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# INVESTMENT CLIMATE IN GUINEA

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# FOREWORD

This paper was prepared at the request of Guinea's National Private Investment Promotion Center (CNPIP) by Equator officers who have visited the country during the past two years. The study updates a December, 1985 paper on the investment climate in Guinea and was funded by USAID under Equator's subcontract with Chemonics International.

Guinea has been successful in attracting prospective U.S. investors who wish to take a closer look at its much-touted resource wealth and to confirm that extensive reform and redevelopment work is indeed in progress. Several members of the OPIC-sponsored U.S. investors' mission who visited Guinea in March, 1986 have since continued to investigate the opportunities uncovered, joining many other American, European and African investors who have been looking at the market. The Guinean government and business community are eager to see this circle of interest widened and positive investment decisions being made.

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# I. HISTORICAL LEGACY

The Guinean environment cannot be understood without a brief review of the legacy of the regime which ruled Guinea for 26 years until President Sekou Toure's death in March, 1984. This perspective is needed to appreciate the magnitude of both the changes which have occured since then and the development hurdles which still lie ahead.

The most important dimensions of this background were:

- a large bureaucracy which was both domineering and inept in the management of misguided economic policies;

- an official economy which became little more than a shell by comparison to the thriving black market and the self-reliant peasant economy which provided the means of survival for most of the active population; and

- an underdeveloped and decaying infrastructure.

The new government under President Lansane Conte and the Conseil Militaire de Redressement National (CMRN) has made enormous progress in dismantling the bureaucracy, drawing the business community back into the official economy and beginning to rebuild the country's infrastructure. These remain central objectives of its development strategy.

## A. THE BUREAUCRACY

The bureaucracy of the Toure regime included over 200 state enterprises and their outlets with a payroll of some 25,000 employees, and a civil service of about 60,000 employees. Government salaries ranged from the equivalent of $120 to $400 per month (for a Minister or Ambassador) at the official exchange rate, or $10 to $35 per month at the black market rate. This compensation represented less than 25 percent of the average cost of living of a family in Conakry.

Civil servants survived on fringe benefits (including rations), access to subsidized foreign exchange and imported goods, investments, secondary employment and revenues from pay-offs. Within this unhealthy environment, the Toure regime attempted to monopolize most sectors of the economy.

- Private commerce was banned altogether for many years and only gradually re-authorized beginning in 1979.

- State enterprises held official monopolies over imports of most consumer and intermediate goods and over all exports and industrial-scale production, outside of the government's few joint ventures, until as late as December, 1985, when the reform program was officially launched.

- With the exception of donor-sponsored projects and small-scale imports, equipment and inputs for agricultural production could only be obtained from state enterprises in exchange for crops valued at extremely low producer prices. For many years the sale to the government of surpluses of several cash crops was mandatory and many farmers and civil servants were drafted to work on collective farms.

- The banking system consisted of six insolvent state banks which were known to freeze assets and routinely disclose account information.

- Beyond ideology and bureaucracy, the Toure regime had persecuted certain ethnic groups and harassed individual businessmen regardless of origin.

Though the regime grew increasingly tolerant and encouraging of private business activity and began to dismantle some of the state apparatus in its final years, these memories of two decades and the slow, unsteady pace of the liberalizing trend kept the diaspora of up to one million Guineans abroad until the new directions of the Conte regime were clearly established.

## B. THE PARALLEL ECONOMY

The proportions of the parallel market grew to be susbtantial in the following context.

- Rigid price and wage controls, the monopolization of domestic credit and official foreign exchange by the public and parastatal sectors, the absence of a functionning legal system, and the prevailing ideology all discouraged visible private initiative.

- The Toure regime pursued inflationary monetary and credit policies to enable the state banks and parastatal enterprises to continue functioning. Along with the growing foreign debt, these policies caused a steady decline in the value of the syli (the former national currency) on the black market, which remained the only (and a growing) source of foreign exchange for the private sector until the establishment of the foreign exchange auction in January, 1986.

- Inept management of government and parastatal units was causing chronic shortages in consumer and intermediate goods and interruptions in important services.

The growth of the parallel market was fueled partly by the resale of commodities by officials with privileged access to:

- subsidized foreign exchange;
- commodities distributed under the civil service rationing system; and/or
- goods imported by the mining concessions for their employees.

These artificially cheap imports were re-sold domestically at multiples of controlled prices as well as traded in neighbouring countries for convertible currencies and bartered goods, as were Guinean cash crops, diamonds and gold. These activities financed the cross-border imports which ultimately supplied most consumer goods throughout the country.

By the early 1980s, the state-run economy had become a shell: most productive and trading activity was conducted outside of this system, as was virtually all foreign exchange trading. By December, 1985, the parallel exchange rate had reached 410 sylis to one U.S. dollar, over 17 times the official rate of 23 sylis to the dollar.

The parallel market kept tremendous resources out of the official economy--at least $100 million per year in foreign exchange from unofficial exports and the entire potential tax and duty base of the private business community. However, its vigor and pervasiveness were a blessing for the new regime as it embarked on its reform program in December, 1985.

- Currency trading was occuring at a true market rate, therefore the official devaluation had no negative impact on private business activity.

- Most goods were being sold (or re-sold in the case of subsidized imports) at internationally realistic prices, therefore the removal of subsidies affected primarily those who had had primary access to subsidized commodities.

- There were few shortages in the market and the commercial sector had developed the sophistication and financial ability through the parallel economy to stand in for the state once it withdrew completely from the import sector in 1986.

A major challenge which has faced the Conte government has been to develop control over and manage this market by bringing it into the open and earning the trust of those who operate in it.

C. INFRASTRUCTURE

Guinea's physical infrastructure--from roads and energy supplies to office space and housing--was essentially left to decay during the Toure era. It will be years before major bottlenecks are removed. Although up to $400 million is earmarked for reconstruction and expansion work over the next three years, most projects dependent on energy, water and transportation must be prepared to establish their own primary and/or back-up systems, whether based in Conakry or in the interior of the country.

Physical access to the rural areas which are the site of Guinea's agricultural potential and mineral wealth will remain difficult during the next few years. By recent estimates, Guinea's road network consists of only 1150 kilometers of paved roads, 3500 kilometers of improved gravel/earth roads and 2000 kilometers of dirt track, with movement significantly impaired during the June-October rainy season. There are airfields in most major towns but domestic air service is not always available.

The poor state of the telecommunications network is particularly daunting for projects which rely on easy contact with countries other than France. While it is possible to maintain daily telex and telephone links with many countries, including the United States, it requires great effort. This is an area where major improvements are now ready to be implemented.

