 was 28.208 million Syllis. A more detailed breakdown of the patterns of entitlement was unavailable to the team.

10. Plant Productivity (Building/Equipment/Parts)

SOGUIFAB maintains three basic lines, the Sheets line; the Utensils line; and the Aluminum Products line:

Sheets Line: This line has been able to function without major problems, but it is relatively obsolescent and needs some major changes. Due to problems with spare parts, it has never been properly configured or operated.

The rolling machine is worn out, and the cutting machine needs to be inspected, as the sheets are cut in a very irregular manner -- with variations reaching as much as +/- 15 cm.

Utensils Line: Production on this line continues to look like that from a group of artisans. The firm has some old lathes that have functioned since 1966; also, the Leifeld (German) lathe acquired in 1981 has never been used. The manufacturer tried to make it work, in fact sending two technicians from West Germany, but no one can make it function; it seems maladapted to the dimensions of the production line.

Aluminum Products Line: This line is new and functions well. It focuses on the fabrication of small tools that have a demand in the marketplace because of their need to be replaced frequently.

SOGUIFAB bought a Caterpillar 750 KVA generator set which it cannot use, since it is too powerful for the plant's needs; it therefore sits idle next to the factory.

The plant itself is spacious and well made and maintained, although in many respects it is too small, especially with regard to administrative offices and stock storage areas. The metal working area needs several improvements, notably the finishing of the floor slab and the completion of the ceiling. False ceilings have been put in place pending the bringing of working conditions up to a higher level.

In rolling stock and vehicles, SOGUIFAB has several lift trucks which must be replaced.

Primary consumption of materials in 1985 (as reported) reached a significant amount:

<u>Item</u>	<u>Amount</u>	<u>Value</u>	<u>Source</u>
Aluminum rolls	1801 tons	99.097M sylis	(all imported)
Aluminum disks:	69 tons	4.298M sylis	(all imported)
Aluminum profiles:	43 tons	4.075M sylis	(all imported)
Glass:	7734 m2	2.011M sylis	(all imported)
Panels:		.491M sylis	(all imported)
Aluminum points:		.176M sylis	(all imported)
Shop accessories:		<u>3.426M sylis</u>	(all imported)
		113.574M sylis	

Likewise, fuel consumption was also of note in 1985:

<u>Fuel</u>	<u>Amount</u>	<u>Value</u>	<u>Source</u>
Gasoline:	60,000 liters	1.8M sylis	(all imported)
Gas-oil:	72,000 liters	2.16M sylis	(all imported)
Purchased electricity	239,700 KWH	2.397M sylis	

SOGUIFAB worked a typical 42 hour work week in 1985, reporting 300 working days during the year.

Outside services required by the firm cost 13.595M Syllis in 1985. Notwithstanding the lessened state of production, SOGUIFAB was able to report a respectable amount of completed deliveries in that year:

Sheets:	56.180M syllis - all local
Doors and windows:	4.993M syllis
Utensils:	<u>1.249M</u> syllis
	62.422M syllis

Much of the activity of the year seems to have gone into stockpiling materials, a fact attested to by the large amounts of stocks stored throughout the facility.

<u>Stocks of:</u>	<u>January 1</u>	<u>December 31</u>
Primary Materials	6.001	12.963
Secondary Materials	5.005	5.503
Packaging		.147
Products in Course of Fabrication		5.388
Finished Products	11.825	4.631
Total value of Stocks	22.831	28.632
Property - Acquired Value before Amortization	645.323	598.182
Property - Personalty	2.241	2.015

Overall, one of the most dramatic facts coming to light is the extremely low level of production in terms of available capacity. Using the numbers provided to the team, computations show an

average of 1.1 percent utilization. Even assuming that the numbers are wrong by a factor of ten, an 11 percent rate is significantly below the 15-23 percent figure often cited for parastatals in Guinea.

PLANT CAPACITY

<u>Product</u>	<u>Quantity</u>	<u>Value</u>	<u>'85 Deliv (%)</u>
Undulating Sheets	1,228,070 *	3,329.491M	
	1,473,684 **		
Other Sheets	526,315 *	1,426.918M	
	<u>631,579</u> **		
Sheets	1,754,385 *	4,756.399M	56.180M (1.18%)
	2,105,263 **		
Doors	3,553	305.589M	
Windows	<u>7,106</u>	<u>315.930M</u>	
Doors and Windows	10,659	621.519M	4.993M (0.8%)
Utensils	541,600	<u>249.384M</u>	<u>1.249M</u> (0.5%)
		5,627.302M	62.422M (1.1%)

* With current equipment and tools.

** With perfectly functioning machines and tools

(The sheet line has malfunctioning machinery; others are in good condition).

11. Adequacy of Power/Utility/Transport

As is the case with the other two firms studied, water is not a critical element in SOGUIFAB's operations, and the poor quality and supply are not of great importance. As does CMD, SOGUIFAB relies on SNE electric power. SOGUIFAB will suffer until either production can support the use of its large generator, or the power infrastructure is improved dramatically.

The geographic location of the firm is good. It is on the edge of Conakry and can be readily reached by truck from the port, railway and airport. An old, unused railway station is situated several hundred meters from the plant.

12. Dependability of Accounting Records

As is typical with Guinean parastatals, accounting and financial records are few and of poor quality. Data and information are collected on occasion by specific request for analyses such as this. When reviewed, the numbers in different documents are often different and the names of categories or account lines have many variations. As noted before, Guinea is in the process of stabilizing the process of financial accounting in general, but the changes are still somewhat in the future. In this case, as with all three firms, the information presented should serve as a guidepost to show the investigator what specific questions to ask during a detailed analysis.

Also, it should be noted that previous consultants looking at SOGUIFAB had difficulty in gathering data. The management had just changed and the departing individuals seem to have left with important books and records. The World Bank-sponsored team has rejected the use of 1984 data in comparisons with other years because they were so skewed.

