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INVESTMENT CLIMATE ASSESSMENT

REPUBLIC OF GUINEA

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Foreword

This assessment of the investment climate in Guinea, West Africa was carried out at the request of the USAID mission in Conakry and USAID's Africa Bureau by Equator Advisory Services Limited (EASL) under a subcontract to the International Science and Technology Institute (ISTI). Research was conducted in Washington, D.C. in late November, 1985 and in Conakry, Guinea during December, 1985 by a team consisting of three EASL consultants, an attorney from the firm of Duncan, Allen & Mitchell under direct contract to ISTI, and senior management of the National Private Investment Promotion Center (CNPIP) in Guinea. The study has been slightly updated pursuant to a recent EASL mission to Guinea.

I. OVERVIEW

This paper provides an assessment of the investment climate in Guinea, a country whose new leadership is taking bold steps to overcome a history of autocratic government and economic mismanagement under the Sekou Toure regime, and to reconstruct what was once the dominant economy in francophone West Africa. Following the general overview presented in this introductory chapter, the analysis covers two principal categories of factors which have a bearing on investment decisions and on doing business in Guinea:

- factors under the direct control of the government, i.e. economic and monetary policy, legislation and administration (Chapter II)
- economic and market conditions, ranging from physical infrastructure and factor availability to competitive opportunities in key sectors (Chapter III)

A. THE CURRENT MOOD IN GUINEA

Guinea's investment climate has improved radically since the Comite Militaire de Redressement National (the CMRN) took power in April, 1984, shortly after the death of President Toure. Almost immediately, the new regime headed by President Lansana Conte (officially known as the "Second Republic") made clear its intentions to open up all sectors of the economy to private initiative, to reduce the role of the public and parastatal sectors and to introduce sweeping economic and administrative reforms. With this change of course, foreign investors have been visiting Guinea in increasing numbers to test the waters. A year and a half later, a number of investors have already gone forward with investment projects, and others are positioning themselves for entry into the market soon. Guinean entrepreneurs have designed, promoted and, where the resources were available, begun to undertake a variety of projects, and many have solicited the participation of foreign partners.

Although the excitement generated by the Conte government has produced a high level of exploratory and pilot activity, there is a substantial gap between the decidedly positive investment climate, in the sense of subjective perceptions and expectations, and actual investment conditions and commitments. Indeed, many foreigners who have recently visited Guinea found their experiences to be inconclusive, and many serious Guinean entrepreneurs have similarly adopted a wait-and-see attitude, even when otherwise ready financially and technically to start new projects.

Businessmen have been anticipating the Conte government's reforms, designed over many months with the support of the IMF, the World Bank, the CCCE and other leading donors. The most important and most eagerly awaited steps on the agenda, monetary and public/parastatal sector reforms, were announced in President Conte's speeches of December 22, 1985 and January 6, 1986. Implementation has already begun (see Chapter II). It is widely expected that these measures will prompt a number of new investments by the second and third quarters of 1986.

Nevertheless, the extent to which these fundamental changes will affect investment decisions over the longer term depends largely on the balance which individual investors will perceive between the more specific positive and negative factors in the Guinean business environment described in Chapters II and III below. Since many of the constraints were left behind by the Toure regime, it is appropriate to review the key dimensions of its legacy in order to provide the necessary background for an understanding of the current investment climate.

B. THE TOURE LEGACY

Thirty years ago, Guinea was the richest of France's West African colonies, supplying much of the region with produce and accounting for its entire trade surplus with the Western world. The reality of colonial domination aside, a healthy balance existed between public administration and private enterprise, with steady progress being made in developing the country's infrastructure and natural and human resources.

Guinea's break with France was particularly sharp and prompted severe reprisals. The French administrative community left virtually overnight, with businesses following close behind (although some stayed and were ultimately nationalized by the late 1960s). In these difficult circumstances, and in the context of strained relations with his neighbours, President Toure opted for an increasingly radical and isolated course of socialist development. His government failed to align economic policies with the realities of the international and regional market, introducing layer upon layer of bureaucratic control over the economy, which stifled and all but prohibited private enterprise, both Guinean and foreign. Although the Toure government permitted foreign corporations to exploit Guinea's bauxite resources in the 1970s and began to undertake reforms in its final years, the regime presided over a closed, structurally decaying and highly artificial official economy.

As a result, Guinea faces a major reconstruction effort. Three key dimensions of the Toure legacy have had, and in many respects will continue to have, a disproportionate impact on the investment climate.

1. <u>The marginalization of the official economy and the rise of the parallel economy</u>

The Toure government established public monopolies in nearly all sectors of the Guinean economy. By the mid-1970s, banking, domestic and international trade, transport, industry, and to a certain extent even agricultural production were officially controlled by a network of government institutions and state enterprises. Rigid exchange, price and wage controls, the near-monopolization of domestic credit and official foreign exchange allocations by the public and parastatal sectors, the absence of a functionning legal system, and the prevailing ideology further discouraged visible private initiative. Coercion was sometimes used against individuals who engaged in private production and commerce on too large a scale.

The two most dramatic consequences of this policy orientation were a steady decline in agricultural and industrial production, compensated from a balance-of-trade standpoint only by the rise of the bauxite industry in the late 1970s (whose export revenues now account for over 95% of official foreign exchange earnings), and the emergence of a vigorous parallel market. As inflationary monetary and credit policies and a growing foreign debt reduced the purchasing power of the syli (the recently-replaced national currency), and inept management of the state production and distribution apparatus caused chronic shortages in consumer goods, an unofficial market began to develop, fueled at first by the resale of commodities imported by civil servants with privileged access to foreign exchange at the artificially high official rate or to commodities distributed under a quota system. Massive imports of food and other goods by the mining enclaves beginning in the late 1970s were also illegally channelled to this market, where they were sold at multiples of controlled prices. These artificially cheap imports, as well as locally produced cash crops (in modest quantities), diamonds and gold, also increasingly found their way to neighbouring countries, traded for convertible currencies or through barter transactions.

By the early 1980s, the official economy had become a shell; it provided a source of supply for the parallel market, managed foreign assistance, and collected (and spent) revenues from the bauxite mines. Most productive and commercial activity was conducted outside of this system, as was virtually all foreign exchange trading outside of the highly visible mining sector. By December, 1985, the parallel rate had reached 400 sylis to U.S.$1, over 17 times the official rate of twenty-five to the dollar.

The parallel market syphoned tremendous resources out of the official economy. It was financed in large part by an extremely overvalued currency and a growing foreign debt. However, its vigor and pervasiveness are a blessing for the new regime. Currency trading occurs at a realistic market rate; most goods, with the exception of rice, fuel and a few other basic commodities imported in massive quantities, are sold at internationally realistic prices; there are few shortages; and the sophistication of the commercial sector is steadily increasing. A major challenge facing the Conte government, therefore, lies in reintegrating, controlling and managing this market by bringing it out into the open and earning the trust of those who operate in it. This requires choosing liberal economic policies and creating a financial and legal system that supports private initiative. As described in Chapter II, the economic and legislative reform effort which is now underway seeks to ease the transition process with carefully designed measures in those areas which are still heavily distorted by past policies.

2. The bureaucratization of a generation

The Toure regime systematically controlled Guinea's economic and social development, to a far greater extent than most other socialist regimes in Africa. A generation of primary school children was educated in indigenous languages (yielding an extremely low French literacy rate), and the curriculum in secondary and post-secondary schools emphasized ideological awareness as much as the acquisition of technical skills. Employment in the public sector awaited most university graduates, many of whom received professional training abroad. However, given the catastrophic mismanagement of the economy and of the network of public and parastatal institutions, very few had the opportunity or the incentive to exercize their professions.

The regime left behind over 150 state entreprises with a payroll of over 25,000, and a civil service estimated at well over 60,000 employees. Government salaries in 1985 range from 3,000 to 10,000 sylis/month, and although supplemented by rations of rice and other commodities, they are estimated to represent about 25% of the cost of living. Over the years, civil servants used their official status to leverage their incomes through corrupt practices ranging from the above-mentionned resale of goods imported at the official exchange rate to charging commissions for public services.

When one considers that some 60 signatures are still required for a private company to execute an import transaction, and that each represents an opportunity for individual enrichment, one would assume that the process of survival in this bureaucratic culture has created a class which is deeply wedded to the status quo. It is significant that many civil servants initially reacted to the new directions announced by the Conte government with spontaneous attempts to leave government employment and to devote themselves fully to private sector activities. This was consistent with the general public's enthusiasm at the prospect of economic liberalization. However, there has in fact been no measurable exodus from the civil service, and less initiative of this kind has been seen in recent months. Many observers attribute this to the fact that the awaited reforms have taken longer to materialize than had been initially expected.

