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Review of Constraints on the Growth
of the Private Sector in Guinea
and
Implications for USAID/Guinea
Assistance

Interim Report

DRAFT

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Guinea Private Agribusiness
Preparation Project

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Introduction

This report identifies a multitude of constraints on the growth of the private sector in Guinea. The research presented here is based on interviews with representatives from the Guinean and expatriate, private and public sectors, and various readings from a number of sources, such as AID/W, USAID/Guinea, United Nations Development Program (UNDP), World Bank, and the Government of Guinea.

The collection and initial review of this information is the first of a two step process for both the Centre National de Promotion des Investissement Privés (CNPIP) and USAID/Guinea. For CNPIP, the information will be used and refined by a second consulting team to present to the GOG recommendations for policy changes and a strategy for implementing such changes. For USAID/Guinea, the information provided here will also be used and refined by the team for the purpose of developing appropriate USAID/Guinea activities which support policy changes and strategies favorable to private sector growth in Guinea.

This document is specifically directed towards the consulting team to follow and more generally towards USAID/Guinea. As it is an interim document, it is not likely to be of immediate use to CNPIP. Nonetheless, sections six and seven are just as relevant to the final CNPIP policy recommendations paper as they are to USAID/Guinea's eventual involvement.

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List of Acronmys

AID/AFR/PRE	AID/Africa Bureau/Private Enterprise
AID/W	AID/Washington
BICIGUI	Banque Intenationale de Commerce et de l'Industrie Guinee
CDPME	Centre de Developpement des Petites et Moyennes Entreprises
CDSS	Country Development Strategy Statement (AID)
CIP	Commodity Import Program (AID)
CNPIP	Centre National de Promotion des Investissement Prives
GOG	Gouvernemnt of Guinea
LDC	Less Developed Country
MHR	Ministry of Human Resources, Industry and SME
ONFPP	Office Nationale de Formation et de Perfectionnement Professionnelle
PME	Petite et Moyenne Entreprise
PSD	Private Sector Development
SME	Small, Medium Enterprise
UNDP	United Nations Developpement Program

Executive Summary

The following summarizes the findings of a preliminary investigation regarding the growth and development of the private sector in Guinea. The objective of this interim phase was to identify constraints to private sector growth and suggest policy issues for the consideration of the second phase consulting team, now scheduled for May, 1987, CNPIP, and USAID/Guinea.

In addition, program options are recommended to USAID/Guinea for consideration as possible means of continuing assistance to development of the private sector in Guinea. These options are to be further refined and articulated by the second phase consulting team based on their policy/strategy recommendations and the views of senior Government of Guinea officials, CNPIP, and USAID/Guinea. This interim, draft report is also intended to help elicit those views.

Guinea, like other African countries, faces a number of constraints to private sector growth. Among some of these are: a lack of managerial and technical skills, a lack of a general knowledge or awareness regarding private initiative, inadequate government sector policies and practices, limited market size, and poor infrastructure.

But Guinea's problems are in most cases compounded by over twenty years of government control over the private sector. Some special constraints facing Guinea's private sector are:

- o Lack of term credit, especially in Guinean francs.
- o Lingering lack of confidence by Guineans in the banking system.
- o Lack of equity and security (collateral).
- o No refinance or discount windows.
- o Lack of marketing infrastructure.
- o Weak purchasing power.
- o Paucity of useful information, data, statistics.
- o Supply bottlenecks and lack of affordable raw material and inputs.

- o Old equipment and lack of spare parts.
- o Lack of private sector mentality. Training, experience, and mentality are oriented towards the public sector.
- o Lack of true private entity which speaks for private sector, defines it, carries its mantle, and advocates its development.
- o No coordination and too much competition among various entities trying to define and assist private sector development.
- o Non-promotional investment code.
- o Incomplete or inappropriate legal structure.
- o Lingering anti-private sector sentiment within the government.
- o Need for more effective government reorganization.

The Government of Guinea is advocating a number of positive changes, but the actual implementation of these changes has been slow to develop. Among some of the areas where the government is at least rhetorically striving for change are: private sector promotion, administrative reform and training, privatization, infrastructure, rural development, and manufacturing. Changes are taking place in some of these and other areas, but in general are as yet incomplete and dilatory.