B. Deal "Do-Ability"

1. Potential Operating Independence

An important point made to the team was that current production is below market demand. For one thing, SOGUIFAB is the only Guinean firm in this sector and thus it has a monopoly. Although aluminum, the articles produced are very cheap and the competition which can only come from imported products on the parallel market cannot compete with the virtual subsidy represented by the furnishing of this parastatal with foreign exchange priced at the official rate of 25:1.

Prices are determined by taking production cost and adding a profit of eight to 20 percent. Average product prices can be calculated using a 400:1 exchange rate:

•	Sheets:	USD	6.78
•	Windows:	USD	111.00
•	Doors:	USD	215.00
•	Utensils:	USD	1.15

As has been noted many times in this report, the many different rates for valuing product can cause dramatic and costly situations in sales. Thus, a sheet of aluminum (2m x 1m x 0.5mm) was resold by BATIPORT at the official rate for 425 sylis (FF 12); the same article has been sold in France at five or six times that price.

Since the advent of the Second Republic, the market for production has picked up, creating a demand for sheets, but it is difficult to predict how the different markets will evolve when the monetary reforms underway will force SOGUIFAB to return to accurate pricing. It is possible that:

- A part of the consumption of the sheets of aluminum will move toward galvanized steel or electrozinc;
- The aluminum shop will see its success diminish; or
- The aluminum utensils will have competition from less exotic, but cheaper products.

The problem is to know if the development of the market (with the opening of the economy to the outside and to the investments realized in the construction sector) will compensate for the losses engendered by increased competition. A set of predictions has been developed by other consultants (IDI), to which we have added several categories of data:

PREDICTIONS
(Million Syllis)

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Turnover	1,400	2,000	2,800
Material Consumption	1,050	1,450	1,850
Salaries and Related Costs	60	60	60
Expatriate Costs	80	80	80
Taxes	140	200	280
Outside Works and Services	46	46	46
Transportation and Removals	20	20	20
Management Fees	4	4	4
Financing Fees	50	50	50
Amortization	<u>75</u>	<u>90</u>	<u>90</u>
TOTAL CHARGES	1,525	2,000	2,480
Income	(125)	-	320
Net	(125)	-	210
Investments	180	-	-
Annual foreign exchange purchases	1,310	1,530	1,930
Employees	100	100	100

In the absence of market information, IDI came up with the following benchmarks:

- 1988 Turnover: Twice the volume of 1982 (Price X5);
- Material consumption: Losses decreased by five percent (Price X10 -- Because of information now possessed by SOGUIFAB, it will be easy to buy 20 percent cheaper than currently -- due to volumes, regularity, etc.);
- Salaries: Number of employees reduced 30 percent, and salaries increased X5;
- Expatriate costs: Includes cost of three expatriates;
- Taxes: A percentage of turnover;
- Charges, transportation and management fees: Flow from monetary readjustment;
- Financing charges: The IDI evaluation relating to necessary investments; and
- Economic amortizations: The amortization of property (revaluation) plus the amortization of USD 500,000 in investments necessary to reactivate (including adapting the sheet line for galvanized products and rehabilitating the aluminum shop and the lift trucks).

Further, SOGUIFAB has estimated the potential costs of material inputs:

ESTIMATED COSTS OF MATERIAL INPUTS
(Million FG)

	<u>1985</u>	<u>1986</u>	<u>1987</u>
Aluminum Bobbins	2,245.5	3,742.5	4,491.0
Aluminum Disks	145.8	194.4	281.8
Aluminum Profiles	130.3	195.4	260.5
Glass	37.6	56.4	75.2
Panels	9.1	10.0	10.9
Accessories	52.1	78.2	104.2
Spares	54.0	63.0	72.0
Aluminum Points	<u>46.2</u>	<u>69.4</u>	<u>92.5</u>
	2,683.0	4,409.3	5,388.1

Overall, however, it must be remembered that full rehabilitation is far off. To this end, the firm has prepared a breakdown of a best case:

PROJECTIONS BASED ON OPTIMAL FUNCTIONING
(Million FG)

	<u>1985</u>	<u>1986</u>	<u>1987</u>
<u>INCOME</u>			
Sales	3.684210	5.526315	7.368421
Services	-	-	-
Internal Production	-	-	-
Financial Products	-	-	-
Other Products	-	-	-
Stock in Finished Products -- End of Year	0.475640	0.713460	0.951280
<u>EXPENSES</u>			
Consumption of Primary Materials	2.568210	4.198634	5.119439
Consumption of Secondary Materials	0.052101	0.078152	0.104203
Consumption of Merchandise	0.046243	0.069365	0.092487
Other Consumption	-	-	-
Salaries, etc.	0.028208	0.031298	0.036870
Taxes	0.055841	1.311460	1.443156
Outside Works and Services	0.016952	0.033461	0.036807
Transportation and Removals	0.002930	0.030153	0.033168
Management Fees	0.002560	0.004040	0.004500
Financing Fees	0.002920	0.004493	0.006529
Casualties and Insurance	0.000010	0.000600	0.001000
Amortization	0.002920	0.004563	0.005019
Stocks of Finished Products at the Beginning of Year	0.237820	0.237820	

In general, the principal difficulties in SOGUIFAB operations are:

- Supply of foreign primary materials;
- Fiscal charges; and
- Access to financing.

Negotiations are underway. IDI has made contact with two groups: 1) Vatin and Nord France, and 2) Cable. All are already present in Guinea. Both teams are to prepare exploratory programs and proposals were due in mid-December.

2. Government Acceptance of Paper/Lower Price

Inasmuch as SOGUIFAB has been classified by the Government as a Category IV firm for maintenance, i.e., seeking the infusion of private capital and expertise before structuring as a société d'economie mixte, it is unlikely that the Government will be very willing to accede to unfavorable terms. SOGUIFAB has been targeted as one of the more desirable industrial firms, and the Government wants value.

However, as noted before, countering this desire is the externally imposed schedules of the multilateral lenders (specifically the World Bank and IMF) which are requiring showings of privatization progress before release of upcoming tranches of credits and loans, thus putting pressure on the Government to make quicker-than-desired agreements on terms favorable to buyers.