Guinea's services infrastructure, i.e. port services, shipping and domestic transport companies, construction firms, maintenance workshops, accounting and advisory firms and international banking services also failed to develop during the Toure era. Private firms have quickly taken the lead in re-establishing this infrastructure, including the negotiations underlying the President's decree of February 12, 1987 annoucing the privatization of all dockside services at the Port of Conakry. It is now possible to obtain service in most key areas, but capacity remains somewhat limited, creating important investment needs in the the services sector.

## II. DEVELOPMENT STRATEGIES

The Guinean government under President Lansane Conte has resolved to leave commercial activity to the private sector and to focus its own energies on improving economic policy and public administration and on infrastructural, agricultural and social development. The commitment to these two most basic premises of its strategy is being carried out through four programs:

- the disengagement program
- the public investment program
- the administrative reform program
- the economic reform program

This chapter provides an introduction to each of the programs. Additional details which may be of specific interest to a prospective investor are presented in later chapters.

### A. THE DISENGAGEMENT PROGRAM

The government has closed nearly all of the more than 200 state enterprises and outlets which were still in existence in 1985. This is the most drastic disengagement program yet undertaken in Africa.

- Banking

  All six government banks were closed for liquidation in December, 1985 and replaced by three new banks managed by the Banque Internationale pour l'Afrique de l'Ouest (opened August, 1985), the Banque Nationale de Paris and the Société Générale des Banques (both opened January, 1986), the three principal French banks operating in francophone Africa.

  The new banks managed to capture over 25 percent of Guinea's money supply in deposits in their first six months of operation, to offer a broad range of domestic and international services and to begin extending a limited amount of trade credit, albeit at very high fees and interest rates. At the same time, the government undertook to pay out bona fide deposits frozen in the old banks.

- Commerce

  With the exception of a few critical items not yet attractive to or handled reliably by the private sector (e.g. fuel and pharmaceuticals), trading activity was left entirely in private hands in 1986 and all but a half-dozen of the state trading concerns were closed for liquidation.

  Official private sector imports rose from only $4 million in 1985 to over $165 million in 1986, including some $40 million funded by newly-authorized private foreign exchange accounts. Guinean and foreign suppliers moved quickly into the areas vacated by the state, chiefly essential commodity imports and official exports of coffee and other agricultural products.

- Industry

  The government closed its 43 industrial firms in December, 1985, targeting them for liquidation or sale. Some of the factories are in quite good condition and have drawn several offers. Six private participations have already been approved and more than a dozen are in advanced stages of negotiation. The government is prepared to consider maintaining a minority shareholding if desired by the investor.

- Other disengagement activities

  The few enterprises which were not closed during the first wave of disengagement--e.g. the importers of agricultural inputs and equipment and the exporters of coffee and fruits--all lost their monopoly rights and were allocated small (or zero) budgets for 1986, pending further analysis of their usefulness and of prospects, if any, for their rehabilitation.

The active parastatal sector now consists mainly of the units which manage public infrastructure. The government is receptive to private proposals for renovating these facilities and services, as in the case of its positive reaction to proposals from consultants and a group of shipping firms regarding the Port of Conakry. A major effort has been made to encourage private oil companies to take over the importation and distribution of fuel, although proposals made thus far have not been responsive to the government's desire to link import rights directly to responsibility for the domestic fuel distribution function.

In order to derive full benefits from the disengagement program as a catalyst for investment, the government still needs to develop an ability and a strategy to <u>directly assist private sector development and to provide the day-to-day hospitality expected by foreign investors</u>. The most urgent tasks now underway are as follows:

- to complete the necessary re-design of much of the legal system;
- to clarify the role of institutions responsible for regulating business activity; and
- to determine what they can offer to promote and support investment, and to develop these programs.

The government is preparing a blueprint for the institutional development work ahead in these areas. Its desire is to involve the local banks, the new Chamber of Commerce and other private entities as much as possible in designing and providing support services to businesses.

While a number of plans are under consideration, none has met the design challenge yet. Currently, direct assistance to the private sector is embryonic and consists of:

- three donor project financing (foreign exchange term credit) lines being established with the new banks;
- the promotional and advisory programs undertaken by the National Private Enterprise Promotion Center (CNPIP) under the Ministry of Planning and the small enterprise division of the Ministry of Industry; and
- a number of donor-sponsored special projects, e.g. in agriculture, fisheries and livestock.

Important developments in the legal and regulatory areas already have taken place and are described below and in Chapter III. They include the re-organization of the court system, the adoption of a new Investment Code and of sectoral codes in mining, petroleum and fisheries, detailed exchange control regulations, lighter procedures for registering and licensing a business, and the completion of draft Commercial, Labor and Accounting Codes. However, there are important legal areas where new statutes are pending still: particularly the above-mentionned commercial, labor and accounting laws, the tax law, and the land ownership system.

## B. THE PUBLIC INVESTMENT PROGRAM

The Ministry of Planning and International Cooperation has managed the preparation of a three-year (1987-1989) rolling Public Investment Program (PIP) over the past year, based on detailed inputs from other government units and donors. The effort produced a master consensus list of nearly 300 projects underway, already funded or under serious consideration: by name, sector and source of actual or potential funding.

The PIP's priorities lie heavily in infrastructure reconstruction and expansion, agricultural development and the strengthening of the social services base. Approximate budgets for key sectors are as follows:

| | |
|---|---|
| o Roads: | $ 175 million |
| o Telecommunications: | $ 60 million |
| o Energy: | $ 55 million |
| o Transportation: | $ 35 million |
| o Agriculture: | $ 90 million |
| o Social services: | $ 100 million |

Nearly 75 percent of the PIP relates to "real" (i.e. physical) investment, and about 33 percent of the budget relates to projects in Conakry where key infrastructural support systems (e.g. the port and telecommunications facilities) are located.

The government has projected that up to 90 percent of the PIP's approximate cost of $700 million will be funded by donors, who have already committed nearly two-thirds of the financing. The PIP's impact on future debt service levels could amount to less than $20 million per year during the 1990s, since a major portion of the funding is to be made available in the form of grants and low-interest loans. A donor Consultative Group meeting is scheduled in March, 1987 to continue raising funds for the PIP.

## C. THE ADMINISTRATIVE REFORM PROGRAM

The Conte government is undertaking a most ambitious and complex administrative reform program. Its objectives are:

- to manage the difficult process of laying off up to 50 percent of the 75,000 remaining central government and state enterprise employees;

- to re-design the governmental structure and strengthen the performance of its institutions and work force;

- to introduce decentralization and community development as key processes for Guinea's political development.