Among some of the policy issues mentioned for the consideration of CNPIP and USAID/Guinea are:

- o Strengthen the investment code.
- o Establish a working legal system supportive of private activities, yet protective of the general public.
- o Encourage the establishment of Central Bank policies conducive to increasing the availability of credit.
- o Encourage continued movement in the divestiture of parastatals.
- o Continue to seek government improvement of public infrastructure.
- o Push for faster reduction of civil service rolls.

- o Promote private initiative.
- o Seek market determination of interest rates.
- o Emphasize need for continued movement in decentralization.

For USAID/Guinea, three principal recommendations are made regarding possible future program activities. One suggested option is to help strengthen the private agricultural sector by assisting existing agricultural associations or cooperatives to produce and market their produce.

The second activity option is to assist in the establishment of credit lines in Guinean francs. This though should be accomplished in such a manner as to encourage the mobilization of Guinean franc savings.

The third recommended program option is to promote entrepreneurship. This would be accomplished through technical and financial assistance to the Centre de Developpement des Petites et Moyennes Entreprises, Chambre de Commerce, and Centre National de Promotion des Investissements Prives. With respect to the latter entity, it is recommended that long-term technical assistance continue to be provided, even if it is not by USAID/Guinea.

These options are recommended because of the possibility of developing specific, achievable objectives that could be reached through manageable short-term assistance. Moreover, the options address important aspects of the Guinean private sector environment and, to some degree, complement each other.

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I. African Constraints on the Private Sector

Successful private sector development (PSD) projects, especially in Africa, must target well defined needs of the private sector and those factors which constrain its growth. Such a constraint assessment is at the heart of USAID/Guinea's private sector strategy; indeed, this paper represents the first of a two step assessment process.

An AID discussion paper, "The Development of African Private Enterprise," groups constraints into several categories: 1) lack of managerial skills, 2) lack of technical skills, 3) lack of general knowledge, 4) limited capital, 5) host government policies, practices, and ideologies, 6) market size and competition, 7) sociological, and 8) physical. The following reviews these constraints in generic African terms and offers examples from the Guinean environment, as all of these constraints are relevant to Guinea.

A. Lack of Managerial Skills

As might be expected there is a general lack of basic business skills in many African countries, especially at the level of small and medium size enterprises (SME). Training needs include organization and management, basic accounting, market assessment and marketing, inventory management, and the list goes on.

Unfortunately, it is often difficult to reach the small African entrepreneur due to his lack of basic literacy skills. In Guinea this is especially true, as not even French was taught in schools during the Toure regime.

The only truly effective way of providing such entrepreneurs business training is on-site. An intensive and, per recipient, expensive undertaking. One approach to this dilemma is to train the trainers. That is, develop a cadre of business extension agents who work through the auspices of an existing local institution, such as a Chamber of Commerce.

B. Lack of Technical Skills

Related to the lack of management skills is the ineffectiveness of existing technical skills in Africa. The entrepreneur in Africa generally does not efficiently use and maintain the tools of his trade to provide quality goods and services. Again, Guinea is particularly plagued on two fronts. In Guinea equipment is not only antiquated, but also, typically of an eastern bloc origin, which makes it difficult to maintain.

An apprenticeship system throughout much of Africa offers some, with little education, an opportunity to obtain a potentially self-supporting technical skill. While for others, the rigidity of the typical African system discourages them from participating.

Several factors constrain the effectiveness of the apprenticeship system in Guinea. One, those providing the training received their training on outmoded equipment. Two, those participating as apprentices rarely know what the real demand is for the skill they hope to learn. Three, training is never really complete in that the apprentice doesn't learn much about managing a business. This is primarily because the trainer also lacks these skills.

C. Lack of General Knowledge

Many African entrepreneurs don't know or fully comprehend all the services that may be available to them. In general, there is often poor promotion within a given country of private sector activities and information. Often exasperating, the problem is a lack of initiative and creativity on the part of those who should be disseminating the information and promoting the private sector.