3. Government Reschedule Debt/Assume Liabilities

Here too Government decisions are unpredictable at this time. Work has not come to the team's attention wherein detailed analyses have been carried out on this question. A review of the dossiers of offer will shed light on the issue.

4. Other Creditors' Flexibility

Specifics on this issue also must remain unknown in the absence of a more detailed analysis than could be done on the current schedule. One of the main hindrances is the dramatic change in the banking system in Guinea.

Until all accounts and relationships are sorted out, very little will be known about the answer to this question regarding any parastatal.

5. Union Contract Flexibility

There is virtually no concern about this issue, as union activity in Guinea is negligible. The labor movement has only recently been legitimized by the Government, and organized labor concerns are seldom considered.

6. Local Cost and Import Financing Requirements

Financing of the massive foreign inputs into SOGUIFAB production traditionally was tied to Government-provided low cost foreign exchange, and transactions were integrally linked to State trade parastatals and State banks. All this is changing, with evolving requirements to deal with private lenders and traders.

7. Full Divestiture vs. Lease, Management Contract

SOGUIFAB has been slated for maintenance by the Government after the securing of financing and management expertise from the private sector. For this reason, management contracts or other mechanisms in which there can be an inflow of management skills to what will be a partial parastatal will be desirable.

C. Other Factors

1. Strategic/Social Significance

SOGUIFAB's products have some social and economic significance, in that many of them, such as building products, will be necessary and even essential for the growth of the

construction sector. For this reason, the Government not only wants to see SOGUIREP do well, but also it wants to maintain some degree of control over a key company.

2. Natural Monopoly

SOGUIFAB has nothing approaching a natural monopoly. However, in the current market it has some monopolies-in-fact, since very few other sources of supply for certain products exist in Guinea.

3. Impact on Development

The impact of SOGUIFAB on the development process in Guinea and the region is greater than that of CMD. The large volume of products that can be turned out there will do a measurable amount in increasing the quality of life when construction projects make greater use of the company's resources.

4. ESOP Potential

While the team could not gather specific information on the capital base from which the employees might draw, we don't think the working population of SOGUIFAB is either well-endowed or sophisticated enough to consider an ESOP at this time. However, with the proper term of sponsorship and education, and the right financial package, SOGUIFAB, as a mixed economy company might be a good bet for employee ownership.

5. Small Business Generation Potential

SOGUIFAB might at some time be able to stimulate small businesses as suppliers of goods and services. The firm needs or will need large amounts of material inputs, and at this time no

reliable sources are well developed in Guinea. This is an opportunity for small businesses to be creative in matching skills to needs.

D. Critical Issues

Any discussion of critical issues in the SOGUIFAB situation must await a more detailed analysis, if any, of the organization.

IV. SOCIETE GUINEENE DE RECHAPPAGE (SOGUIREP)

SOGUIREP is a Conakry-based producer of recapped tires for autos, trucks and construction and agricultural machinery. Additionally, it is able to repair tires, and to fabricate small rubber items in pressure molds. The plant has a one-shift annual capacity of: 24,000 car tires; 2,800 light truck tires; 3,300 heavy truck tires; and 500 engineering/agricultural tires. It is 100 percent State-owned.

Address: KM 20
B.P. 719
Conakry (Matoto)
No telephone

SUMMARY (Million Syllis)

	<u>1982</u>	<u>1983</u>	<u>1984</u> (25:1)	<u>1984</u> (300:1)
Turnover	4.260	3.024	3.196	25.0
Operating Income	(4.607)	(5.788)	(11.380)	(101.2)
<hr/>				
Employees			57	57

This report on SOGUIREP will begin with a description of the process utilized in the recapping of tires. The two principal raw material inputs are carcasses (worn and abused tires) and a special type of rubber gum. The carcasses are brought to the plant, having been either collected locally or imported. In the case of automobile and small truck tires, they are placed on a spinning machine and scraped at high speed to smooth the surface and remove old tread. Larger tires have the tread removed with hand-held grinders. Next, they are coated with contact cement and strips of flattened gum (extruded from another machine with a

six-inch width) are laid around the tire to build up low spots and provide the new treaded "cap."

The smaller tires are then placed in one of a number of molding machines which expose them to high pressure and heat, thus forming a new tread and vulcanizing the rubber. The larger tires are placed in custom molds, and the molds are put into a very large autoclave, which heats and pressurizes the entire assembly. The final step in the process is hand trimming and inspection.

The firm was created in 1967 with the capacity to recap 13,000 tires per year, and operated in that form until 1979. With the realization that it was becoming obsolescent, due to neglected maintenance, a decision for renovation was made and a contract was signed with MARPA, the French producer of tire recapping machinery for the furnishing of a turnkey plant -- the current facility.

In 1982, the plant began to move away from the use of MARPA-furnished materials, but the perishable gum was stored in a non-air conditioned area and rapidly became unusable. In large part because of the gum and other supply problems, 1982-85 was a period of sporadic functioning. Operations officially ceased as of March 1985, although the plant is capable of quick startup, a large number of workers remain on site daily, and occasionally a small run is undertaken. Also, repair work and production of small items such as auto floor mats is done.

The plant is comparatively impressive, at least when viewed in the context of the factories visited by the team. This is so primarily due to the fact that investments (thus costs) have generally been higher at SOGUIREP than has been the case in comparable factories in Africa. Specifically, the cost of plant and equipment is estimated at 2.8 X the price of a plant of comparable capacity being built in the Congo (USD 680,000 (1985) versus USD 1,880,000 (1979)).

A. Economic Viability

1. Profitability Track Record

This is a plant that has almost never functioned since going on line and there have been constant and significant losses. On an official basis, the firm has lost 21.8M sylis in three years. Viewed from another perspective, however, the situation is even worse. For instance, taking the 1984 numbers and translating them at an exchange rate of 300 sylis to the dollar instead of 25 for all imported inputs, and taking into account the amortizations on the base of the property revalued at the new exchange rate, one sees an operating loss of over 100M sylis -- equal to 4 X the turnover (the amortizations alone representing 3 X the turnover). In the last three years the cumulative real losses have thus reached on the order of 300M sylis (about USD 1 million at 300:1).