Some of the important actions taken in these areas are listed below.

- The President formed a new government in December, 1985, which involved renaming and redistributing the portfolios of most Ministries and reducing their number, appointing a majority of civilian Ministers (including several former exiles) and creating an Administrative Reform and Decentralization Ministry directly attached to the Presidency.

- A census of the civil service was completed in 1985-86 and details of payroll reductions have been submitted by each Ministry and in many cases already acted upon.

- A civil service retirement program has been instituted and provides voluntary retirees with a choice among three severance pay programs--their monthly salary and allowances for 5 years, an initial lump sum equal to 14 months' salary and monthly payments over 30 months, and a lump sum equal to 42 months' salary and allowances to be deposited with a commercial bank as equity for an investment project (along with eligibility for 80 percent term financing under a special credit line).

- As many as 10,000 government and parastatal employees have already been dropped from the rolls, including ghost entries, employees of the closed state enterprises and banks, and voluntary retirees.

- Civil service salaries were at least doubled and special allowances have been granted to ease the hardship caused by the elimination of rationing and subsidies. The government intends to double salaries again as further reductions in the payroll are achieved, to bring them in line with pay levels in other African countries.

- Civil servants wishing to retain their jobs are being tested and training assistance is being sponsored by and requested of donors and consultants.

- Improving social services, education and other social service programs is being given serious attention, particularly now that project identification under the Public Investment Program is complete.

- Local government structures and participatory institutions have been defined and are being developed under the authority of four new Regional Ministers representing the CMRN.

The successful continuation of the administrative reform program will strengthen Guinea's political stability and remains an important condition for private sector-led economic development.

## D. THE ECONOMIC REFORM PROGRAM

After 18 months of preparation, the implementation of the economic reform program began in earnest in December, 1985. Coupled with the disengagement exercize, this effort significantly altered the economic management process and the business environment in 1986.

The program's major elements are summarized below.

### 1. Introducing a new currency and establishing a weekly foreign exchange auction in January, 1986.

On January 6, 1986, the Guinean franc replaced the syli. Along with an audit of the closed state banks, this action permitted the government to calculate the money supply and to manage new monetary policies.

Simultaneously, the currency was devalued by a factor of fourteen (from 23 sylis to the dollar to 340 Guinean francs to the dollar) to bring the initial exchange rate close to the then-prevailing parallel market price of 410:1.

The currency switch and devaluation were accompanied by the issuance of new trade and exchange control regulations (see next section) and the opening of the weekly foreign exchange auction on January 27, 1986. The auction, still in effect indefinitely, sets weekly exchange rates for the U.S. dollar (to which rates for other currencies are pegged) and makes foreign exchange available to importers. The auction thus far has honored all purchase requests which have met the steadily-widening eligibility requirements.

Gross auction sales amounted to $93 million (in dollars and French francs) in 1986 and net sales were $75 million, well ahead of the minimum target of net sales of $1 million per week established in the January, 1986 stand-by arrangement with the IMF. The auction was exceptionally successful in drawing traders into the new banking and regulatory system, despite grumblings over high fees and varying Guinean franc collateral requirements.

The three new French-managed banks opened just as these actions were being initiated, providing excellent service to effect the currency switch and to introduce the procedures of the auction.

Considerable donor support has been made available for the monetary reform program: grants and concessional loans for balance-of-payments assistance for 1986-87 are in the range of $150 million (in addition to project-related funding for the PIP), resident technical support has been extended to the restructured Central Bank and the Ministry of Finance, and French and U.S. commodity assistance has helped supply essential commodities to back up the surprisingly rapid transition to large-scale private trading.

2. Fine-tuning trade and foreign exchange regulations during the course of the year.

The government's major design concerns in the area of trade and exchange controls were to avoid shortages of essential commodities on the market, to bring international trading activity back into the official economy and to exercize adequate control over the money supply.

The trade and exchange regulations listed below were introduced in January, 1986 and are still in effect.

- All private import approvals and foreign exchange allocations are issued solely by the Central Bank.
- Licensed traders are permitted to hold foreign exchange accounts in Guinea, with no questions asked concerning the origin of the funds, and to use these funds directly for imports.
- Whether an import is to be funded through the auction or directly by a foreign exchange account, it must be domiciled with a local bank and presented to the BCRG for approval.
- Non-residents are permitted to hold in Guinea and freely use foreign exchange accounts.
- Exports must be registered with a local bank and all proceeds must be repatriated. They can be used directly to fund imports within three months of repatriation.

Adjustments made to the initial policy over the past 15 months--most of them planned from the beginning--are summarized below.

- Whereas only imports of basic consumer goods were eligible for the auction initially, it is now open for equipment, services and short-term offshore debt servicing.

- Imports of alcoholic beverages, tobacco and vehicles (the only restricted products) became eligible for the auction in the 3rd quarter of 1986 in an effort to diminish the parallel foreign exchange market through which these transactions were being funded.

- At first, the BCRG required that importers deposit 100 percent of the local currency equivalent of 100 percent of the value of an import transaction at the time of licensing, with no financing permitted. This policy was designed to absorb some of the liquidity made visible by the currency switch. By March, the percentage of cash coverage for the auction was left to the discretion of the local banks, who began extending credit to their best clients for the purchase of foreign exchange.

- In January, 1987, the BCRG re-instituted a non-financeable local currency deposit equal to 50 percent of the value of imports of rice, flour and sugar and a 100 percent deposit for alcohol, tocacco and vehicles, payable at the time invoices are submitted to the Central Bank for licensing and foreign exchange approval. These are temporary responses to a perceived excess of local currency liquidity and oversupply of the goods in question, but they have raised the specter of shortages and of increased activity on the parallel market and are likely to be adjusted soon.

- All Guinean nationals were authorized to buy the foreign exchange needed for the purchase of airline tickets from the local banks at the weekly auction rate in January, 1986. Recently, the ceiling on foreign exchange to be accessed through the auction for personal travel was raised to USD 500 per trip and USD 2,000 per year.

Further refinements in the area of trade and exchange control regulations are under consideration in a number of areas.

- Generally-applicable provisions still need to be established through the auction or other means for the repatriation by foreign residents of earnings and capital gains, which are currently being provided for routinely through individual investment agreements with regulatory institutions.

- The purchase of auction funds for debt service is authorized, but the establishment of a loan registration system would facilitate the extension of credit (particularly term credit) to the private sector by offshore banks.

- In order to encourage gold and diamond exports through official channels, the Central Bank has proposed to buy these products at a small discount below the London price and to pay 50 percent of the proceeds to the sellers in foreign exchange which they may utilize freely. Commercial bank involvement in this process has also been under discussion.