The Conte government has carefully planned its campaign to reduce the public and parastatal sector workforce and to lessen the shock of monetary and economic reforms on a class which has lived in an artificial environment of non-productive employment, subsidies and status-related commissions (see Chapter II). The first step in this politically sensitive process, a civil service census, is nearly complete, with no major incidents. However, even if efforts to radically trim the government payroll proceed on schedule, the process of reviving dormant skills and developing new ones, instilling a new work ethic in the labor force and changing deeply-engrained bureaucratic attitudes constitutes a major long-term challenge for Guinean government and business leaders.

3. Infrastructural decay and dormant resources

Guinea's physical infrastructure--from transportation to energy supplies to telecommunications--was essentially left to decay during the Toure era. The Conte government and foreign donors have given top priority to upgrading the country's infrastructure, but it will be years before major bottlenecks are removed and investors can consider reducing the almost total self-sufficiency which is now required for a large-scale operation. Modern facilities exist in and around mining enclaves, and the private sector is already taking the lead in improving services and facilities in other areas, particularly in the construction and transport industries. However, physical access to the rural areas which are the site of Guinea's agricultural potential and mineral wealth will remain difficult and poses a significant challenge to the investor, as does the poor state of the telecommunications network, port facilities and other key infrastructural components.

C. GENERAL OUTLOOK

Now that the political stage has been set for a resurgence of private initiative and investment in Guinea, further improvements in the investment climate will come from the specific steps which the government intends to undertake to construct an economic, legal, administrative and market system which supports the development of the country's resources. The regime enjoys the strong support of aid donors as well as a high degree of popular legitimacy, but the structural and attitudinal legacy of the Toure era carries with it the threat of political dissent from vested interests. Although certain specific measures (e.g. in the area of business legislation) were implemented during 1985, the Conte government proceeded at a deliberate pace in preparing the heart of its program which was announced in late December, 1985 and early January, 1986.

The first quarter of 1986 will be the most critical phase in the reform effort, focusing on the implementation of a new monetary policy, on the restructuring of the public and parastatal sectors, and on the progressive reduction of long-standing subsidies. Significantly, these changes will be accompanied by the establishment of concrete incentives for private enterprise, including the probable introduction of a new investment code and special funding facilities for new ventures.

Although substantial investment capital may not be committed in the first quarter or two of 1986, given the lead time which accompanies new investment, the EASL team is convinced that knowledgeable, serious foreign investors seeking out the most attractive opportunities and the most experienced Guinean partners will significantly increase the level of their investigative activity by mid-1986. It can also be expected that Guinean entrepreneurs will increasingly risk their own limited capital, seeking to establish their positions as early as possible in the key sectors of opportunity.

II. THE POLICY ENVIRONMENT

The Guinean government has begun to implement a comprehensive package of reforms which aims to improve its economic management capacity as well as the environment for private business development. Foreign investors who have established new ventures in Guinea since April, 1984 have done so on the expectation that such changes would occur, but most of them have limited their risk considerably thus far through carefully developed investment relationships and structures (see Chapter III). Guinean entrepreneurs have more limited means, but many have developed project ideas and pilot operations in anticipation of an inflow of foreign joint venture capital and technology and easier access to credit. If the reforms proceed as scheduled, the economic, administrative and legal environment could potentially support a surge of new, risk-taking private investment later in 1986.

A. POLITICAL CLIMATE

The Conte government is firmly committed to the development of a free-market economy in Guinea. The President and other senior officials have made this clear in public statements, as well as in their private dealings with foreign donors and foreign and Guinean businessmen. Capitalizing on the bankruptcy of the previous regime's policies, this orientation has in and of itself created a positive political climate in Guinea and generated considerable support for the regime. Open public debate on economic and business issues is becoming increasingly common, both in the context of government media campaigns to inform the public about the nature and objectives of its reforms, and through conferences, trade fairs and meetings of the new professional and business associations which are being established.

The President's "program speech" of December 22, 1985 constitutes the strongest statement to date of the government's liberal orientation and reform agenda. This and companion statements also announced the formation of a new Government and major economic and administrative policy changes. They were accompanied by a series of implementing ordinances which are described in the appropriate sections below.

Despite the positive mood in the country, several factors may yet cause political instability in Guinea:

- the deep cutbacks which have been planned in civil service and parastatal employment (50% or more), however gradually they will be implemented during 1986 and beyond;

- the removal of subsidies on rice, fuel and other basic commodities, as well as a major currency devaluation, which will affect the entire population and not just the civil service;

- the administrative reform, which involves a re-organization and reshuffling of the Cabinet, the first since December, 1984, when the leader of the July 1985 coup attempt, then-Prime Minister Diarra Traore, was demoted to Minister of State for Education;

- the latent threat that ideology or ethnicity would be used as a basis of a play for national power.

While there is no organized opposition to the Conte government, it has developed a number of measures to diminish discontent among those who will be adversely affected by some of the reforms. For example, special cost-of-living and transport allowances will be paid to civil servants to compensate for the increase in fuel prices and the elimination of the civil service rationing system; a strategic multidonor-supported import program is underway to ensure a steady flow of basic necessities to the market and to control the potential inflationary impact of the devaluation; and laid-off government employees will be offered substantial one-time incentive payments and access to special small-and-medium enterprise credit facilities. Along with the reduction in the government payroll, officials to be retained in the civil service will be tested, trained and paid at multiples of the present scale.

With respect to political organization per se, the country will continue to be ruled by the military council, but emphasis will more firmly be placed on decentralization. Each of Guinea's four geographical regions will be governed by a Resident Minister, member of the CMRN. Regional and local government institutions currently in place will continue to operate as part of the Conte administration, but both rural and urban populations have been urged to develop voluntarily multi-village "districts", "rural development communities" and "quartiers" which will serve as the basis for future self-rule and are already expected to contribute to the development planning and administration process.

The new Government which was announced on December 22 encompasses institutional and personnel changes designed to raise the level of efficiency and technical leadership in key Ministries. Almost no Ministry was left untouched in name or in structure: notable combinations of responsibility are embodied in the Ministry of Planning and International Cooperation; the Ministry of Human Resources, Industry and Small-and-Medium Scale Enterprises; the Ministry of Natural

Resources, Energy and the Environment; and the Ministry of the Interior and Decentralization. Many Ministries had already been re-organized by ordinances promulgated in 1985, and it remains to be seen how quickly these blueprints can be adapted to the new structures.

The composition of the Cabinet has now shifted decisively in favor of civilian ministers. Formerly expatriate Guineans were named to several ministerial positions (including a former World Bank loan officer as Minister of Planning), and a French citizen who has served in an advisory capacity was named Vice-Governor of the Central Bank. These changes should help the government decentralize its decision-making through well-designed, well-managed institutions.

The government has nearly completed a ministry-by-ministry census of the civil service, through which fictitious names have already been removed from the rolls and persons eligible for retirement identified. This effort has been jointly supported by UNDP and the World Bank. The President also announced the establishment of a "special availability" status within the civil service which will be the principal mechanism used for reducing the government payroll.

According to the December 22 ordinance, any civil servant can be placed on this status for six months at the request of the Ministry with which he or she has been employed. He or she may then choose to resign permanently from the civil service and thereby receive an indemnity of up to 50 times his or her monthly salary. Failing this, the civil servant will remain inactive but on the payroll for six months, at the end of which he or she will either be re-appointed to a government position or permanently retired (with the standard benefits contemplated in a 1959 law).

B. ECONOMIC AND ADMINISTRATIVE REFORMS

1. Monetary policy and exchange controls

The cornerstone of the economic reform program, with the farthest-ranging implications for private investment, is the introduction of a new monetary and exchange control system. The emerging policies are described and their anticipated impact briefly analyzed below. Although new regulations are still under review in a number of areas, the general direction and timing of the reform program are beginning to take shape.

a) Introduction of a new currency

A new currency, the Guinean franc, replaced the syli between January 6 and January 28, 1986 at a rate of 1:1. This measure is more than symbolic, since it permits the government to estimate the volume of the money supply. The conversion process itself may also result in a short-term growth in bank deposits. There had been serious lapses in control over the printing of banknotes under the Toure regime, and no reliable records were left by the old issuing authority, which had been directly attached to the presidency. Current estimates of the cash in circulation range very widely, from 20 billion to 35 billion Guinean francs. These potentially include:

- 6 billion Guinean francs exchanged for sylis in Conakry;
- 3 billion Guinean francs made available to state enterprises;
- 11 billion Guinean francs (preliminary estimate) of accounts frozen in the state banks now in liquidation; and
- a certain percentage (not yet tabulated) of the 20 billion Guinean francs sent to the interior for exchange against the syli.