INCOME STATEMENT

(Million Syllis)

	<u>1982</u>	<u>1983</u>	<u>1984</u> (25:1)	<u>1984</u> (300:1)	<u>1985</u>
Turnover	4.260	3.024	3.196	25.000	N/A
Change in Stocks of Finished Product	<u>1.182</u>	<u>(.194)</u>	<u>(.146)</u>	<u>(1.000)</u>	N/A
Production Total	5.442	2.830	3.050	24.000	N/A
Material Consumption	2.505	2.709	2.532	30.500	N/A
Salaries and Related Costs	2.312	3.136	3.519	3.500	N/A
Taxes etc.	0.060	0.105	0.086	0.100	N/A
Outside Works and Services	1.537	1.555	2.378	11.000	N/A
Transportation and Removal	0.478	0.807	0.735	3.500	N/A
Management Fees	0.149	0.239	0.284	1.500	N/A
Financing Fees	0.005	0.067	0.122	0.100	N/A
Amortization	2.953	-	4.774	75.000	N/A
Value Added	<u>0.733</u>	<u>(2.480)</u>	<u>(2.879)</u>	<u>(22.500)</u>	N/A
Operating Income	(4.607)	(5.788)	(11.380)	(101.200)	N/A
Net Losses and Gains	(.013)	(.207)	(5.833)	N/A	N/A
Profit (Loss)	(4.620)	(5.581)	(17.213)	N/A	N/A

BALANCE SHEET
(Million Syllis)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Credits				
Operating Charges	1.726	1.726	1.726	NA
Buildings	73.874	73.874	69.100	NA
New Reporting	-	4.620	10.201	NA
Stocks	14.471	13.047	5.691	NA
Misc Debtors	1.148	-	0.010	NA
Available	0.279	2.820	0.003	NA
Net Loss	<u>4.620</u>	<u>5.581</u>	<u>17.213</u>	<u>NA</u>
Total Credit	96.118	101.668	103.944	NA
Debits				
Government Funds	92.638	100.538	96.636	NA
Non-reimbursable Reimbursement	2.954	-	4.774	NA
Misc Creditors	0.526	1.130	1.886	NA
Bank	-	-	0.648	NA
Net Result	<u>-</u>	<u>-</u>	<u>-</u>	<u>NA</u>
Total Debits	96.118	101.668	103.944	NA

2. Subsidy Element

Just as is the case with CMD and SOGUIFAB, there is no discernable direct subsidy provided to SOGUIREP. Again, though, several patterns historically had a subsidizing effect:

- The provision of low-cost foreign exchange (i.e., 25:1 rate) to the firm to purchase raw materials from overseas;
- The availability of artificially priced credit from State banks; and
- The considering of employees as civil servants (thus allowing an invisible costing of many of their benefits).

All of these activities have been eliminated at this time. An exemption from the 20 percent standard import tariff has been suggested by some as a way to increase SOGUIREP's viability, but this has not been acted upon.

3. Protection Element

There is no evidence of any official action by the Government to restrict the importation of products which would compete with CMD's. Guinea maintains a flat 20 percent rate of tariff for most products, including tires, carcasses and gum. As shown by the table entitled Comparative Prices, below, it is only in the case of new heavy truck tires that the tariff rate affords any significant protection to local industry; in other cases the extra cost is marginal in the price of the product. It should be noted, though, that if the firm turned to local supply, the claim of protectionism might be stronger, as the difference in pricing would be still more pronounced.

4. Market Share

Market share determinations are virtually impossible, for a number of reasons. In the first place, there is not even an accurate estimate as to the number of vehicles owned or driven (although 35,000 is currently used). Tires are bought informally, and repaired, traded or sold in informal transactions. New tires enter the country on vehicles, in shipments to heavy users (such as the mining companies), or in other ways. There are no tire dealers such as one is accustomed to in Europe or the United States, and filling stations are not equipped to do much more than pump gasoline.

Repairs to good tires are made by owners or skilled friends, and -- more importantly -- tire repair and recapping is a cottage industry. On the road from central Conakry to SOGUIREP one passes at least a half dozen roadside operations in which small groups of men are conducting such businesses. Each is primitive compared to what can be done at SOGUIREP, and there is little doubt that the products are both unsafe and short-lived. They meet a demand, however, and the combination of price and convenience keeps a customer base.

Keeping in mind that the market in Guinea is not recapped tires, but rather tires in general, a determination of share becomes even more difficult. When defined in this manner, there are two key players which must be accounted for: the Mercedes and Renault distributors in Conakry. The former is responsible for the importation and maintenance of a large number of trucks and buses in operation, and the latter, does the same -- especially importantly, since Renault is a partner in the new mixed enterprise bus line, SOGETRAG. The line's new vehicles are all running on new Michelins and will likely do so for years to come. Thus, owners with access to these sources will represent a significant share of any market.

Lastly, SOGUIREP's own business practices, i.e., acting like a shop of artisans and taking in catch-as-catch-can business has done much to hinder the development of a predictable market.

5. Import Competition

As noted above, there is significant competition from foreign sources in the area of new tires. There appears also to be a flow of recaps coming in, but we were unable to get any data on its magnitude. The following chart clearly illustrates the degree of competition from foreign sources by laying out the ultimate price differences. Thus, financial ability clearly defines where a user goes to get tires. It is a given that a new tire is more desirable than a recapped one, and those who can buy new will tend to do so, whether through the dealers mentioned, or other sources. This, by definition, means an importation. Those owners who are seeking a low priced, yet good quality recap will likely look to SOGUIREP, or to an importer; unfortunately, information on sources or amounts is unavailable. As the data show, though, the savings SOGUIREP offers over foreign truck tires are quite considerable, however, and one would expect that import competition would be much less in this area. Those who cannot afford a SOGUIREP tire will make do with a lesser recap or repair.