- Discussions concerning potential membership in the institutions of the Franc zone--the regional monetary union (UMOA) and its central bank (the BCEAO)--are still very preliminary. The BCEAO has provided some assistance to the Central Bank and France is receptive to Guinea's admission. This would introduce the CFA franc and its virtually unlimited convertibility and could occur within the next two to three years.

The ultimate objective of this evolving regulatory framework is to make unlimited foreign exchange available to the private sector for all legitimate purposes and to continue to reduce the parallel foreign exchange market. Already, it is estimated that this market shrunk by at least 50 percent in 1986. The auction and parallel exchange rates stayed within 10 percent of each other during most of the year (and close to the CFA:dollar rate). The gap has widened recently, a situation which is being closely monitored and attended to.

The scope of the new system should continue to broaden, as should access to it, provided that the government, donors and the new banking system continue to intensify their commitment to its development.

3. Economic management

The Guinean government has taken a very direct approach to improving the economic management process and the country's financial condition.

The Ministry of Planning and International Cooperation, the Ministry of Economy and Finance and the Central Bank are the institutions chiefly responsible for setting and carrying out economic policy. Each has devoted considerable attention to developing an information and statistical base, restructuring its departments and staff and coordinating economic policy initiatives with each other and other government units.

Senior policy-makers meet frequently through the Economic and Financial Coordination Committee (the CCEF)--of which the resident IMF and World Bank representatives are also members--whose responsibilities include setting the national budget, tracking and responding to economic developments, overseeing the disengagement program and others. A State Procurement Commission and an Aid Coordination Commission with membership similar to that of the CCEF are responsible for reviewing, approving and monitoring, respectively, all government contracts with private companies and all commitments made in the context of donor agency programs.

The government has imposed strict budgetary discipline: the Central Bank Governor, the Minister of Economy and Finance and President Conte himself are required to approve any spending proposed outside of the annual budget. In addition, Guinea adopted a zero ceiling on new sovereign debt with a maturity of less than 12 years in its stand-by agreement with the IMF as well as quantitative commitments to reduce its outstanding debt vis-à-vis the banking system by about $ 30 million in 1986, to keep net parastatal borrowing from the Central Bank under $ 5-10 million for 1986, to reduce its payment arrears to external creditors and to increase its net external reserves.

The Central Bank is developing a credit policy which will provide for a comfortable margin for expansion of credit to the private sector, whether for local spending or purchases of foreign exchange. Thus far, it has set interest rate and fee ceilings and a preliminary ceiling for credit expansion. In addition, 90-day and 180-day government securities (equivalent to $250, $1,250 and $2,500) have been introduced for sale by the commercial banks, providing for 17 percent annual interest (2 points above newly-instituted interest-bearing commercial bank accounts).

A clear indication that the economic reform program is on the right track is the fact that inflation has fallen enormously since the expected surge in early 1986, when subsidies and price controls were eliminated on all products and services except rice, fuel and certain public services. Controlled prices of the latter were raised to multiples of 1985 levels. Although the average inflation rate was estimated at 72 percent for 1986, it was about 18 percent in the 3rd quarter and near zero in the last two months of the year. This is due in large part to the strong market (both supply and demand) for bulk commodity imports and low duty rates: importers focused on achieving volume rather than large profit margins and the wholesale price of basic foodstuffs therefore remained quite stable. Much of the inflation can be attributed to speculation by retailers and high handling and transport costs in the interior of the country. As long as the market remains well supplied, there is no reason to foresee a major surge in inflation under present policy conditions.

The rescheduling of an estimated $220 million of Guinea's debt to official creditors--principally that of multilateral lenders--through the Paris Club in May, 1986 has begun to resolve the problem of Guinea's $1.3 billion debt and arrears burden. Some $400 million due to the Soviet Union is being retired through bauxite shipments from a Russian-managed mine, while the outstanding debt to commercial creditors is negligible. Further debt relief is expected from official bilateral creditors.

## E. ECONOMIC OUTLOOK

The consensus is that Guinea has the potential to develop as rapidly as permitted by a combination of the following factors:

- o the government's ability to continue to carry out the four major development strategies described above;
- o steady improvements in the physical and regulatory environment for private investment;
- o the private sector's response to the many new opportunities and needs for investment.

The disengagement, public investment, administrative reform and economic reform programs speak for themselves as proof of Guinea's desire to promote private investment. This commitment has earned Guinea considerable support from the international community and great interest on the part of investors focusing on Africa. However, private sector responses cannot be taken as a given, particularly if the hope that they will address the country's most pressing needs are to be fulfilled rapidly. Investment in priority sectors will be hard-won.

Guinea's most critical need is to <u>diversify its export base</u>, which can best be accomplished by promoting the <u>use of local</u>

resources and investments outside of Conakry, where the resources tend to be located. The objective is to reduce the share of bauxite and alumina exports (currently $600 million) from 90% of export proceeds in 1986 to 65% in 1991. Exports other than bauxite already rose from $24 million in 1985 to $60 million in 1986, on the strength of full-capacity production now achieved by the multinational diamond mine (Aredor) and of a respectable first season of official private sector cash crop exports (chiefly coffee, palm kernels, pineapples and mangoes).

Guinea has enjoyed a substantial trade surplus for a number of years (nearly $200 million in 1986, as the private sector import boom was more than offset by a drop in government imports from $290 million to $170 million). However, debt service and other transfers have created a chronic financing gap which could average as much as $100 million over the next five years, particularly if bauxite receipts decline significantly during this period as expected. Balance-of-payments support, official debt rescheduling and a strict ceiling on new debt should bridge this gap over the next few years, but Guinea must begin now to develop new sources of foreign exchange.

From a public finance point of view, the tight spending and borrowing guidelines, the disengagement program, the elimination of subsidies and the emergence of a new private tax and duty base are all promising developments. The progress of the rolling Public Investment Program now becomes a central focus of attention as a barometer of Guinea's ability to absorb larger amounts of foreign aid and to manage new projects on many fronts.

## III. INVESTMENT POLICIES AND PROCEDURES

This Chapter provides an overview of laws and procedures governing and/or affecting foreign investment in Guinea.

### A. THE INVESTMENT CODE

Guinea adopted a new Investment Code on January 3, 1987. The law lays out both those guarantees that are offered automatically to any investor and those benefits for which an application must be filed with the National Investment Commission (NIC). The NIC is an inter-ministerial agency presided by the Ministry of Planning and International Cooperation.