For example, In Guinea, information regarding such things as advisory services, credit lines, partner search activities, legal news, etc. is not at all effectively promoted (disseminated) in Conakry, let alone throughout the country. The problem is even more complicated in Guinea, where after 20 years of suppressing private initiative a generation of Guineans don't fully comprehend private enterprise.

D. Limited Capital

In employment terms, the most potentially important segment of the African private sector is small and medium enterprises (SME). As a result, most African countries either have a ministry or some office specializing in the development of SMEs. In Guinea, it is the Ministry of Human Resources, Industry, and SME (MHR).

A typical aspect of assistance to SMEs is the provision of credit. Yet, paradoxically, if the provision of credit to SMEs is handled on a business-like basis, i.e., limited use of concessionality and maintenance of security requirements, many SMEs find the very credit window created to help them closed. To reduce the risk capital that the entrepreneur must bring to the project and/or significantly reduce interest rates calls into question the real viability of the endeavor the entrepreneur wishes to undertake.

This is an especially relevant topic in Guinea right now. Potential entrepreneurs (at the moment most are in trade) find that there is a lack of credit (especially in local currency), that interest rates (to them) are excessive, and that the credit that is in theory available is in fact inaccessible. The problem is further complicated by a lack of equity (due in part to the failure of the state banking system) and security (resulting from no articulated and bankable land ownership law).

The art to operating an SME credit facility is to make it accessible to the SME, without jeopardizing the long-term viability of the fund itself. In the past, attempts have focused on the creation of guarantee funds and equity capital entities. These are two ideas which recently surfaced at a MHR meeting.

Both of these ideas have poor track records. The guarantee fund performs badly because the fund is usually loath to keep its commitment, at least on a timely basis. The equity capital firms cannot operate effectively because there is no third party resale market when it is time to get out. At the same time, the entrepreneur either can't buy back the interest or is reluctant to because he would rather continue sharing the risk. If Guinea pursues either of these options, these problems must be addressed.

E. Host Government Policies, Practices, and Ideologies

Host government officials throughout Africa often are reticent to work with and through the private sector to achieve development objectives. This reluctance can be born of a fear that the private sector will not improve the plight of the masses but rather exploit the poor. It can also represent a desire not to be left out of the profits resulting from private initiative.

The former reason was probably the original driving force behind suppression of private enterprise activities in Guinea. As the Government of Guinea (GOG) has opened up to private initiative, the continuing reticence displayed by public servants is probably more a reflection of the latter reason.

As a result of past attitudes towards the private sector, Guinea, like other African countries, enacted policies and practices aimed at controlling the private sector, rendering it much less effective than it should be as a vehicle for development. Such control manifests itself through nationalization, price controls, and bureaucratization of promotional efforts.

Recently, African governments, such as Guinea, have turned away from centralized control of the private sector as the results have left promising economies in shambles. As the GOG has loosened the reins, the problem encountered is that the private sector finds itself poorly prepared, after years of state dominance, to successfully play its new role overnight.

The problem is compounded by continuing inefficient government and lingering reluctance to relinquish power. This fact requires that attention be paid to training government employees to efficiently perform their tasks and to sensitise them as to the required supportive policy environment necessary to private sector growth. They must support, not control.

F. Market Size and Competition

Markets of sufficient size to purchase the output of goods and services offered by African enterprises are usually limited to one or two major population centers in each country (where the African entrepreneur is also more likely to see foreign competition). Outside of these centers, the population density is such that an entrepreneur can not grow beyond a limited size without expanding to other locales.

Expansion requires increased capital and brings the entrepreneur into competition with those already providing similar goods or services to that market. In Guinea, such growth is further hindered by a lack of adequate transportation infrastructure, making transport an expensive and risky undertaking.

The problem of a limited market is compounded by the tendency of many entrepreneurs to pursue similar activities, resulting in saturation of a market and an imbalanced supply-demand equation. Markets are constricted further by the normal lack of purchasing power, an acute problem in Guinea.

The two factors usually make for an environment in which too little money chases too many goods and services. The net result is that enterprises stagnate or the less efficient fold.

G. Sociological

To the extent that the state dominated or suppressed traditionally private sector activities and initiatives, there is typically a corresponding lack of entrepreneurial skills and, sometimes, desire. As the state relinquishes control and asks the private sector to play a major role in development, it finds that the private sector is incapable of efficiently and rapidly picking up the mantle. This is a particularly important constraint in Guinea.