The introduction of the Guinean franc has no immediate bearing on possible monetary agreements between Guinea, France and the members of the West African Monetary Union (UMOA). However, there has been much discussion of a potential membership in UMOA and the consequent introduction of the convertible CFA franc. While France has welcomed in principle the pursuit of this objective, the government has not officially or publicly initiated discussions with UMOA members. A number of steps probably still need to be accomplished before a candidacy for membership would be seriously considered by UMOA members, particularly the review and restructuring of Guinea's external debt (expected to take place in 1986), and a strong early performance by the new banking system.

b) Exchange rate adjustments and the auction mechanism

An initial currency devaluation was put into effect in late September, 1985 by the opening of a "second window" at the Central Bank, through which foreign investors, diplomatic missions, expatriates living in Guinea and Guineans abroad wishing to remit their earnings could purchase sylis at a rate of 36:1 FF (vs. the previous rate of 2.8:1), or 288:US$1 (vs. the previous rate of 25:1 and the parallel rate of up to 425:1). This partial, one-way devaluation reportedly drew little response from eligible parties, but it foreshadowed the policies which have now been announced.

Since mid-January, 1986, exchange rates for private sector transactions are set by a weekly foreign exchange auction, with the intended result being an alignment of the official and parallel exchange rates. The starting reference rate was set at at 340 GF:US$1, with the Guinean franc to be exchanged for all other currencies based on the rate of exchange of the dollar at the Paris Bourse. Once again, the authorities hope that this measure will lead to increased recourse to the official banking sector for the purchase of foreign exchange and other financial transactions. A separate rate of 300 GF: US$1 applies to foreign exchange transactions of the public sector, the parastatals and the mining companies. This represents an improvement over the previous recent situation, since they had not been eligible to purchase local currency through the mechanism of the "second window" but were constrained to do so at the old rate of 25:1. By April, 1986, all foreign exchange transactions are to be based on rates set by the weekly auctions.

The rate adjustment could have a major and rather early impact on foreign investment. Many observers attributed the lack of response to the "second window" to anticipation of the very policies and mechanisms which have now been put into effect. It has clearly been to the advantage of any foreign investor to wait for the anticipated fuller devaluation before purchasing significant amounts of local currency through official channels.

In theory, the devaluation dramatically reduces the international purchasing power of the Guinean investor. However, access to foreign exchange at the artificially low rate was always limited to and through a narrow class of civil servants. Private sector commerce and foreign trade conducted independently of official imports have long taken place at realistic market prices and exchange rates. To the extent that the auction system will increase foreign exchange availability generally in the country, through a modern banking system, the reform can only be viewed as positive.

The floating rate will not in and of itself achieve a complete unification of the official and parallel rates or cause the parallel market to disappear entirely. Foreign exchange will continue to be privately sold at a premium in certain cases, for example to persons having no formal access to import licenses, and consequently to foreign exchange, and by exporters who are intent on keeping profits hidden. Such cases exist even within the UMOA system, although they represent a minor volume of total foreign exchange trading. In Guinea, given the historical pervasiveness of the parallel market and the likelihood that funds channelled through the auction will not fully meet demand, a proportionately much higher volume of illegal trading will undoubtedly persist. However, the expectation is that the parallel market will decline with the ongoing development of the new banking system and steady increases in the availability of foreign exchange to a wider class of purchasers. According to current plans, the supply and demand of foreign exchange traded through the auction hopefully will be maintained at an average $ 1 million per week.

c) <u>Exchange controls</u>

A new Central Bank charter and a basic exchange control statute were promulgated in September, 1985. Significantly, both laws are closely modeled after UMOA legislation, which helps to position Guinea for eventual membership in this system.

The charter establishes the Central Bank as the country's sole issuing authority, and together with a new banking law confers broad powers upon it to regulate the banking system and to monitor and manage the money supply, domestic credit, the external debt, and foreign exchange reserves. It manages current Treasury accounts pursuant to agreements with the Ministry of Finance. Government borrowings from the bank are limited to 20% of the previous year's budgetary revenues. This last provision matches policies in force in the UMOA system. Among other powers, the Central Bank is also authorized to provide account facilities, to discount commercial paper, to borrow and lend in Guinea and abroad, and to issue guarantees.

In classic "franc-zone"style, the exchange control statute requires that all foreign exchange transactions between Guinean residents and non-residents be either authorized by the Central Bank or conducted through an authorized agent of the Bank (i.e. the local commercial banks). Central Bank authorization is required for Guinean residents to hold foreign exchange in accounts in Guinea or abroad. Residents must repatriate export and other revenues earned abroad within a period to be determined in implementing regulations, and all import and export transactions must be registered with authorized banks.

Exchange control regulations implementing the general law of October, 1985 are expected to appear in the first quarter of 1986 (a first series of regulations governing the auction mechanism and import permits was introduced in January, 986). Foreign exchange allocation is administered by the weekly auctions to be conducted through authorized banks. The hard currency is made available from government receipts as well as under agreements still being worked out at the date of this writing with a variety of donors, and it appears that, at least for the present, eligibility for purchasing funds under this mechanism is limited to importers (i.e. not individuals for personal needs). No details were as yet available on the range of permissible uses for these funds (e.g. dividend repatriation, discretionary imports, debt repayments etc.). Little by little, provisions will undoubtedly be made in upcoming regulations for the full range of foreign exchange transactions typically sought by foreign investors and hard currency lenders and borrowers. However, to the extent that foreign exchange uses are to be restricted, priority is likely to be given to imports of essential items until such time as overall foreign exchange constraints ease. At least in the short term, it is expected that 100 percent local currency cover will be required for import operations, i.e. no trade credit will be extended by the banking system. The Central Bank intends to be the lead institution in the approval and administration of imports, with the new commercial banks likely to play a significant role as its authorized agents.

An objective of the monetary authorities is to keep the import administration as simple as possible by exercizing near-exclusive control over these procedures. However, the May, 1985 commercial code is to be revised by the Ministry of Commerce and future import regulations may add complexity to the system.

Steps have also been taken to tighten control over the foreign transactions of government agencies. The inter-ministerial Economic and Financial Coordination Committee which was set up in May, 1985 is responsible for approving an annual hard currency budget. A December 22, 1985 law (ordinance 320) provides that any commitments made outside of this budget must be reviewed by the Central Bank and approved by its Governor, the Minister of Economy and Finance, and the President himself. A state procurement commission, reporting directly to the President, was set up in February, 1985, with responsibility for reviewing and approving all agreements and contracts made between government agencies and foreign companies or their subsidiairies in Guinea. Finally, an aid coordination commission was established in late December, which will review and monitor all commitments made in the context of foreign aid programs. Substantial inflows are now expected from an IMF standby facility ($36 million), a World Bank structural adjustment loan ($43 million) and supporting funds from other agencies.

A fundamental longer term objective of the reforms is to achieve full convertibility within the franc zone or under another mechanism. In the short term, the critical objectives are to introduce discipline into the highly unstructured foreign exchange management situation which existed previously, while developing the least burdensome procedures for carrying out eligible foreign exchange transactions.

2. Price and tariff policy

Policy reform has begun in matters relating to price and tariff policy. Key elements of the package are described below.

a) Consumer prices

Consumer prices in Guinea are best understood if goods are grouped into three categories. The first category contains basic necessities such as fuel, rice, a few other food items, and some intermediate goods such as agricultural inputs that were either allocated to civil servants under a rationing system, or sold to the general public at highly subsidized prices through the state distribution network. When sold under this system, the official price of one liter of gasoline, for example, was 30 sylis (less than 10 cents), and that of rice 20 sylis per kilogram.

In the second category, these and a much broader range of consumer products were imported by the government or by the mining enterprises for subsidized sale, but were channelled to the unofficial market, where prices are not controlled. Given the origin of the products, prices are still somewhat artificially low, although already much closer to international levels. Not surprisingly, since supplies have depended on a limited number of importers (civil servants and the mining companies), black market prices have shown enormous fluctuations, seasonally as well as over very short periods of time.

Finally, private importers and even domestic producers are now supplying an increasingly broad range of goods and are effectively free to set their own prices, which are generally comparable to those in other West African countries, albeit exorbitant in relation to the Guinean salary structure.

The first price reform measures, just announced, eliminate the rationing system for civil servants and begin to reduce subsidies on fuel and rice: in January, 1986, the official price of imported rice was increased to 80 Guinean francs per kilogram, and that of fuel to 115 Guinean francs per liter. In addition, fuel will have to be purchased in cash by the general public, and new controls have been introduced on public sector fuel consumption. A special monitoring division has been established within the Ministry of Commerce to track both cash and credit purchases of fuel.

Partly to reduce foreign indebtedness, but also to achieve the parastatal sector reforms discussed in the following section, the government will be steadily reducing its role as an importer and distributor of most of the consumer and intermediate goods in which it has dealt in the past. These reforms specifically include two consumer essentials, rice and fuel, both of which are to be gradually turned over to private companies. Although these measures do raise the prospect of inflation, the government has declared itself opposed to consumer price controls. Most domestically produced and privately imported goods are already realistically priced, but the steep increase in the price of such a major item as fuel cost will certainly be passed along by all intermediaries (for example, in public transport). Moreover, electricity and telecommunications rates are also expected to rise to multiples of the present schedule as rehabilitation work proceeds further in those sectors.

b) Producer prices

The government recently announced major increases in the prices paid to producers for coffee (400 GF/kilo) and palm kernels (60 GF/kilo) by the state marketing agency, PROSECO, which is expected to compete with private traders. All other agricultural commodities and inputs will be left entirely to the private sector, free of price controls, although the parastatals FRUITEX (fruit exporter), AGRIMA (agricultural equipment distributor) and SEMAPE (agricultural inputs distributor) may be maintained temporarily until the private sector begins to deal regularly in these products.