#### 1. Automatic rights

The New Code guarantees freedom to all investors to:

- import any necessary goods and equipment;
- export their production;
- set and implement their own operating and employment policies;
- choose clients and suppliers and establish prices freely;
- repatriate earnings on imported capital in the form of cash and new equipment and proceeds from its liquidation;
- enjoy free competition with private and parastatal enterprises alike.

The Code guarantees freedom from expropriation and fair compensation based on international standards in the event that expropriation is required in the public interest. It also guarantees equal treatment for Guinean and foreign investors, equal trademark, copyright and patent protection and equal access to the courts. The possibility of gaining monopoly rights is not mentioned in the Code, in accordance with the central tenet of the government's private sector and free market development policy.

#### 2. Special incentives

Investors may apply to the National Investment Commission (NIC) for "privileged regime" status. Eligibility requirements are as follows:

- Projects in all sectors of activity except the resale of finished products (i.e. strictly trading) and the mining and petroleum areas (governed by individual new codes) are eligible to seek qualification.

- At least 33% of the financing for a project, including working capital, must be in the form of equity (cash or new equipment), 20% in the case of small and medium enterprises.

- The enterprise must fall within at least one of the four privileged regime categories:

  - Small and medium enterprise--must have Guinean majority ownerwship and a maximum investment of GF 300 million (about USD 750,000).

  - Exporter: exports at least 22% of its sales--all products except gold, diamonds, bauxite and iron ore qualify.

  - User of local resources: imported inputs constitute 30% or less of total production costs. If imported inputs are combined with a local product to create a new intermediate good and account for less than 70 percent of the value of the new input thus obtained, they are not considered to be imported for the purpose of determining eligibility under this regime (e.g. imported ink combined with Guinean-manufactured packaging).

  - Located outside of Conakry: a production project of which 90% of the labor force works outside of Conakry, or a service company whose headquarters and principal place of business is outside of Conakry.

The Code provides for a set of common benefits available to all enterprises falling in at least one of the above categories:

- Duty-free imports of capital goods during the development phase of the project, up to two years from the date of approval by the NIC.

- Income tax deductions for three years from project start-up equal to three times the monthly minimum wage times the number of Guineans employed, and deductions for years four and five equal to 50% of this amount.

- Exemption for five years from apprenticeship and payroll taxes and a 50% reduction in the latter for the following three years.

Special incentives for each the four privileged regimes are summarized below. These benefits are in addition to the above-listed and enterprises falling in more than one category are eligible for cumulative benefits.

- Small and medium enterprise
  - Exemption from the mandatory minimum flatrate tax for ten years.
  - Reduction of income taxes by 33 % for five years from start-up.

- Exporters
  - The percentage difference between export sales and local sales constitutes the percentage of net income which is exempted from income taxes for a period of five years from start-up, up to a maximum of 60% of net income. Thus, if an eligible enterprise's exports are valued at 1000 and its local sales at 600, 40% of its net income is tax free.

- Users of local resources
  - These projects may deduct from net income 20% of the value of local inputs, labor not included, for a period of five years from start-up.

- Enterprises outside of Conakry
  - Complete freedom from income taxes for five years from start-up.
  - 33% reduction in the turnover tax for five years from start-up.

3. Application procedures

Applications for benefits under one of the four privileged regimes must be submitted to the Secretariat of the National Investment Commission, with a cover letter stating the regime applied for and summarizing its content. The application is deemed complete if the applicant receives no comment from the NIC within 30 days.

Within 30 days of receiving a complete file, the Secretariat distributes copies of the complete file to each NIC member with a supported recommendation for approval or refusal. The NIC's decision is due within 15 days of this distribution--or at its first scheduled meeting, whichever is sooner. If approved, the President of the NIC prepares and signs <u>a decree which lists the benefits granted</u> the project. If an application is turned down, the investor may supply additional information and appeal the decision.

The application file must contain the following information:

- o Technical description of facilities, equipment, processes and goods/services to be produced.
- o Availability and cost of local and imported inputs.
- o Estimate of capital costs and working capital requirements with currency breakdown and timing of disbursements.
- o Financial projections over five years, including production and sales, fixed and variable production costs, loan amortization schedules and a complete cash flow statement.
- o Employment and salary structure, with specific reference to Guinean management personnel and training programs.
- o Statement of actual or intended legal and ownership structure.

NIC-approved enterprises must submit the following information to its Secretariat annually:

- o Audited accounts.
- o List of employees by category and salary.
- o List of equipment in use and accumulated depreciation.
- o Information showing continued compliance with privileged regime eligibility conditions.

## 4. <u>Comment on the Investment Code</u>

The new Investment Code's <u>key positive features</u> are summarized below.

- o The Code is considered to be the governing law in matters relating to private investment. Current gaps and contradictions in the regulatory system are to be remedied as soon as possible to facilitate the Code's application. For example, the Central Bank is preparing regulations providing for the repatriation of earnings on imported capital.

- The statement of general freedoms and protections is up to international standards. There are no requirements that joint ventures be established with local investors.

- The privileged regimes correspond to priority sectors for development in which private investments are likely to be made, i.e. using local resources, producing for export markets and, less likely but best rewarded, locating outside of Conakry (where resources tend to be found).

- The benefits extended to privileged regimes are competitive with what is available in many other African countries, particularly for projects which either are located outside of Conakry or are eligible for more than one of the other regimes.

- The benefits for which one is eligible can be calculated clearly on the basis of the formulas provided and there appears to be no discretion built in to this process.

- The coordinating role of the NIC's Secretariat is designed to spare investors the task of obtaining approval from each Commission member separately.

- The statutory deadlines for NIC action provide for approval within a maximum period of 45 days if the investors original submission contains all of the information required. If not, decisions on appeal must be made within 90 days.

Early criticism of the Code focuses on the following <u>deficiencies</u>:

- The minimum debt:equity ratio of 2 to 1 may prove to be too restrictive and to exclude unnecessarily otherwise sound, bankable and desirable projects from the benefits of the Code.

- The Code does not extend privileged regime status for projects located in Conakry which would provide services or engage in import substitution manufacturing using primarily imported inputs: yet some of the opportunities most likely to attract foreign investors lie in these sectors, including some of the industrial firms being privatized. Authors of the Code suggest that these exclusions are justifiable to the extent that these types of projects will benefit from the current tariff structure, the economic growth and political stability resulting from serious implementation of the development strategies and other important drawing points.

- Critics find that the Code does not provide sufficient financial incentives relative to other markets, emphasizing the infrastructural deficiencies which need to be overcome in Guinea. However, experts point out that some existing Codes are overly generous (e.g. some provide for monopoly rights and extended tax holidays that grow extremely costly once a project has gone well beyond the stage of full maturity) and discretionary (whereas this Code leaves little room for deviation from its intent).