COMPARATIVE PRICES
(Imports/Recapping)
(In US Dollars)

<u>Category</u>	<u>Imported New</u>	<u>Imported Recap</u>	<u>Local Recaps</u>	
			<u>Without Tariff</u>	<u>With Tariff</u>
AUTO (175x14)				
Cost of Tire or Carcass	37.50	22.50	5.60	5.60
Cost of Transportation	6.90	6.90	6.90	6.90
Cost of Primary Materials	-	-	14.00	14.00
Tariff (at 20%)	<u>8.90</u>	<u>5.90</u>	<u>-</u>	<u>5.30</u>
Total	53.30	35.30	26.50	31.80
Percent of New	100	66	50	60
Percent of Imported Recap	151	100	75	90
HEAVY TRUCKS (1200x120)				
Cost of Tire or Carcass	250.00	150.00	50.00	50.00
Cost of Transportation	56.30	56.30	56.30	56.30
Cost of Primary Materials	-	-	45.00	45.00
Tariff (at 20%)	<u>61.30</u>	<u>41.30</u>	<u>-</u>	<u>-</u>
Total	367.60	247.60	151.30	181.60
Percent of New	100	67	41	49
Percent of Imported Recap	-	100	61	73

6. Domestic Market Potential

The potential for the domestic market seems to be very large. Guinea is a country with only a small fraction of its roadways paved. This has a two-fold result. First, the thousands of potholes and obstructions encountered daily wreak havoc with tires, causing early failure and great tread wear. Second, the fact that the roads are so bad means that there are absolutely no cases where a vehicle would attain speeds in which recapped tires wouldn't be as safe as new ones. These factors, combined with a population without the financial resources to pay the costs of a set of new imported tires, make Guinea a natural market for recaps. With this in mind, SOGUIREP has laid out a three-year "wish list" of targets for sales, numbers which are felt to be quite reasonable in the national context:

PREDICTED SALES

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Cars	5,000	10,000	15,000
Light trucks	500	1,000	2,000
Heavy trucks	500	1,000	2,000
Civil Eng/Agricultural	100	150	200

The Guinean auto population is not known with precision; one estimate is 35,000, of which 10,000 are running. The population is responsible for an annual consumption of tires in the order of 100,000 units, of which, based on comparable African markets, 25,000 are recaps. Taking account of the need to create the market, consultants have predicted that a properly operating SOGUIREP could attain sales representing 25 percent of the potential market in 1986 and 75 percent in 1988. In fact, however, this has not been done and the plant is virtually idle.

One theme recurring in discussions of the situation is the fact that the large imported component of material inputs has caused SOGUIREP's problems; it is believed by some that an exemption from customs duties for raw materials will do a great deal in market creation.

Short of this, key changes to be made include societal conditioning about the value of the product, some salesmanship, hard-headed computations about the payoff from various courses of action, and some creative approaches to the situation, for example:

- Massive collections of carcasses from throughout Guinea, and large production runs, with stockpiling;
- Road service, using an exchange of tires from stockpile instead of waiting for a customer to arrive at the plant and recapping the same tire;
- Joint, comprehensive vehicle repair services in conjunction with groups such as CMD;
- Service contracts with fleet operators; or
- Even a publicity campaign.

7. Export Market Potential

A West African regional market for SOGUIREP tires is foreseeable. At this time all the neighboring countries, each faced with a market and environmental pattern like Guinea's, apparently use the same trade channels. If SOGUIREP could begin to export, the savings in transportation costs, combined with a desire to buy "local" would stimulate a market. What appears to be needed is some success on the home market, along with basic research on neighboring countries. Beyond the immediate region there are few opportunities for exports.

8. Staffing/Organization/Management

As noted, the plant was officially shut down in March of 1985, and very little work is being done. Notwithstanding this closure, however, a large number of employees are being kept on the roles. We were recently given the final tally for the end of 1985 (54 total), and we learned that further reductions have not come.

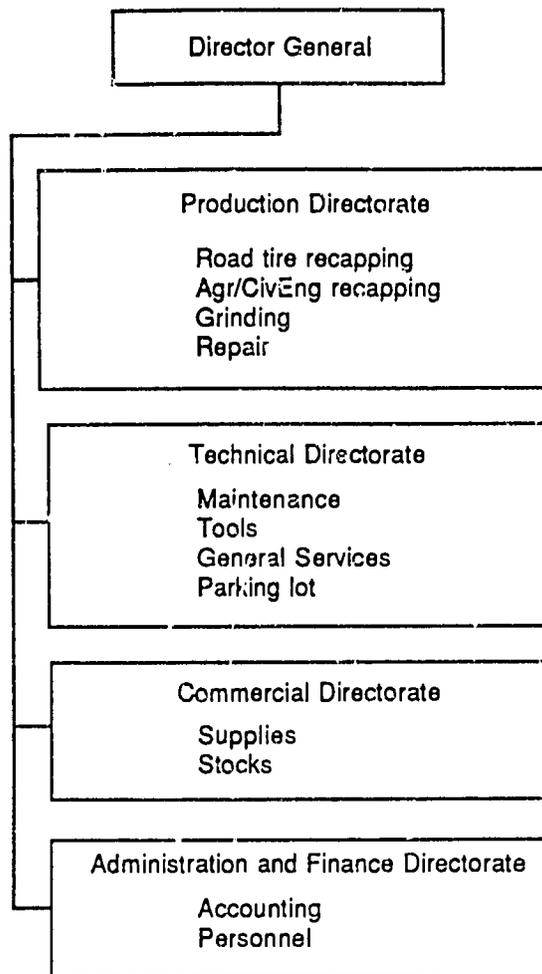
EMPLOYEES - 1985

<u>Type</u>	<u>Salaries</u> <u>(000 Syl)</u>	<u>Men</u>	<u>Women</u>	<u>Admin.</u>	<u>Produc.</u>	<u>Total</u>	<u>(1984)</u>
A							
B	118	7		2	5	7	(7)
C	105	7	1	4	4	8	(9)
D	114	9	1	5	5	10	(10)
E	145	11	2	6	7	13	(14)
F	173	15	1	2	14	16	(17)
G							
	<u>655</u>	<u>49</u>	<u>5</u>	<u>19</u>	<u>35</u>	<u>54</u>	<u>(57)</u>

One recent estimate has placed SOGUIREP's level of overstaffing at 70 percent for the current market, and predicted that it could manufacture 6,000 recaps this year with 15 employees and one expatriate.