Agricultural policy is currently under comprehensive review, and one can expect the government and donors to continue to support producers by supplying inputs and technical assistance. However, the principle of free trade in both inputs and products opens the door for direct cooperation between investors and small-holders. For example, a recently established coffee venture combines cash payments and the provision of both production inputs and incentive goods (e.g. building materials) to small farmers in exchange for their product.

c) Tariffs

A number of sources indicated that a new simplified tariff structure will shortly replace the current multi-rate system. A uniform duty, reportedly of 10 percent, would be imposed on all imported goods, with a 20 percent to 30 percent surcharge on luxury items. If implemented, this relatively low rate scale, simple to administer and coupled with the simple import procedures sought by the Central Bank, will encourage trade through official channels and help keep prices of imported goods as low as possible, while creating essentially a new tax base for the government. Customs duties were nominally higher in the past, but the duties were calculated on artificially undervalued goods imported with funds purchased at the inflated official rate and were therefore negligible.

3. Financial sector restructuring

The Guinean banking system was the most glaring example of economic and institutional mismanagement under the Toure regime. With the exception of a subsidiary of the Saudi-owned Dar al Maal Islami (DMI) which began operations in 1983, the network consisted of six state banks, officially organized as subsidiaries of the Central Bank, which reported to the Ministry of Finance and itself bore little resemblance to a classic monetary authority.

The banks operated in an artificial environment and in a highly irregular manner. As lending institutions, they were the captives of the public and parastatal sectors, making loans and issuing guarantees indiscriminately and financing imports at the official exchange rate. As deposit institutions, they completely disregarded the interests of their clients: none of them have left cash reserves behind for the liquidators, account records were poorly kept (and fictitious entries routinely made), bank secrecy was routinely violated, and assets were frozen or seized without judicial process. Not surprisingly, most Guineans distrusted and generally avoided the banks.

The banking sector has been completely restructured in the past few months. On December 22, all of the state banks were officially closed, after several months of progressively winding down their teller operations. Branches of the Credit National will be transformed into Central Bank or Treasury offices. The World Bank has hired consultants to help liquidate the old banks, but it will take months to authenticate records and to settle bona fide accounts. The delay may even apply to any foreign embassy and other major operating accounts which have not yet been transferred to the Central Bank or a new commercial bank.

As the Conte government realized the banks' condition, it took steps to attract new investment in this sector, beginning with the adoption in March, 1985 of a modern, classic banking statute, the remodeling of the Central Bank, and negotiations with potential investors. The rejuvenation of the banking sector, which has occurred in record time, constitutes a major early achievement of the reform process. As of the first week in January, 1986, there were four commercial banks operating in Guinea:

- <u>Banque Internationale pour l'Afrique de l'Ouest en Guinee</u> (BIAG)

BIAG is a joint venture between the BIAO group (34%), SIFIDA (Societe Financiere pour les Investissements et le Developpement en Afrique) (15%) and the Guinean government (51%). Negotiations were completed in January, 1985, and the bank started business in late August, 1985. Although no quantitative information could be offered as to its results thus far (except that it had opened approximately 1000 accounts by mid-December), several observers indicated that deposit growth in the first few months far exceeded original projections. Of particular interest, Guinean residents responded confidently to the opening of this bank and have reportedly been significant depositors of both local and foreign currency.

- Banque Internationale pour le Credit et l'Industrie en Guinee (BICIGUI)

The start-up of the BICIGUI in early January, 1986 was accomplished in record speed, since preliminary approval for its establishment was granted in July, 1985, and the definitive authorization issued only in November. BICIGUI is associated with the network of "BICI"s which the Banque Nationale de Paris (BNP) has established in Senegal, Cameroon, Ivory Coast and other countries. Its capital has been subscribed to by a unique group of shareholders:

- The government owns 50.7 percent of the shares, financed by the World Bank and the European Development Bank, but it is viewed as a private partner in the bank, i.e. it exercizes no overriding management control.

- Twenty percent is owned by an international consortium (the Societe Financiere des Pays d'Outremer - SFOM), which is led by the BNP and includes Banque Bruxelles-Lambert, Dresdner Bank, Bank of America and a bank in Luxembourg

- Thirty percent is owned by foreign aid institutions, a first in the history of commercial banking: the IFC, CCCE, EDB and DEG have all taken shares in the bank, and the ADB is also expected to join this group. Most of these institutions have had to modify their own charters in order to participate in this operation, and have done so chiefly in the hope that it will not prove necessary to create a major national development bank in Guinea, given the poor performance of most such institutions in West Africa.

In addition to its equity participation, BNP operates the BICIGUI under a management contract, and SFOM has the option of buying out the aid institutions' shares after four or five years. BNP has been authorized to recruit 15 to 20 expatriates to run the bank's Conakry headquarters as well as to begin developing the rural branch network which the BICIGUI is required to establish over a certain period of time. This network will ultimately comprise at minimum one branch per province. Three branches are scheduled to open during 1986 (at Kamsar, Fria and Labe, each the site of a mining enclave).

o Societe Generale de Banque en Guinee (SGB)

This is an entirely private bank, owned 60 percent by a consortium of European banks led by the Societe Generale de Banque and 40 percent by private Guinean shareholders.

o Dar al Maal Islami (DMI)

This bank was established in 1983 as a joint venture between the government and the Saudi-owned DMI group, although a few shares have also been issued to the Guinean public. Based on Islamic banking principles, it is not reputed to be particularly successful.

4. Parastatal sector restructuring

A major component of the economic reform program is the restructuring of the parastatal sector, now underway with the support of the World Bank and the assistance of consulting teams. The restructuring will contribute substantially to the reduction of government expenditures: most of the entreprises will either be liquidated or sold (in some cases entirely) to private investors. All parastatals will be managed as commercial enterprises, and their employees will no longer be members of the civil service. The restructuring of the parastatal sector and the removal of monopolies should stimulate investment in the industrial, commercial and transport sectors.

A diagnostic analysis of all industrial sector entreprises, carried out under by a World Bank-funded team, led to the promulgation of a decree on December 22, 1986 that assigned 36 enterprises to four categories:

- 7 entreprises to be liquidated and their assets sold;
- 13 entreprises to be temporarily shut down for sale to private buyers;
- 5 entreprises to be temporarily shut down and restructured;
- 11 entreprises to continue operations (presumably under new private ownership).

Potential buyers (both Guinean and foreign) have already expressed interest in a number of these companies. In some cases, facilities and equipment are relatively new and in fairly good condition. In most cases, however, investors will have to deal with constraints on supply (local raw material or foreign exchange availability) and demand (limited local market size and foreign market volume and quality requirements).

Measures to liquidate the complex network of commercial sector entreprises are in various stages of design and implementation. The regional livestock marketing monopolies (the ENCOBEs) and the regional wholesale/retail chain (the EPCOAs, in January, 1986) have already been shut down, as has the state trading agency IMPORTEX. Many of the remaining entreprises are vertically connected firms specializing in the import and domestic sale of certain product lines. They are also destined to be eliminated shortly, beginning with the recent closure of ALIMAG and ALIDI, two state stores which distributed rationed commodities. Although private merchants already compete with these firms (and in some cases have done so for a long time), these recent and upcoming liquidations mark an important turning point in the privatization of road transport and commerce.

5. Macro-economic management

The government is proceeding on several fronts to improve its economic management capacity. The efforts began tentatively several years ago but have been considerably stepped up since early 1985. Technical assistants made available by the World Bank, France, the UNDP and other donors have helped to review the legacy of the Toure regime and to plan and organize the future economic development of the country. Top priority goes to the development of an information and statistical base, particularly within the Ministry of Planning and at the Central Bank, to restructure and coordinate the responsibilities of and relationships between senior policy makers and the sectoral ministries, and to train civil servants in financial and statistical analysis, national accounting, procurement and other critical disciplines.

Early in 1985 the government went through its first, preliminary exercize in developing a national plan. The process provided an opportunity for the officials involved to review the condition of Guinea's infrastructure, public services, and productive sectors, but the resulting document is generally viewed as no more than a working paper, particularly since it was established without the benefit of the statistical base still being developed.

Current planning activity is segmented--essentially organized by economic sector, with responsibility for providing assistance in the reinforcement of individual sectoral ministries roughly divided among major donors. There is a some overlap and competition among these institutions and their programs, but even despite the unusually high level of activity in so many sectors, the assistance effort is generally well coordinated and provides responsible support to the government's reform agenda.