- Applications must provide detailed information which then must be complied with in order for a project to maintain its NIC-approved status. Since projects rarely follow exactly the blueprint layed out in the feasibility study stage (e.g. with respect to the structure and terms of a financial package), the Code seems to leave the door open for discretionary findings of non-compliance and leaves the investor uncertain about what degree of deviation from plans in the original dossier need to be cleared formally by the NIC. While this seems to be a fair comment, the reporting requirements are intended to assist the NIC in carrying out is rightful monitoring duties and provide protection against fraudulent proposals for coverage under the Code.

- There are concerns that the NIC staff is not fully qualified to analyze investor submissions, which could lead to delays and erroneous applications of the Code. These concerns are being addressed by World Bank plans to provide technical assistance to this staff in the immediate future.

Despite some of the reservations that have been raised, the new Code is a most clear document which provides a very reasonable framework for investing in Guinea, including all of the guarantees normally sought by investors, privileged regimes which encourage those who focus on Guinea's important resources and needs, and clear substantive and procedural guidelines for all parties concerned. It all depends on the willingness of the NIC and prospective investors to work with it.

## B. OTHER LEGISLATION AND PROCEDURES

### 1. Taxation and Accounting

Guinea's taxation system--both the legislation and its administration--has been under review for the past two years. The expectation is that a new tax law will be adopted in late 1987 to replace the 1962 Tax Code and its amendments. Tax rates on net income currently are as follows:

- 35 percent for share companies;
- 30 percent for individuals and partnerships;
- 20 percent for tradesmen and artisans; and
- 10 to 25 percent on income from securities and interest.

In addition, there is a 12 percent "turnover" tax on gross sales from production and a 10 percent tax on gross sales of services. Other taxes--such as the minimum flatrate tax and social security taxes--are minor and described in documents such as Arthur Young's 1986 review, which is available from the U.S. Overseas Private Investment Corporation.

Although progress has been slow in replacing this Code and in re-establishing enforcement mechanisms, the Guinean government has focused on <u>customs duties</u> as its principal source of tax revenue. The January, 1986 decree which replaces the old tariff structure provides for the following duties (on a c.i.f. basis for imports and f.o.b. basis for exports):

- <u>On all items</u>, an import tax of 7%, an import duty of 3% and a turnover tax of 2%. The import tax is reduced to 4% for basic foods, medical supplies and agricultural inputs.

- <u>A published list of luxury items</u> is subject to a "surtax" of either 20% or 30% of the c.i.f. import value. The list refers strictly to luxury consumer goods, such as tobacco, alcohol, perfume, leather goods, toys, vehicles and airplanes.

- <u>Export duties</u> are uniformly set at 2% for all items except precious metals (5%) and gemstones (7%).

- A November, 1986 decree establishes a "<u>research and conditioning tax</u>" on marketed and/or exported agricultural production ranging from 2 percent for vegetable oils to 5% for coffee and 10% for fruits.

The basic 12% import tax/duty rate is very attractive compared to those prevailing in most African countries. It was instrumental along with foreign exchange regulations in bringing trading activity into the official system. The rate applies to all imports which would be of concern to a foreign investor, except vehicles and airplanes.

Equally important to the investor, the government is reviewing a new set of <u>accounting rules</u> which would replace the 1962 Plan. The draft reportedly mirrors the French system; its provisions therefore can be anticipated. For the time being, businesses that keep detailed accounting records and financial statements follow internationally recognized practices rather than the outmoded law.

2. <u>Labor Law</u>

It is quite likely that a new Labor Law will replace the 1960 statute within the next two to three months, since a very detailed draft is undergoing a final review. The proposed statute includes the following features:

- o trial periods and fixed-term employment contracts;
- o freedom for employers to establish salaries and work schedules, within minimum wage guidelines and a forty-hour week standard;
- o freedom to discipline and fire employees, showing cause and respecting certain procedures, although lay-offs are permitted for commercial reasons;
- o overtime pay, vacation and maternity/sick leave guidelines;
- o the right to form unions, to strike and to enter into collective conventions.

The purpose of the proposed new law is to offer rights and protections to both employers and employees which are up to international standards, as well as to create a free labor market in which the state would intervene only when specific grievances are expressed.

Most of these freedoms are in effect already, since the responsible unit of the Ministry of Industry, Human Resources and Small-and-Medium Enterprises has had no interest in enforcing the outmoded rules of the old regime. However, the new statute is needed to provide a formal recognition of and some additional structure to employment practices now evolving in the market.

### 3. Commercial and Associations Law

Guinea adopted a new commercial/associations law in May, 1985 which has drawn criticism from most quarters for its incompleteness and certain unorthodox features (e.g. authorizing only fourth-generation Guineans to obtain merchant's licenses). A new draft has been in preparation since mid-1986 and would include the following:

- o general principles of domestic and foreign trade;
- o regulations concerning shipping and handling operations;
- o licensing requirements for merchants;
- o legal forms of association and procedures for registering new companies; and
- o regulations concerning negotiable instruments.

These new regulations may not be issued as a single statute in order that the definitive legal framework can be established quickly in the most pressing areas. Ultimately, the provisions would be referred to collectively as the "commercial law".

The major stumbling block in today's regulatory framework is the confusion regarding business registration and licensing procedures, which still involve obtaining seperate approvals from the sectoral ministry(ies) governing one's activity and the labor and tax authorities. Ideally, the creation and start-up of new businesses would become a matter of registration rather than approval, with specific authorizations required only in the context of applications for benefits under the Investment Code. The latter process is to be coordinated now on a "one-stop" basis by the Secretariat of the inter-ministerial National Investment Commission.

### 4. Land Ownership System

The investment climate is handicapped by the absence of a functioning cadastral, land ownership and title registration system. This renders it difficult for foreign investors in particular to acquire suitable rights to land and for Guineans to use this resource as equity or as collateral for loans. For a modern land tenure system to be fully operational, the time-consuming cadastral surveys now underway will have to be completed and a new registry established.

A new system would probably use three reference points: the traditional land tenure system more or less in effect in rural areas, claims under the 1932 law which provided for registered title, and the right of occupation and use recognized under the Toure regime (which otherwise had abolished private ownership of land).

At present, ad hoc solutions are being devised to meet particular needs. For example, the government is granting extended-term leases and in some cases even ownership of land to investors by contract or decree. There are plans to improve and expand the infrastructure of a classified industrial zone on the outskirts of Conakry and discussion of creating new ones. Most individuals who have developed land and hold title to buildings (particularly new office and industrial space) can legitimately assume that they possess a de facto land ownership right. However, the absence of an underlying legal framework is frustrating and creates opportunities for the unscrupulous.