The private sector is further handicapped by the demands of the extended family. These demands often prevent the entrepreneur from accumulating necessary seed capital to create or expand a business. (Although the concept can also be a benefit to the starting entrepreneur.) Guinea is no exception to this traditional characteristic nor is it immune to the following constraint.

Decision making tends to be centralized, with little delegation of authority and responsibility. When applying this management style to either a government or private entity, both become bogged down and inefficient.

H. Physical Infrastructure

Obviously without transportation, communication, and energy the private sector will be unable to establish itself or grow beyond the bounds of the immediate market. Private agriculture endeavors will be non-existent and value added activities impossible.

Guinea's infrastructure has suffered terribly after years of neglect. It is only now receiving attention and, as a result, private sector initiatives will continue to be hindered until improvements are completed.

Perhaps a way to more fully appreciate infrastructural constraints is to consider the problem from a marketing point of view. Thus one would consider all that is needed to produce and to deliver a good or service to the consumer, such as factory space, silos, office buildings, warehouses, etc.

II. AID's Role in Private Sector Development

Past experience with PSD has shown that such undertakings usually require more time to prepare and implement for AID than projects in other facets of development. In fact, many PSD projects are dropped before the full benefit of the project can be realized.

PSD projects typically require specialized staff and represent administrative and management burdens on AID. These are certainly some of the concerns of USAID/Guinea. These and other constraints on AID intervention mean that AID needs to assess the fit between its comparative advantages and the requirements of promoting private sector development.

A report entitled "A Review of AID's Experience in Private Sector Development" list three areas in which the needs of the typical developing private sector "are especially well matched" with the resources of AID. These are:

- o Promotion of direct investment (from the LDC out).
- o Development of SMEs (especially in agricultural related fields) and support mechanisms.
- o Private sector policy reform.

A. Investment Promotion

An LDC out strategy essentially means AID should concentrate on the developing country's private sector. This means helping to create an environment of policies and institutions (public and private) that can nurture an opportunity from its conceptual idea phase on through to investment and beyond, if necessary.

It does not mean that AID needs to create the environment by itself nor that one institution must have such a complete capacity to serve the private sector. It does mean that AID can maximize its contributions by looking at the problem as a complete system. In this manner, AID can focus its efforts, and/or rally and focus support from others, on specific aspects of the system, but from a coordinated, holistic approach.

Some activities of an LDC out strategy include:

- o Identification of those nationals with ideas.
- o Performance of feasibility analyses.
- o Expanding the market knowledge and imagination of entrepreneurs.
- o Matching opportunities with investors, sources of technology, finance, markets, etc.
- o Assisting foreign investors who come to the country to find potential local partners.
- o Encouraging the formation of associations, federations, etc.
- o Developing in-country private sector promotional activities.

B. Development of SMEs

Providing assistance to this sector is often fraught with difficulties. Nonetheless, this is an area in which AID has accumulated some knowledge and developed effective assistance delivery mechanisms, such as the use of PVOs.

Of particular interest when addressing SMEs is the delivery of credit. Care must be taken that the needs of the credit institution are also met. This is an area of SME development that requires some creativity to circumvent past problems.

AID can also bring to the SME table particular strength and knowledge in agriculture and related fields. This is important because so many SMEs are either directly involved in agriculture, provide inputs to it, or perform some related downstream function resulting from agricultural activities.

C. Policy Reform

Here again AID, because it is primarily a field oriented donor, has accumulated knowledge and experience (favorable and unfavorable) that make it a potentially effective advocate of policy reforms. The tools of AID's policy reform revolve around experience and knowledge on the one hand and, on the other hand, around the leverage and conditionality attached to its provision of technical and financial project assistance.

But, just as the offer of assistance is important to AID's leverage, so is the experience that AID reaps from hands-on provision of assistance to the private sector. The knowledge gained in actually undertaking a project gives AID a form of on-going leverage (evidence if you will), that it can use in continuing a policy dialogue with a host government.