A particularly important task now underway is the calculation of Guinea's external debt position (roughly estimated at over $1.5 billion, with arrears of over $200 million). Now that the government has met conditions for an IMF standby agreement (which would include a facility of $36 million) and a World Bank Structural Adjustment Loan (reportedly of $43 million, with additional participation from other donors), Guinea will probably seek a comprehensive rescheduling from its Paris Club creditors during 1986. Together with the tighter administrative controls to be applied to new commitments (mentionned in section II.A.), a rescheduling will ease the pressure on foreign exchange receipts and help build confidence in Guinea in international financial markets and should thereby increase financing opportunities for investors.

C. LEGISLATIVE REFORMS

Major substantive areas of the Guinean legal system need to be refined or newly developed before it can be characterized as supportive of the private sector and relatively complete when compared to that of other francophone countries in the region. Although the balance sheet is still negative, several important pieces of business legislation have been adopted since April, 1984, dealing in some cases with entirely new substantive areas (e.g. the establishment of professions and a Chamber of Commerce) or replacing long-outdated laws. With increasing effectiveness, the Conte government is using legislation to express and implement specific short-term policies, as evidenced by some of the ordinances mentionned in the preceding sections.

The inadequacy of the legal framework and procedural problems such as delays and corruption are compounded by the fact that legal information and assistance are not readily available in Guinea. There are very few trained lawyers in the country and as of December only one licensed "notaire" to help execute increasingly complex and diverse transactions. Since there is a genuine and growing demand for knowledgeable advice beyond that which is supplied by diplomatic missions, donors and the administrative agencies themselves, it is likely that such services will increasingly be developed by both the public and private sectors. A USAID-supported institution which reports to the Ministry of Planning, the National Private Investment Promotion Center (CNPIP), is establishing a capability to brief investors on Guinean business law and assist them in their negotiations, while arrangements are reportedly being made for a number of Guinean lawyers to undergo intensive training under the sponsorship of the Paris Bar.

1. <u>Business registration and investment</u>

Business registration laws and procedures have thus far proven to be the most serious legal obstacle to investing in Guinea. The documentary framework is fragmented, consisting of 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. The latter statute recognizes four types of companies:

- "societe en commandite simple" (roughly a U.S. limited partnership),
- "societe en nom collectif" (roughly a U.S. general partnership",
- "societe a responsabilite limitee" (roughly a U.S. close corporation), and
- "societe anonyme" (roughly a U.S. public corporation).

This statute is loosely based on French law governing SARLs (March, 1925) and SAs (July, 1867), and many of its provisions are found in legislation of other francophone countries in Africa. However, it is still unclear whether the law applies to all companies doing business in Guinea, or only to companies working in the commercial sector. Conversely, although all companies must seek inscription in the Register of Commerce maintained by the Ministry of Commerce, officials and businessmen are unclear as to whether <u>approval</u> of non-trading companies must be sought from the Ministry of Commerce, or if this procedure would apply only to companies engaged in import-export and trading activities.

A major gap in business formation law is the lack of statutes governing associations such as cooperatives and mutual organizations. There is an existing network of traders', transporters' and even some farmers' associations in major towns throughout the country, but their legal status needs to be re-established and their purposes can be redefined to take advantage of new opportunities which can be pursued in the liberalized environment. New associations are being formed in an <u>ad hoc</u> manner, such as the Mutuelle de Promotion des Commercants whose members have united to operate more effectively in the wholesale import sector, and may use the pooled resources to guarantee loans. In any case, a legal framework for all such entities and their activities is an essential requirement for private sector development in Guinea.

Accounts of successful and unsuccessful experiences with the registration and approval process testified to the administrative problems caused by the imperfect state of these business registration regulations. Under the present system, separate sets of registration and licensing procedures are applied to different categories of businesses, depending on their size, the nature and location of their prospective activities, and whether or not they are "investing" and seeking investment incentives under the Investment Code. Although no one set was consistently described or experienced by companies interviewed, as of December, 1985 the procedures for a setting up a "general regime" company (as opposed to one seeking Investment Code benefits) were complex and typically included:

- o formation of the company and payment of a registration tax;
- o filing of request for approval with the Small-and-Medium Enterprises Promotion Office of the Ministry of Industry (or a similar office in the Ministry of Rural Development if the company planned to operate outside of Conakry);
- o review and approval by the Ministries of Planning, Health, Labor, Justice and Finance, as well as the sectoral oversight ("tutelle") ministry;
- o approval by the Ministry of Commerce (perhaps only for traders);
- o inscription in the Registry of Commerce and registration with the Ministries of Labor and Finance;
- o announcement of establishment in the <u>Journal Officiel</u> (the official gazette).

Companies seeking investment code benefits must in theory address themselves only to the National Investment Commission under the Ministry of Planning, which forwards the file to the other regulatory institutions (through their representatives on the Commission) for review. However, the extent of its jurisdiction, particularly vis-a-vis the Small-and-Medium Enterprises Promotion Office, was still unclear.

Foreign investors have sometimes waited months or failed altogether to obtain the approvals and licenses necessary for the formation and registration of companies. Guinean officials point out how little has been accomplished thus far by many of the companies which have been fully approved, but <u>all officials agreed that these procedures will be pared down and centralized as soon as possible</u>. Some of these improvements might be made through the adoption of a new investment code which has been in preparation for the past several months. Officials consistently suggested that the National Investment Commission should and/or would be maintained and strengthened as the lead or even the sole agency for all investment approvals, and that companies not seeking specific investment incentives would simply be required to register with (rather then seek approval from) appropriate authorities.

Despite the bottlenecks, some foreign investors have had little trouble in establishing new ventures, particularly those who have expanded the activities of existing companies (which typically entered Guinea as government contractors), or have been visibly supported and/or directly assisted by aid institutions and foreign embassies (for example, an EEC-sponsored fishing operation and a similar U.S. embassy-supported project). Guinean nationals have had comparatively less difficulty with the registration process, and Guinean project sponsors rightly consider an already-established company to be an important asset in attracting foreign partners.

The October 1984 investment code was a significant step towards the introduction of investment incentives in Guinea, but it has been applied successfully in only a handful of cases thus far. It is criticized as being procedurally too burdensome and complex: the National Investment Commission has not yet established a technical staff fully capable of conducting the detailed analyses (review of feasibility studies, cost-benefit analyses, etc.) contemplated by the Code. A major substantive criticism made of the Code is that the eligibility criteria for the three preferential regimes relate strictly to the size of the investment and to the number of jobs to be created, rather than provide a framework for directing investment to critical sectors which need to be developed in Guinea. The draft of a new code which has been circulating since mid-1985 and is under final review would target these priority sectors much more specifically. It would also reduce the amount of discretion afforded to reviewing officials, building as much automaticity as possible into the actual calculation of incentives for which an applicant is eligible.

2. Labor regulations

Labor regulations have generally not been an inhibiting factor to investors. Wage levels and fringe benefits in the public sector are extremely low, and officials have if anything seemed anxious to keep private sector salaries in line with this scale. Government interference in private sector personnel management has typically been limited to an ad hoc review of salary scales, and then chiefly in the case of visible investments with foreign participation. The mixed companies (state-foreign joint ventures), on the other hand, have been subject to much closer control and have been required to hire from the civil service and to provide generous benefits to employees.

Although civil service salary increases have in at least one instance been legally imposed on private employers (in January 1985), this is unlikely to be repeated, even if and when civil service scales undergo the major adjustment which has been talked about. As is discussed in Chapter III, the market for professionals and skilled labor is likely to be very competitive, which will naturally push salaries to steadily higher levels.

A new Labor Code and several new collective conventions in specific business sectors have been prepared and are currently under consideration. These statutes should be consistent with the ongoing liberalization effort. Statutes adopted in the fall of 1984 dissolved all prior labor syndicates (trade unions) and established conditions for organizing new ones.

Legislation promulgated in May 1985 established a new social security system and made the National Social Security Fund an autonomous, financially independent organization. It is unlikely that this legislation would have any constraining influence on private investment.

Visas and residence permits for foreigners can be difficult and time-consuming to obtain, and expatriate employment contracts must be presented to the Ministry of Labor for approval. Immigration regulations in particular have been unevenly administered: recent investors have pointed to the uncertainty of their status and that of their employees as a major concern. Nevertheless, manifestly foreign nationals with documented citizenship are routinely employed in both white-collar and blue-collar positions, and this has not been cited as an issue which has been taken up by the authorities.

3. Tax and accounting regulations

The Guinean tax code and accounting regulations are outmoded; they reflect the long domination of the business sector by public entreprises. Draft legislation is under preparation and review in both areas, and by all acounts will be promulgated during the 1986 calendar year.

Most provisions of the 1966 tax code applied to both public and private enterprises, although a number of special taxes and exemptions were applied to parastatals, depending on their activity. The basic corporate income tax rate is 33 percent, to which are added miscellaneous minor taxes on salaries, sales, dividends, and other items.