## IV. INVESTMENT OPPORTUNITIES AND ISSUES

Investment opportunities center around Guinea's resource base and domestic demand for new products and services. The Investment Code offers the following non-exclusive list of priority sectors:

- agricultural production and engineering
- agro-industry
- livestock raising and animal husbandry
- fishing and related processing and storage
- fertilizer and chemical production
- forestry and reforestation
- transport, education and health
- tourism and hotel projects
- low-cost housing
- development finance and leasing

These are development-minded suggestions which do not all constitute immediately attractive areas for foreign investment, nor do they represent all of the priorities recognized by the government, donor and private observers. There are also clear opportunities for profitable investment in a variety of service activities (banking, insurance, tranportation, storage, maintenance and urban retail shopping) as well as in import substitution manufacturing. Although not all of them are of developmental priority, the Guinean government is well on its way to creating a hospitable environment for all private business activity. This Chapter discusses some of the most evident areas of investment potential.

The last two sections of the Chapter look at some basic financial and management issues of interest to investors.

### A. RESOURCE-BASED OPPORTUNITIES

Guinea's natural resource wealth is not overrated. The country is blessed with extraordinary reserves of precious and industrial minerals, including gold, diamonds, bauxite, uranium, iron ore and possibly offshore petroleum, although price prospects are not favorable for all of them. Guinea possesses an estimated 7 to 8 million acres of farm land with soils capable of supporting a wide variety of crops. Only 20 percent of the arable land is under cultivation, but it includes plantations and small-holder crop concentrations worthy of rehabilitation and commercial support and capable of supplying agro-industrial and export projects with steadily increasing reliability. Guinea's continental shelf is the second widest (after Guinea-Bissau) and reputedly the richest fishery on the West African coast.

Some specific opportunities for resource-based projects are suggested below.

1. <u>Investments in state industrial enterprises still for sale</u>.

Factories still available that use local raw materials are <u>Sonacag Carrières</u>, a rock quarry with fairly good equipment requiring a $3.2 million investment; <u>Usine Gari Faranah</u>, a 1983-installed $15 million cassava plantation and processing factory in almost new condition with a capacity of 10,000 tons of cassava and 2,000 tons of gari per year; <u>Sonfonia</u>, a 1964 furniture-making factory with a capacity of 40,000 units per year and equipment reported to be in good condition (renovated for FF 15.7 million in 1978); and <u>Usine de Thé de Macenta</u>, a 1968 100-hectare tea plantation and processing plant capable of producing 900 tons per year, with well-maintained equipment.

Questions concerning these factories can be directed to the Ministry of Industry and the U.S. Embassy. A diagnostic study was prepared by World Bank consultants in late 1985 for each of these units and is available to those interested.

2. <u>Phased investments in agro-processing for local consumption and exports</u>

The major constraint in agro-industry is the availability and quality of raw product. Agribusiness investors are faced with a situation where immediate availability of industrial quantities of product is limited to a narrow range of basic food crops--1983 production estimates for the major crops were: rice (300,000 tons), cassava (640,000 tons), sweet potatoes (80,000 tons), and plantains (230,000 tons).

However, vegetable production estimated at 375,000 tons, an enormous standing mango crop, and plantation and small-holder production of other fruits (citrus, pineapple, passion fruit) and important commodities (coffee and palm kernels) provide a basis for further development of supplies.

The long-term development goal is to create a network of investors, commercial farmers and a private marketing system for agricultural inputs and products. Individual projects can introduce these relationships on a "turn-key" basis. For example, an agribusiness venture could act as supplier of equipment and inputs to and collector of product from small-holders and small plantations and gradually come to rely on the farmers and/or traders to provide these intermediary services.

A sensible approach for a foreign agribusiness investor would be to begin operating as a producer and/or collector of high-value crops to be exported fresh, with the investment to be focused on planting, input and equipment supply, storage and transportation. Processing would be introduced once supplies have reached an economic volume. While integrated plantation-based production and processing projects certainly can be designed, the gradual build-up of a "satellite" operation working with independent growers might constitute a less risky, more immediately profitable and more developmental approach.

There are several donor-sponsored agricultural development projects underway whose objective is to increase agricultural production, such as a World Bank program in Guinea's fertile Forest Region, a UN program in the Fouta Djallon, long considered to be the most productive area, and a cotton development scheme in the northern savannah region. Information on their production targets and the nature of the new credit, marketing and other support systems which they aim to develop could provide a basis for project designs.

Guinea's National Private Enterprise Promotion Center (CNPIP) under USAID sponsorship and with the assistance of Chemonics International has prepared several pre-feasibility studies for agribusiness opportunities which are available for review: in rice milling, fresh fruit exports, livestock breeding and exports and chicken farming.

### 3. Fishing

Guinea's continental shelf measures approximately 50,000 square kilometers and could yield up to 200,000 tons of fish and crustaceans per year. At present, production landed in Guinea is estimated to be only 25,000 tons per year--of which 15,000 tons by artisanal fishermen-- which despite the shelf's enormous dimensions pales by comparison to the 200,000 tons landed in Senegal and the 100,000 tons produced by Ivory Coast.

The fisheries resource has been exploited intensively by the large trawlers of both legal and illegal offshore fleets (capable of capturing 10 to 20 tons per day), which if permitted much longer will create a serious threat to the productivity of the shelf. Shore-based fishing and processing operations with a long-term commitment to their prospective investment will continue to look at Guinea if they are protected from and prepared to help guard against these arrangements and practices.

The status of the sectoral code for fishing which was adopted in 1985 should be examined closely by prospective investors: some of its provisions, e.g. a licensing fee of $150,000 per boat (designed primarily to tax offshore fleets but nevertheless applicable to all) and the requirement of Guinean majority ownership (an exception to the current policy of free association) have thus far discouraged investors. It is possible that this statute will be revised, particularly if any of its provisions are found to contradict the Investment Code and the investment promotion effort.

Setting aside the above risks, investment opportunities in the fishing sector are very apparent and can be developed more easily than those in agro-industry once arrangements have been made for suitable shore facilities. The possible projects range from small-scale handling, storage and marketing services for artisanal operations (who are receiving significant support from donors at present) to integrated commercial fishing and processing companies.

### 4. Mining

The concern in the minerals area is that concessions granted be developed within a reasonable timeframe. Mining projects are technology-intensive and expensive and therefore notoriously slow to reach the production stage. The critical factor is financing for exploration and production, which in turn is a function of the asset value and price outlook of the mineral and the technical experience and credit-worthiness of the investor.