Just as SOGUIREP's plant was overdesigned for what it did, so too is its organizational structure:

ORGANIZATION



9. Wage and Salary Structure (Including Perks)

While, as noted above, the 1985 bill for salaries and related social costs was 655,000 sylis. However, since the 1984 total was 3.519 million sylis for virtually the same number of people, the data are somewhat suspect.

10. Plant Productivity (Building/Equipment/Parts)

Plant productivity at SOGUIREP has been extremely low since its inception, largely due to overbuilding and overinvestment. There have been very high investments in an too-large plant with

costly technical choices. Although the plant was created by MARPA within the original estimates, it is overdesigned, having a capacity corresponding at least to double the market potential in the medium term with one shift for car tires. As noted earlier, it corresponds (outside buildings and civil works) to 2.8 X the price of a plant of comparable capacity being built in the Congo: USD 680,000 (1985) compared to USD 1,880,000 (1979).

<u>Investments</u>	<u>000 USD</u>	Plus	<u>000 Syllis</u>
Civil works	1,670		5,870
Equipment	1,060		
Vehicles	190		
Misc	<u>60</u>		<u>4,300</u>
	3,380		10,170

Together the two figures equal about USD 3.8 million.

The plant's equipment and tooling comprises the following:

- Production tools:
 - One building of 3200 m2
 - One maintenance shop
- Offices
- Production equipment
 - 8 automatic presses - car tires
 - 2 " " - light trucks
 - 2 " " - heavy trucks
 - 1 autoclave for agricultural/civil engineering
 - 2 scrapers (1 manual, 1 automatic)
 - 2 dressers
 - 1 gum installer
 - 1 gum extruder

- Cold storage room for storing gum

- Utilities
 - 250 KVA generators
 - 2 furnaces
 - 5 compressors (20 and 6 bars)

The plant has been maintained at a good level of functioning, and only the gum extruder is targeted for essential replacement. The parking lot is totally unusable.

One of SOGUIREP's primary problems is that only a symbolic level of production is possible due to primary materials shortages. The plant has never received supplies permitting it to assure its production. For example, gum delivered at a given date and stored for up to three years in bad conditions is unusable. The carcasses have to be imported, and the deliveries are often badly adapted (ones inappropriate for recapping, dimensions not corresponding to needs). Thus the plant has either carcasses without gum, or gum without carcasses (assuming the gum is still usable.)

As the following data show, the level of utilization of the plant is extremely low.

LEVEL OF CAPACITY UTILIZATION

(Number of Tires)

<u>Product</u>	<u>Installed Capacity</u>	<u>1983</u>		<u>1984</u>		<u>1985</u>		
		<u>No.</u>	<u>Rate</u>	<u>No.</u>	<u>Rate</u>	<u>No.</u>	<u>Rate</u>	
Recapping								
Automobile	24,000 pa	660	3%	715	3%	23	0.1%	
Light Trucks	2,800 pa	123	4%	88	3%	25	1%	
Heavy Trucks	3,300 pa	172	5%	150	5%	30	1%	
Agricultural & Civil Works	<u>500 pa</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total Recap	30,600 pa	955	4%	953	3%	78	0.25%	
Repairs								
Automobile	-	298	-	65	-	22	-	
Light Trucks	-	51	-	27	-	4	-	
Heavy Trucks	-	148	-	76	-	30	-	
Total Repair	<u>-</u>	<u>499</u>	<u>-</u>	<u>168</u>	<u>-</u>	<u>56</u>	<u>-</u>	

11. Adequacy of Power/Utility/Transport

The biggest infrastructure problem facing SOGUIREP is the undependability of the Société Nationale d'Electricité (SNE) electric power supply. Since the heat/pressure treatment of a tire is the critical stage of the process, an uninterrupted supply of good power is essential. Over the years, the plant has lost numerous tires it was recapping due to sudden power failures. In such cases, all the tires being worked on at the time have to be discarded, since they have been ruined and cannot be reprocessed. While this represents a significant loss, firm management has calculated that the cost is still less than that of fueling a generator.

Ironically, the poor quality of the transportation infrastructure is not a problem for deliveries, since, under SOGUIREP's current operating pattern, customers bring their tires in to the plant, and deliveries are not necessary. Further, lack of need for material inputs on a large scale (due to low volume) and lack of need for power to refrigerate the gum properly both lessen dependence on the infrastructure. In a final irony, it is the abysmal condition of the local roads that generates a large percentage of the plant's business.

12. Dependability of Accounting Records

Accounting records are poor or non-existent. The team did, however, receive from SOGUIREP its January 1985 "Budget de Functionment," a more comprehensive and detailed document than we saw at any other firm investigated.

B. Deal "Do-Ability"

1. Potential Operating Independence

It has been suggested that SOGUIREP could be profitable in three to four years, and we tend to agree. Prior investigators made a number of assumptions regarding the firm's potential, namely:

- Assume an exemption from duties;
- Average sales price equal to the price of similar recapped tires CIF Conakry plus duties of 20 percent;
- 300:1 exchange rate (since gone higher);
- Purchases consumed at an average level of 65%/C.A. (taking account of a part of local carcasses for heavy trucks and civil engineering);
- Expatriate personnel costing USD 100,000;
- Local personnel costing actual salaries X6;

- Financing fees to the amount of 10 percent on a need for revolving funds of two months of turnover and four months of provisions;
- Amortization calculated on the exclusive economic value of a unit:
 - Buildings: 190M sylis on 20 years,
 - Equipment: 150M sylis on 10 years; and
- The foreign exchange needs for three years will be on the order of USD 2.6 million, corresponding to net needs of USD 130,000.