The national accounting plan, adopted in 1961, has been revised several times since then, particularly to facilitate accounting among interconnected parastatals (for example, through the innovation of special liaison accounts). Inadequate features of the old system mentionned by secondary sources include the fact that it makes no distinction between operating and non-operating accounts and between inventory and long-term assets. New regulations are likely to resemble closely the general accounting plan used in many francophone African countries (the OCAM plan). In addition, an Order of Chartered Accountants was established in February, 1985 under the supervision of the Ministry of Finance. This institution provides a framework for the regulation of the accounting profession. The statute is somewhat unrealistic, since it requires that all individuals or corporations doing business in Guinea (including small merchants) provide the Ministry annual accounts audited by a chartered accountant (of which there were none as of December, 1985).

4. Land law

Real property presently constitutes a major legal problem area. Although there appears to be no question as to the right to hold title to buildings (for foreigners as well as Guineans), private ownership of land was abolished under the Toure regime and has not yet been officially restored. A new system would probably use three reference points: the traditional land tenure system, the 1932 law which provided registered title to particular parcels, and the right of occupation and use recognized under the Toure regime. It is likely that many old title deeds still exist, particularly since the government did not physically expropriate landholders. In any case, for a modern land tenure system to be fully operational, particularly in Conakry, new cadastral surveys would have to be taken and a working registry system established.

This is a difficult area, and temporary, ad hoc solutions are expected to be applied to meet particular needs for some time to come. Land ownership has already been granted to one or two new companies with foreign participation. Special leaseholds on choice urban and suburban plots have also been granted recently by ministries such as the Ministry of Industry. Also, some interviewees spoke of attempts to develop ad hoc mechanisms for the use of land as collateral for loans.

5. Banking regulations

The new banking law, which became effective in March, 1985, is closely modeled after franc zone statutes. It recognizes two types of financial establishments, deposit banks and professional (individual or corporate) financial services organizations. The law establishes a regulatory commission and an oversight commission under the direction of the Governor of the Central Bank; these are empowered, respectively, to issue and to enforce banking regulations. Bank financial reporting requirements are also laid out in the text.

Banking regulations implementing this law are expected to be fairly lenient. The Central Bank is empowered to impose reserve requirements (beyond the small legal reserves required under the March law) and to set deposit and lending rates, but no action had been taken in this last respect as of March, 1986. Although the authorities feared that deposits and credit would grow rapidly in the first quarter of 1986, neither development has occured, with deposits standing at so 3 to 4 billion GF as of March and lending activities only beginning. The establishment of credit guidelines (general and specific credit ceilings, a basic interest rate structure for deposits and lending, Central Bank rediscount rates and facilities) should be in place by mid-1986, probably resembling provisions of the UMOA regulatory system.

6. Miscellaneous legal developments

A variety of new laws have been enacted or are under review as part of the recent wave of reforms in the legal and administrative environment. Notable developments or anticipated changes include new regulations governing import licensing, the accounting, legal and medical professions, the establishment of a new Chamber of Commerce, provisions for bonded warehouses and temporary duty-free admission of goods (a potential incentive for exporters), and the possible opening up of the insurance industry to private insurers.

III. THE MARKET ENVIRONMENT

A. PRESENT STRUCTURE OF THE BUSINESS SECTOR

Businesses presently operating in Guinea include wholly state-owned enterprises, mixed economy companies (state-private joint ventures), partially or wholly foreign-owned private companies, and private Guinean businesses in both the formal and informal sectors. Their characteristics and range of activities provide an indication of the types of investment which might be expected from each group in the future.

1. Wholly state-owned enterprises

At the height of their proliferation in the late 1970s, over 180 state enteprises (not including the joint venture mining companies) accounted for 75 percent of modern sector employment and 25 percent of GNP. Overseen by a small army of public sector officials, they enjoyed monopolies in many areas of the official economy and absorbed over 90 percent of domestic credit. Reforms begun by the Toure regime and greatly accelerated since April 1984 will culminate in the closure or privatization of nearly all of these firms. The state will apparently retain ownership of about a dozen industrial firms and an equal number of commercial/service companies. In addition, the public utilities, the railways, the national airline and the port facility will remain in government hands.

Enterprises which are to be retained fall into two general 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).

The longer-term policy objective is to ensure that parastatals compete fairly with private firms in all sectors and survive or fail on a commercial basis. Although competition may always be an issue and commercial viability may not be possible in all cases in the coming years, particularly for the utilities and the transport firms, institutional reforms are being designed to help all enterprises remaining in the state portfolio to be better managed in the future. This should ultimately include a revision of their legal status and internal regulations, and a rethinking of their financial and management relationships with overseeing agencies.

A number of donor agencies have funded diagnostic studies to determine the level of technical and financial inputs needed to rehabilitate the utilities, and similar work will be done with respect to the transport firms. These donors are pledging considerable resources to support the modernization programs. The present government is otherwise unlikely to commit resources to the establishment of new wholly state-owned entreprises. To the contrary, it may consider partial or total divestments or liquidations of firms which are being retained for the present.

The search for buyers for the enterprises to be privatized (primarily industrial firms) is being conducted by World Bank-funded consultants under the supervision of the Ministry of Planning and International Cooperation. Some investors have approached the government directly to express their interest in acquiring particular companies. Many of the anticipated divestments will probably be executed through special administrative procedures developed under the World Bank program. In addition to the transfer of ownership, most of the targeted enterprises will require some investment for physical rehabilitation and reorganization. As indicated in Chapter II, some industrial enterprises will simply be liquidated and their assets sold off at auction, while a dozen or more others will be "mothballed" pending decisions whether to seek appropriate investors.

2. Mixed economy companies

Foreign investors have formed joint ventures with the Guinean government at different times and in a variety of circumstances. These practices are likely to continue, but even with the expected influx of potential investors, there should be a slow-down in new government participations, at least while the current economic and administrative reforms are being implemented.

Three of the four mining companies which represent the largest investments thus far in Guinea are mixed economy companies. The largest, the Compagnie des Bauxites de Guinee (CBG), was created in 1973 and is 51 percent owned by a consortium of U.S., Canadian and European companies. CBG exported 8.3 million tons of bauxite in 1983, and has produced up to 80% of Guinea's export earnings in some years. Production in peak years reached 10 million tons/year.

Another bauxite mine is operated by Friguia, also established in 1973, as a joint venture between a European consortium (51 percent) and the government (49 percent). Friguia, which processes most of its production into alumina, exported 615,000 tons of it in 1983.

The third major mining joint venture is the Association pour la Recherche du Diamant et de l'Or (AREDOR), established in 1980 by a consortium of Australian, British and Swiss firms on a fifty-fifty basis with the government. The initial investment being very large, the partners geared for long term exploitation. Diamond production is beginning to come on stream and the concession is yielding a significantly higher percentage of gem quality stones than had originally been expected.

All three of these enterprises, as well as a wholly government-owned bauxite mine established in 1979 and managed by the U.S.S.R. (the Office des Bauxites de Kindia --OBK), are remotely situated and are economic enclaves in many respects. They enjoy special freedoms in managing their export revenues and import needs and have for the most part supplied their operations and communities independently from abroad. However, they have created some business opportunities for supporting industries and services. Now that they are allowed to purchase local currency at a realistic rate, it is likely that they will turn even more to local sources of supply.

The Toure regime granted many other mining concessions to foreigners, particularly in its final years. It established a company in 1983 with an international consortium led by U.S. Steel to develop the world's largest high quality iron ore deposit, located on the Liberian border, but the depressed state of the market and other issues have prevented this project from going forward thus far. On the other hand, financing arrangements are being finalized for a large gold mining operation in the north of the country, as well as for a second industrial-scale diamond extraction project. Other concession-holders (including a number of American individuals and companies) have been estimating reserves exploring the feasibility of developing a variety of minerals, including offshore petroleum. New mining and petroleum codes, which have already circulated among government and donor officials, should be enacted in 1986.

In recent years, the Guinean government also encouraged and entered into joint ventures with foreigners in sectors other than mining. President Toure visited the United States in 1982 and invited a Presidential Agribusiness Task Force to Guinea to explore opportunities for investment in this sector. This initiative led to the creation of a National Agribusiness Promotion Office (now the National Private Investment Promotion Center mentionned in Chapter II) which is presently conducting feasibility studies on a variety of agribusiness projects identified during and since this mission.

Foreigners have participated in a handful of the industrial enterprises loosely classified above as parastatals, as well as in at least three fishing enterprises established in 1984 and 1985 (including one which grew out of the U.S. Task Force. In addition to the two new joint venture banks presented in Chapter II, two of the most visible new companies in Guinea are partially owned by the state:

- SOGETRAG (Societe Generale des Tranports): the first major symbol of renewed franco-guinean cooperation, SOGETRAG is a 60 percent government-owned joint venture established in 1984 with Renault and Transtec, a French engineering firm. SOGETRAG has imported a large fleet of new buses to begin renewing Conakry's public transport system. The company and project are supported by a 15-year French government loan for procurement and technical assistance.