Interested investors are most likely to discover near-term opportunities by identifying concession-holders who may be looking for financial and technical partners. The Toure regime granted a large number of concessions during its final years, but only three or four projects have been developed thus far. While new parcels may be available, the Ministry of Natural Resources can provide information on the present status of outstanding concessions.

## B. MARKET-BASED OPPORTUNITIES

With a population estimated at 6 million, Guinea is a fairly large market by West African standards. In addition, parallel market activity created many commercial ties between Guinean traders and their partners in the five neighbouring countries. Since private business activity still is confined primarily to importing and marketing consumer goods, the demand for new products and services is considerable. Some of the opportunities and needs are identified below.

1. Manufacturing

Most intermediate goods used in Guinea are imported. The range of goods which can be produced by the import substitution state enterprises now for sale (for example, construction materials and plastics) is narrow. The demand for chemical products such as pesticides and maintenance products, packaging materials and other inputs is certain to develop fairly rapidly. In some cases--e.g. fertilizer--local manufacturing combined with a modest distribution network should cause a boom in the latent demand which has not yet drawn the attention of the trading sector.

While the demand for consumer goods is increasing with the expansion of the cash economy and rising incomes, investors cannot expect to benefit from tariff or other protection. It will be difficult to compete with imported goods, given the low duty rates and the ability of traders to source products throughout the world. Prospective manufacturers in this field might best concentrate on relatively low-cost mass-consumption items, on products with high domestic content.

There are still several state enterprises oriented towards the domestic market for which private and/or foreign investment is being sought. They include Soguirep, a tire retreading facility; Enipharqui, a pharmaceuticals assembly line; and Soguiplast, a plastic goods factory (e.g. footwear and utensils).

2. Services

The Guinean market needs a wide range of services, some of which foreigners would normally provide on a contract basis (e.g. road-building), but many of which would warrant an investment and a local presence. Some examples are provided below.

- The banking sector is new and small: there is room for a significant expansion of the deposit base, for additional trade financing capacity and more efficient international payment services, and for alternative sources of financial and business advice and project development assistance.

- The state insurance monopoly is not expected to remain in effect much longer. This is perceived to be an important new sector of opportunity.

- Road and domestic air transport, equipment leasing and maintenance and construction firms providing asset-based services should be successful, provided that the level of activity is carefully scaled to present levels of demand and that proper marketing skills are invested in the development and management of the projects.

- A U.S. accounting and/or consulting firm establishing a permanent local presence would be quite likely to attract steady business from foreign investors as well as Guinean businessmen.

- Suppliers might also consider establishing a local inventory and servicing facility for such goods as spare parts, tires, agricultural inputs and various types of equipment which are in growing demand.

## C. FINANCING PROSPECTS

Prospects for raising financing for investments in Guinea are fairly good, although the process is likely to be complex and projects proposed must be extremely well documented. The principal sources of finance which now are or gradually will be available to complement a foreign investor's equity are offshore entities (suppliers, export credit and insurance agencies, banks and donor agencies) and Guinean partners.

The new domestic banks are unlikely to extend term loans outside of special donor-sponsored programs for some time to come, given their short-term, still-volatile deposit bases and the pressure of trade and working capital financing needs.

### 1. Offshore financing

Guinea is still considered to be a high-risk environment by most offshore suppliers, export agencies and banks. However, as the results and prospects of the reforms have become known, this perception is changing enough to open the market to consideration. At present, most of the export credit and insurance programs (e.g. Eximbank, EGCD, Ducroire, EDC, etc.) still are closed officially for Guinea. Nevertheless, some are open (e.g. OPIC and Coface) and the others are looking at short-term and in some cases even long-term transactions on a case-by-case basis.

Suppliers of capital goods and technical services should also have a growing interest in providing financing, either in the form of credit or by converting their sales into equity. This should be the case for both contractors supplying goods or working in the context of the PIP who are exposed to good private opportunities, and for others who will be approached offshore by project sponsors. The more immediate and substantial the prospects for profit, the more leverage an investor seeking financing might have to encourage an in-kind equity investment by these specialized firms.

Offshore banks which maintain an interest in African risk are unlikely to extend multi-million dollar term loans to investment projects in the near future. However, Guinea's immediate needs and potential are quite apparent compared to many other African countries, which makes syndications more of a possibility. Interested banks also should be prepared to provide funding when the risk is located offshore (e.g. guaranteed by a major corporation acting as supplier or covered by export credit insurance).

Investors should also research possibilities of receiving direct or indirect financial assistance from donor agencies: for example, the International Finance Corporation has invested in BICIGUI (one of the new banks) and in the Aredor diamond mine. OPIC is eager to participate in an investment in Guinea. USAID has substantial local currency funds available with the Central Bank which are being programmed with Guinean private sector and rural development first in mind and which could indirectly support a commercial project.

## 2. Guinean investment partners

Guinean investors can contribute both cash and in-kind equity to an investment project. The foreign investor is most likely to raise a reasonable amount of funding and obtain the support desired from local partners by entering into an association either with one of the few large trading companies or with a group of smaller investors.

Currently, the Guinean business community is at the same time very competitive and fairly tight-knit. The traders have many ambitions, but they recognize their financial and technical limitations and do form associations among each other and with foreign partners, both for trading purposes and in the context of efforts to diversify into other sectors (e.g. manufacturing, insurance, banking and transport).

A foreign investor with a clear proposal can hope to identify, develop and work with such a group of partners. Guinean businessmen can more than reciprocate with their knowledge of investment opportunities and of the logistical, regulatory and other constraints which must be considered by the prospective joint venture.

Guinean farmers and workers could also be receptive to contributing some of their production and labor as equity for a project, in much the same sense as would offshore suppliers. For quickly profitable projects (e.g. a phased agribusiness project beginning with a pre-processing phase export drive), this might be a most effective approach for the foreign investor to both mobilize in-kind resources at attractive prices and generate reinvestible earnings immediately.

## D. HUMAN RESOURCES

Most potential Guinean investors, managers and employees have worked primarily in the trading and/or informal production sectors, and thus have little experience with planning, finance, technology, production, operations and marketing, all skills which will be necessary to develop for the management of manufacturing and more sophisticated service activities.

Many foreign-owned companies make heavy use of expatriates (Western as well as African) to fill managerial, white-collar and even blue-collar positions. The cost of maintaining an Western expatriate manager in Guinea ranges up to $3,000/month plus salary, which can substantially offset the low salaries which still prevail in the local labor market. Thus, provisions for training and proper motivation of Guinean staff through adequate compensation packages and performance incentives are all-important in planning investments.