Using the preceding predictions, the following projections have been circulated:

PREDICTED OPERATING RESULTS

(Million FG)

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Turnover	100	240	400
Material Consumption	65	155	260
Other Outside Purchases	15	35	60
Expatriate Personnel	30	30	30
Local Value Added (excluding amortization and foreign exchange financing fees)	(10)	20	50
Local Personnel	6	8	10
Financing Fees	4	9	15
Amortization	25	25	25
Operating Income	(45)	(22)	45
Local Employees	15	20	25

Keeping in mind the principal operating -- not marketing difficulties faced, (i.e., Electricity supply interruption; Supplies of foreign primary inputs; and Access to financing), there has been some interest in the operation. Specifically, ongoing negotiations are being pursued with:

- CIAC
- Group Ch. TRAVERS
- Group AH. HUBER
- SAG/Group CABLE

2. Government Acceptance of Paper/Lower Price

Like CMD, SOGUIREP has been classified by the Government as a Category II firm for privatization, i.e., terminate operations pending the sale of the assets to a private party, and it is therefore possible that the Government will be very willing to sell either one in a transaction which is very favorable to the buyer. However, the team was explicitly told by Government officials that it is their desire to conduct the privatizations in conditions of maximum competition, and to have as many bidders as possible compete to offer better terms. Another important factor is the fast-moving schedules of the World Bank and IMF, which are requiring showings of privatization progress (i.e., sales or closures) before release of upcoming tranches of credits and loans.

The team was unable to obtain accurate information about how the Government is resolving this dilemma. Specific answers will be found in the course of the ongoing review of the dossiers and negotiations, if any.

3. Government Reschedule Debt/Assume Liabilities

Here too, Government decisions are unpredictable at this time. In the case of the industrial firms, the debt and liability

picture has received only broad-brush review. A review of the dossiers of offer will shed light on the question.

4. Other Creditors' Flexibility

Specifics on this issue also must remain unknown in the absence of a more detailed analysis than could be done on the current schedule. One of the main hindrances is the dramatic change in the banking system in Guinea. Until all accounts and relationships are sorted out, very little will be known about the answer to this question regarding any parastatal.

5. Union Contract Flexibility

There is virtually no concern about this issue, as union activity in Guinea is negligible. The labor movement has only recently been legitimized by the Government, and organized labor concerns are seldom considered.

6. Local Cost and Import Financing Requirements

Financing of the large foreign inputs into SOGUIREP production traditionally was tied to Government-provided low cost foreign exchange, and transactions were integrally linked to State trade parastatals and State banks. All this is changing, with evolving requirements to deal with private lenders and traders. The degree to which is both sophisticated and creditworthy enough to survive in the new environment remains to be seen. Also, SOGUIREP has a potentially important opportunity to begin to decrease its reliance on foreign supplies by changing its operating and marketing methods; use of locally secured carcasses is a simple first step.

7. Full Divestiture vs. Lease, Management Contract

Full divestiture has been selected by the Government, with the advice of its World Bank consultants. While SOGUIREP has the facilities and equipment to operate effectively with the right managerial input and financial backing, and thus is a good candidate for leasing or management contracting, the Government has put it in Category II of the privatization program, and efforts at this time to retain it in the Government under contract management or lease would only slow down a process which should be speeded up.

C. Other Factors

1. Strategic/Social Significance

SOGUIREP's operations have a strong strategic and social significance, since they hold the key to a large-scale production facility, employing a large number of people, and providing an important input into the transportation sector. Widespread use of SOGUIREP tires would put more cars, trucks, and buses into potentially profitable operation (or at the least generating an upturn in related service businesses). It could be a driving force in a degree of import substitution, and it has the potential for creating a small, but measurable flow of exports into the region.

2. Natural Monopoly

SOGUIREP has nothing approaching a natural monopoly. What it does have is a monopoly in fact in a market (the local creation of high quality recaps) which can grow greatly. The market can be lost to imports or to new tires, but it is a very expensive proposition to consider building such a plant from scratch, at least while SOGUIREP still has the potential to operate.

3. Impact on Development

SOGUIREP could have a positive impact on the development of Guinea and the region, by virtue of its potential for supplying tires in large numbers to the transport and agricultural/engineering sectors. The products are especially well suited to the needs of the region today, and they can provide a transition to the time when recaps play a much smaller role in transportation, as they currently do in the United States.

4. ESOP Potential

While the team could not gather specific information on the capital base from which the employees might draw, we are confident in saying that the working population of SOGUIREP is neither well-endowed or sophisticated enough to consider an ESOP. Further, the recent termination of the civil service status of parastatal employees put the financial status of SOGUIREP employees in great jeopardy, and investment is far from the minds of the staff.

However, as with SOGUIFAB, a process using a transition period with an inflow of capital and expertise, might be a good way to get the firm "over the hump" and into profitability, resulting in a good climate for ESOP formation.

5. Small Business Generation Potential

SOGUIREP's activities show only a few ways to generate small business activity. As it now operates, the firm has little to provide to small businesses, or to take from them. However, it is conceivable that if it went to local sourcing, carcasses and other inputs could be purchased from small suppliers, and miscellaneous rubber products, such as the current car floor mats and their successors could be sold to smaller middlemen.

D. Critical Issues

Any discussion of critical issues in the CMD situation must await a more detailed analysis, if any, of the organization.

III. ACCOMPLISHMENTS

This CFP privatization reconnaissance trip was highly unusual in that it was necessary to accomplish in 10.5 days what is usually done over a much longer period. The need to do a focused preliminary review of three industrial enterprises (utilizing the CFP industry/enterprise guidelines) was superimposed on the CFP regular requirement that a privatization reconnaissance trip of two weeks be undertaken before a specific look at an enterprise occurs. While the regular CFP approach is sound and valid under usual circumstances, the situation in Guinea is unusual because of the advanced progression of the privatization program. The opportunity for U.S. AID to have an impact is unique in light of the historical/political background of this country. Therefore, the flexibility which USAID/Conakry, as well as PRE/CFP have used in responding to the special needs of the Guinea privatization effort is an important factor in this process.