- SCG (Societe Guineene de Commerce): this company is 40% owned by the Guinean government, with the remaining 60% split evenly between two major French trading companies, CFAO and SCOA. It was established for the specific purpose of ensuring a steady flow of basic necessities to the market during the current transition period. With French and EEC financing, SGC is importing 200 million FF of these commodities, which it will be distributing to private merchants from five points in Conakry. Even though the apparent intention is to dissolve the company after it has fulfilled its strategic short-term role, CFAO and SCOA will have gained an important foothold in the Guinean market.

It is significant that SGB, one of the new banks, is 100 percent privately owned. This sends a clear signal to investors that the Conte government is prepared to allow both foreign and Guinean investors the freedom to structure investments and conduct business without government participation. Improving attitudes and analytical capabilities within the government agencies responsible for approving new investments will help ensure that this policy orientation continues, on a case-by-case basis.

Some investors see state participation as a means to obtain additional resources and to improve their competitive and operating positions. Moreover, private Guineans, many of whom lack the equity capital to participate at significant levels in large-scale ventures with foreigners, look to the government for investment support. To meet these demands, the government might invest during the start-up phase of a project but gradually transfer its ownership shares to Guineans. Although officials are currently receptive to this idea, any such investment will have to face tight vontrols over public commitments and expenditures (see Chapter II).

3. Private foreigners

Very few private foreigners have actually invested risk capital in Guinea. The few who have have sought to reduce their risk by associating themselves with the state and/or by being financially and otherwise supported by donor agencies or major multinationals. The majority of foreign companies present in Guinea originally established themselves and continue to operate as contractors/suppliers to the government or the mining companies. However, today they are well-informed and well-positioned, and many are looking seriously at opportunities to invest in more than just short-term assets.

In addition to the many prospective suppliers and contractors who have visited to Guinea during the past eighteen months, there is also a genuine interest in the liberalization policy on the part of potential investors--either multinational firms (all nationalities) or, in many cases, private individuals (predominantly French and Lebanese) considering a personal or small-firm investment. Among the multinationals, many have been focusing on opportunities in private housing construction, fishing and agro-industry. Individual foreigners have looked primarily at opportunities in the service sectors--restaurants, business services, sales and maintenance operations--and in small and medium-scale export or consumer goods production such as high-value crops, bakeries, etc.

In the future, Guinea is likely to attract a greater variety of foreigners with capital to risk, particularly if some of the more concrete opportunities already identified are pursued in direct response to the recent wave of reform measures. In the short term, investors will probably continue to be backed by large corporations or to be fairly hardy entrepreneurs seeking the rapid return on investment which should be attainable in this first phase of private sector development. However, if the policy environment continues to improve and some of the resource and market constraints discussed below begin to ease up, and if there are private sector growth and appropriate donor support, Guinea should become a stronger competitor vis-a-vis countries in West Africa traditionally more hospitable to private enterprise.

4. Private Guineans

The Guinean private sector has already shown surprising strength; also, Guineans display more confidence in the liberalization program than might have been expected. Under the old regime, successful businessmen, whether legitimate transporters, traders and merchants, or smugglers and black marketeers, accumulated substantial capital. No attempt has yet been made to estimate the extent of Guinean savings and the potential capital pool; the task would be particularly difficult if Guinean expatriates were included in the equation.

As confidence has risen, the potential pool for Guinean investment has become more visible. In addition to the bank deposits attracted by BIAG since August, 1985 and BICIGUI and SGBG since January, 1986 (some 4 billion GF), notable investments have recently been made by private Guineans in banking (SGB) and trade (e.g. new traders' associations are competing with SGC in the large-scale import sector). Significant sums have also been invested in construction, transport, and small machinery. Would-be entrepreneurs have developed plans and proposals for new investment in many sectors. While the new firms registered with the small-and-medium-scale enterprises office have tended to bunch around certain activities (for example, chicken farms, feed mills, bakeries and work/maintenance shops), Guinean entrepreneurs seem to be focusing with growing perceptiveness on actual demands in the market.

The resources that private Guineans have available to invest are nevertheless limited. In addition to serious financial constrictions shared by all but a very narrow range of businessmen, potential investors have worked primarily in the commercial and/or informal sector, and thus have little experience with planning, finance, technology, production, operations and marketing, all skills which will be necessary to engage in manufacturing or more sophisticated service activities. Financial and technical constraints will limit investment by many to an expansion of existing commercial activities. However, potential Guinean entrepreneurs do have important assets to contribute in terms of urban and farm land, knowledge of the market and administrative environment, business and in some cases technical experience, all of which can be effectively developed with government and foreign public and private support.

B. RESOURCE AND MARKET CHARACTERISTICS

1. Resource availability

a. Finance

The preceding section briefly characterized potential sources of equity investment in Guinea. The improving investment climate will help attract foreign capital to Guinea and continue to build confidence among Guinean entrepreneurs. However, equity financing is likely to remain in short supply. Foreigners will continue to be cautious in their commitments and to encounter administrative and other delays, at least during the current reform phase, while Guineans will have difficulty mobilizing capital for larger-scale projects, whether undertaken in joint venture with foreigners or not.

The rejuvenated banking system in Guinea is well equipped to provide financial services to the private sector. The new banks are backed by institutions and managed by expatriate teams with proven experience in West African commercial banking. However, while these banks will certainly be providing operational support (for example, short-term trade financing), it remains to be seen whether they will be more effective than banks in other African countries in providing the medium and long-term financing typically needed by investors. Many factors will affect their ability and inclination to engage in term lending: the size, quality and maturity structure of their deposit bases, government credit policies and exchange controls, interest margins, and so on.

Given the lack of a "commercial" banking tradition and poor market information in Guinea, it will be particularly challenging to evaluate the creditworthiness of a potential borrower or the viability of a project for which term lending is requested. With luck, the Guinean environment will adapt to international lending practices well enough to support the growth of small businesses. For example, one bank indicated that it is prepared to grant merchandise loans and engage in pre-export financing, exercizing collateral control over commodity inventories as they are built up by traders.

Fortunately, private borrowers are not completely limited to the resources available from Guinean banks. These will be supplemented by special credit facilities which donor agencies have established or are planning to introduce. The World Bank, the EEC and the CCCE are offering hard currency financing (SDR 9.9 million, ECU 4.5 million, and FF 30-45 million, respectively) to small-and- medium-scale enterprises, repayable in local currency. Thus far, these funds have hardly been tapped, the obstacles being administrative difficulties, the lack of strong proposals from entrepreneurs, a high interest rate (13 percent) and a requirement that at least 40 percent of the project be financed through other sources. In an effort to accelerate disbursements, the management of the World Bank line has been transferred to BICIGUI (which is also responsible for the EEC line), while the CCCE facility reportedly will be managed by all three banks.

Shortages of working capital, both foreign and local, will continue to limit business activity. Traders and import-dependent businesses have used a variety of parallel market strategies in the past to meet foreign exchange needs. Foreign suppliers and contractors based in Guinea often rely on their clients (e.g., the government and the mining companies) to arrange the necessary financing for imports. Both foreign companies and Guineans use accounts held abroad to meet their operating requirements. Returning expatriate Guineans may also be expected to use externally-held assets as sources of hard currency financing.

As indicated in Chapter II, the foreign exchange auction should make a steady flow of foreign exchange available to eligible purchasers. While in the future it is possible that effective demand will not be met fully from this source, the first seven auctions (January 24 through March 7) have instead been faced with tight liquidity among importers, who up to now have been obliged to provide 100% local currency cover for their purchases. The release to the private sector of some 7 billion GF of the estimated 11 billion GF frozen in old state bank accounts could improve access to the auction, since this would represent additional cash representing at minimum 50% of the bank deposits now held by the new commercial banks. For the moment, it difficult for many small businessmen to start up, expand and even maintain businesses. A gradual increase in local currency credit from the commercial banks, including credit to purchase foreign exchange in the auction (currently contrary to Central Bank policy), can be expected as credit policies are introduced and familiarity develops between the banks and prospective clients.

In any case, many businessmen, particularly smaller ones, will have to continue to rely on external accounts and the parallel market for foreign exchange, which hardly can be said to supply credit, since banks abroad extend facilities only to well-established depositor clients, while regional suppliers do so within the confines of an informal, unsophisticated system, if at all. They similarly will have to look to traditional sources, principally suppliers' credits within the domestic trading community, for local currency credit, and essentially cannot expect to receive medium-term financing of any consequence from sources other than donors.

b. Human Resources

The small size of the modern sector enables new companies to choose from a large pool of job applicants (e.g., one new bank selected 40 employees from 4,000 applicants) which will grow even more with the projected lay-offs in the public sector. However, managers have had difficulty finding the requisite skills on the Guinean labor market, and competition is certain to increase.