For this reconnaissance, the team consisted of three individuals. Lance Marston, of The Hay Group assumed major responsibility for directing the input and design of the final reports. However, this was indeed a group effort and the experience, insights, and recommended actions are the results of a collective brainstorming effort that has incorporated the ideas and knowledge of not only our team, but those of the PRE and Africa Bureaus; a clear indication of the priority and interest with which Guinea's privatization program is being viewed.

The USAID/Conakry Mission has to be commended for providing us with the type of assistance and for specially assigning a staff person to facilitate our efforts in country. They arranged for our space, set up our appointments, provided us with key documents, and made it possible for us to talk to GOG officials

at every level, in spite of the limited staff resources at their disposal. Especially commendable are the efforts of Emmanuel Diarra, a new staff member of USAID/Conakry, who along with our team has become expert on privatization as it is occurring in Guinea.

Our methodological approach for obtaining the information required by both CFP and USAID/Conakry was to utilize the country and the enterprise/industry checklists to guide all of our discussions and interviews with the Government, the donor community representatives and consultants involved in the privatization program, as well as with individuals from the private sector. First we prepared background notes utilizing the available secondary data sources (primarily documents of the Guinean Government, consultant groups and donor groups involved in the Privatization Program) most of which were obtained in-country. Where data gaps still existed, and there were several, we sought to obtain primary source information via personal interviews with major informants identified for us by USAID/Conakry; and in the case of the three enterprises, we utilized an excellent survey questionnaire developed by CEGIR, the Canadian firm. Data from this survey were used extensively to complete the preliminary analyses of SOGUIFAB and SOGUIREP, two of the three enterprises targeted for review by our team. In this context, our team conducted more than 20 personal interviews with a cross-section of key individuals.

Unfortunately, two of the most important interviews did not materialize with representatives from Ministry of Plan and the Sous-Commission, which is the body recently designated responsible for the coordination of Guinea's privatization program, including the industrial privatization still to be completed.

In light of the widespread interest that generated this particular privatization reconnaissance trip, our debriefing on September 8, 1986 was of interest to policy level and program personnel not only within Africa and PRE Bureau, but also within the Office of the AID Administrator. At that time, draft reports were circulated for comment.

This final report incorporates all of the comments and changes received from reviewers at the Conakry Mission, the Africa and PRE Bureaus, and other organizations.

IV. RECOMMENDED FOLLOW-UP

All three of these companies have at least some interesting potential for investors seeking a finite range of resources, including:

- Sound physical plant and usable machines and equipment;
- Trained labor force available to work;
- Support of the Government in the divestiture process;
- Good locations for production and delivery; and
- A marketplace that is destined to grow.

They all have certain weaknesses, however:

- Lowered or non-operating conditions show them in a bad light;
- Customer bases have diminished;
- Heavy debt burdens them;
- They are very small in magnitude in an absolute sense;
- There is uncertainty about government policies (investment code, plan, tax, labor laws, dispute resolution, property ownership) affecting operations;
- They have not yet secured stable sources of raw materials;
- Each needs capital infusions for repairs, rehabilitations, and physical improvements;
- They operate in an environment of minimally functioning infrastructure and public services;
- None deals with processes or products that are either proprietary or difficult to make, and there is little to prevent quickly appearing competition from new enterprises; and

- None is protected in any special manner by GOG subsidies or other programs, such as import barriers.

Thus, each of the firms might conceivably be a good investment for some narrowly focused, experienced and creative organization, which is prepared to make notable short-term sacrifices in anticipation of longer term gains. This is especially so if the firms are bundled together, or with other Guinean entities. The investor must be experienced in the ways of doing business in Francophone West Africa, and must negotiate an acceptable package with the GOG (including understandings about the importance of investing in these particular firms as part of the privatization program, as opposed to starting competing operations from scratch, and avoiding most of the negative aspects of the three).

When such bidders come forward, we recommend that the Conakry Mission provide a broad range of assistance to them. It should be as expansive as necessary to meet their requirements within resource constraints, but at the least should involve facilitating access to each facility, its personnel, and its accounts. If the needs of such investors can be summarized, they are as follows: these parastatals are not being divested because they are excellent firms, but rather because they have not worked. Each has visible problems and not-so-visible ones. This investigation took the first-level look at three firms and found a number of strengths and many weaknesses in each. There is little doubt that the next investigator will find more of both, and the Mission should do what it can to make sure that no fatal flaws are overlooked; they are, after all, more likely to remain undetected at this point than are hidden resources or chances for dramatic success.

Beyond the unique case of these specifically situated bidders, we cannot recommend that the Mission devote time or money to

looking further into the privatization of those three firms. They are small, marginally operational, and in fields in which the Mission lacks in-house expertise. Thus, to go further in investigations would require importing outside advisors to review three organizations that, even in the most optimistic of scenarios, would generate only small outside investor interest.

The three were selected for analysis well into the industrial sector privatization program, and the latter is moving along rapidly, independent of the AID review of the three firms. The problem thus arises that to review them in more depth (except in the case of ad hoc interest noted above), would force either a slowing of the privatization program or a speeding up of the review. Neither is a desirable outcome in view of what we perceive as a small return on an investigation sponsor's investment.

Had the firms been different or the commissioning of the research been at the beginning of the privatization program, the recommendations might well have been different. The facts being what they are, however, the team recommends that future work on the three firms be limited to ad hoc support of investors who come forward, and the attention of the Mission be directed toward the recommendations made in Section IV of Part I of this report.

APPENDICES

- 1 - Visit and Interview Chronology
- 2 - Background and Correspondence

The reader is directed to Appendix A of Part I of the report for these materials.