Many employers have relied on expatriates (Western as well as African) to fill a very broad range of managerial, white-collar and blue-collar positions. The cost of maintaining an expatriate manager in Guinea ranges up to $3,000/month plus salary, which can substantially offset the low salaries (up to $200/month) which still prevail in the local labor market. Regardless of whether companies are subjected to formal indigenization requirements over time, it is in the interest of any employer to minimize recourse to expatriate staffing. Moreover, as indicated in Chapter II, policy with respect to foreign employees has been erratic: the new labor code, expected shortly, should provide better guidelines to investors and immigration officials in this area.

Many modern sector employees are poorly educated, unaccustomed to a commercial job environment and used to engaging simultaneously in a variety of income-generating activities. According to government and donor officials, the private sector will have to take the lead in the long process of developing a high quality labor force. For example, there was no indication that special large-scale training programs would be conducted to create or improve marketable skills among civil servants to be laid-off. In addition to developing technical skills, private employers will have to focus very carefully on properly motivating their staff through adequate compensation packages and performance incentives. Foreign employers have recognized this and, even if constrained by the government to limit salaries, most have instituted a variety of bonuses and in-kind benefits to supplement base salaries.

Outside of the modern sector, there is great potential for investors to structure projects which rely on the productive capacity of Guinean farmers. Long discouraged by the policies of the Toure regime (particularly low producer prices and the forced establishment of hundreds of collective farms), these producers can now deal with both private traders and investors seeking to establish formal supply and production relationships.

c. Natural resources and factor inputs

Guinea's natural resource wealth has been the focus of a great deal of attention among potential investors. The country is blessed with substantial reserves of precious and industrial minerals. There are an estimated 7 to 8 million acres of farm land with soils capable of supporting a wide variety of crops, of which only 20 percent are under cultivation. Guinea's continental shelf is the widest and reputedly the richest on the West African coast, and there are substantial stands of tropical hardwoods which are largely undeveloped.

While it has every opportunity to encourage resource-based investments, Guinea faces the challenge of preventing the indiscriminate exploitation of its wealth and in ensuring that production is channelled through the official economy. The fisheries resource may be particularly vulnerable in the short term to ineffective management and irresponsible exploitation, since both legal and illegal offshore fleets have engaged in intense competition with locally-based operations. There has also been little monitoring of logging activities, as well as a degradation of coffee and other plantations. Improved planning and monitoring capabilities and better support to responsible investors on the part of ministries with sector oversight responsibilities are important objectives of the policy reforms discussed in Chapter II.

In contrast to the wealth of natural resources, light and medium industry are almost entirely absent. Most intermediate goods must be imported. The range of goods produced by import substitution industries (for example, cement) is narrow and they are not in reliable supply. Since the commercial and particularly the trade sector are only now being fully liberalized, traders are not yet organized to bring in and stock a broad range of production inputs. Investors must therefore manage procurement on their own, both financially and logistically. In addition to foreign exchange availability constraints, establishing and maintaining inventories of imported spare parts, agricultural and industrial inputs, etc. can be hampered by administrative delays (for import approvals, port clearances, etc.), theft (both at the port and in private depots) and road transport problems.

d. Local Support Services

Business support (i.e. logistical and advisory) services are practically non-existent in Guinea. Foreign and Guinean businessmen are largely on their own with respect to generating and analyzing information about the market, dealing with legal and administrative procedures, clearing goods through customs and transporting them to their places of business, maintaining equipment, making travel reservations, and so on. Two government parastatals still monopolize the insurance industry and customs clearance operations, respectively, although both sectors are to be opened up to private competition.

The availability of these types of services is very likely to grow rapidly, as warranted by demand. Small consulting firms, accounting and legal practices, maintenance shops and the like are already being set up by both foreigners and Guineans. Some government and donor-supported programs, such as that managed by the small enterprises branch of the Ministry of Industry, do provide advice and assistance to investors in addition to their regulatory responsibilities. As mentionned earlier, the USAID-supported National Private Enterprises Promotion Center (CNPIP) is also developing an advisory capacity to help attract foreign investors and counsel Guinean entrepreneurs.

e. Infrastructure

Guinea's infrastructure shows the effect of 25 years of neglect. Only 1,100 kilometers of the 28,000 km road network are paved. The motor vehicle stock has nearly doubled in the past 18 months (from 20,000 vehicles to a reported 35,000), but this has consisted primarily of vehicles for private use, and has increased congestion greatly in Conakry. The public transport system and present truck fleet are not capable of supporting a major increase in economic activity. The 660 km main railroad, running from Conakry to Kankan, is poorly maintained and most of its rolling stock is no longer in operating condition. The facilities and management of the port of Conakry are also in need of improvement.

Electricity supplies in Conakry and the few other towns served by the Societe Nationale d'Electricite are very unreliable and outages can last several days. Most businesses and higher income families use independent generators. The telecommunications system is also in a poor state: core facilities need to be upgraded and the service network considerably expanded. There are less than 15,000 telephones in operation and a long waiting list for new domestic and international service.

There is also a shortage of adequate office space and housing in Conakry. This is an area where new foreign investment is already taking place: several private housing estates are either under construction or in the final stages of the approval process. Guinean landholders have also stepped up the construction of private villas, which have provided them with a source of hard currency income in the past.

Rehabilitation work, assisted by a variety of aid agencies, is planned or underway in all of these sectors. These major projects should create employment and as well as investment opportunities.

2. Market characteristics

a. National

With a population estimated at 6 million, Guinea is a fairly large market by West African standards. If modern sector salaries rise and agricultural production revives as expected, increased purchasing power should stimulate the development of consumer goods manufacturing. It should also be feasible to begin producing agricultural and industrial inputs with high local content, particularly since competition from subsidized imports will be diminishing. Examples of specific opportunities are presented in Section C below.

Production for the domestic market will be considerably more attractive if the Guinean franc ultimately becomes fully convertible or is replaced by the CFA franc.

b. Regional

The Guinean parallel market has been a rather significant exporter within the West African region. Under the Toure regime, goods imported with funds purchased at the overvalued exchange rate were routinely reexported, and smuggling of diamonds, gold and some cash crops was widespread. Estimates of the value of this trade in peak years range from $100 million to $250 million, dwarfing offical non-mineral exports which averaged $11 million over the 1976-81 period but approaching annual mineral exports averaging $360 million over the period.

This type of regional trade has fallen off considerably under the new government and should continue to do so, as a result of the currency devaluation, better protection of mining concessions, improved price incentives to farmers and other measures designed to channel production and trade through the official economy. To compensate, official trade (particularly in food crops) within the region is likely to be encouraged by the present government once the capacity to meet domestic needs has been clearly established. If FAO estimates of 1983 production are any indication (cassava 640,000 tons, rice 300,000 tons, vegetables 375,000 tons, plantains 230,000 tons, sweet potatoes 80,000 tons, etc.), Guinea does have the potential to be once again a major supplier of food within the region.

Guinea is a member of several regional economic cooperation organizations, including the Economic Community of West African States (ECOWAS), the Association of African Central Banks and the West African Clearing House. It has observer status in the francophone West African Economic Community (CEAO).

c. International

At present, the United States is the major importer of Guinea's mineral production, which accounts for over 95% of exports. However, Guinea is a signatory of the Lome III convention, under which member countries are entitled to export a broad range of goods to the European Economic Community free of duty. It is likely that exporters seeking to diversify Guinea's export base will therefore first look to Europe for market opportunities.

Minerals, agricultural commodities and fish are likely to remain for many years the principal goods with export potential. It will take time before a major export operation involving anything beyond light processing of the latter two categories of products will be cost-effective, unless particularly high-value items are involved or independent estates provide the bulk of raw product supplies.

3. KEY SECTORS OF OPPORTUNITY

Guinea offers a broad range of resource-based and market-based opportunities for both large and small investors.

Resource-based opportunities lie primarily in mineral exploitation, agricultural production, agro-industry and fishing. With the exception of the mining and fishing sectors, which leave considerable room for expansion, Guinea's resources are not presently being developed on an industrial scale by commercial firms. Options for new ventures in agriculture range from working with small farmers in the production and sale of cash crops to rehabiliting old or establishing new plantations. An initial draft of a potential new investment code which has been widely circulated would provide strong incentives to invest in agriculture, consistent with the objectives of national food self-sufficiency, rural development, and export diversification.

<u>Market-based</u> opportunities for investment lie in production of consumer and intermediate goods, and in provision of asset-based services, such as transportation, equipment leasing and maintenance operations, housing and office space, and small hotels outside of Conakry.

While the demand for consumer goods is certain to increase with the expansion of the cash economy and rising incomes, investors cannot expect unusual protection, and it will be difficult to compete with imported goods. Investors should concentrate on relatively low-cost items, either those easily mass-marketed to the general public or those with high domestic content, since margins are likely to be small and foreign exchange availability relatively tight. A number of investors, both Guinean and foreign, have looked at opportunities in food processing (bakeries, juices, canning) for sale both domestically and abroad.

Investors are also looking into the possibility of producing intermediate goods. Cans and other packaging materials, construction materials, fertilizer, agricultural tools, and even ice are all likely to be in growing demand. Once again, high content of local inputs or significant economies of scale will improve prospects for success.