Other aspects of policy reform that experience indicates deserve consideration are:

- o Innovation in the use of financial resources in support of program objectives related to policy reform.
- o Use of a constraints analysis to identify those policies which are the most damaging to private sector development and growth.
- o Use of an "ABC" approach to policy reform management. That is focusing most of a Mission's financial and management efforts on the one, two, or three issues identified in the constraint analysis which, if rectified, would serve as catalyst to other reforms and prime the private sector pump.
- o Application of a more integrated approach to policy reform, such as is used in managing a project: goal setting, resource allocation, monitoring, and evaluation.

III. USAID/AFR/PRE

USAID/Guinea PSD objectives are influenced primarily by the realities of its working milieu--Guinea. However, even if not directly guided, these same objectives are, in part, likely to be influenced by the goals and modes of intervention supported by AID/Washington and, more specifically, AID/AFR/PRE. Such may be the case, if for no other reason than that AID/W can be an additional source of funds for USAID/Guinea. A look at AID/AFR/PRE's agenda may offer some insight regarding modes of intervention and sources of funding for USAID/Guinea.

A. Goals

The two goals stated in AID/AFR cable in February, under the subject "Implementation of Africa Bureau Private Sector Development Policy and Strategy", are:

- o To encourage LDCs to open their economies to a greater reliance on competitive markets, trade and private enterprise in order to meet the basic needs of their poor majorities through broadly-based self-sustained economic growth, and
- o To foster the growth of productive self-sustaining income and job producing private enterprises in developing countries.

These goals are sufficiently broad that it would be difficult for USAID/Guinea to undertake any activity aimed at assisting the private sector in Guinea and not simultaneously be pursuing one of the above AID/AFR goals.

B. Private Sector Defined

AID/AFR/PRE defines the private sector in Africa as including any "economic activity which is not performed by the public sector." Among the entities covered are large multi-nationals to small street vendors, foreign or domestic, in industry, agriculture, or service fields. AFR/PRE places a special emphasis on the hard to reach very small and micro enterprises.

The definition also includes PVO- and NGO-type organizations, as well as of course cooperatives and other types of associations providing an economic service. Moreover, AFR/PRE accepts the importance of working to improve the policy environment in which the private sector must operate. Again, this is sufficiently broad that any of the possible groups or activities considered latter in this paper as possible interventions for AID/Conakry assistance would be covered by the above definition.

C. Strategy

The basic strategy for AFR/PRE "is competitive market development, particularly financial and agricultural markets through reducing government policy distortions, reducing investment risk and transactions costs, increasing market competitiveness, and strengthening market institutions." Interestingly, AFR/PRE emphasizes that the strategy is to focus on indigenous private sector, "not promoting foreign private investment per se."

In pursuing this strategy AFR/PRE advocates performing profiles of the various aspects of the local private sector. These profiles should then be used to focus the Mission's activities on a limited number of interventions that show the most promise of promoting growth in the private sector and in affecting change in the policy environment. They warn against scattering financial resources and spreading staff over too many activities.

D. Project Development & Management

Succinctly stated, when designing a PSD, project the Mission must work with and through the private sector. Even those projects aimed at providing public sector assistance to the private sector, such as the present project in Guinea, should strive to incorporate private sector delivery mechanisms of inputs.

The AFR/PRE strongly urges Missions to create a PSC private sector advisor position when the volume of activities so warrants. In real terms, the number of activities that USAID/Guinea may undertake could be few, but the time requirements on its limited staff will still be great. It is recommended, therefore, that USAID/Guinea seriously consider such a PSC position.

E. AFR/PRE Assistance

The Africa Private Enterprise fund is available from AFR/PRE to finance technical assistance in a wide range of activities that a Mission may wish to carry out. AFR/PRE has special interest in providing assistance to analyze formal and informal agriculture, industrial, and commercial subsectors; to organize and operate intermediate credit facilities for term lending, including business advisory services; to perform profiles and feasibility studies; and to partially fund private enterprise advisory positions. USAID/Guinea should avail itself of this source whenever it feels its objectives are compatible with the services proffered by AFR/PRE.

F. Policy Reform Issues

Among the policy reform issues of particular interest to AFR/PRE are:

- o Efficient product prices.
- o Efficient factor prices, especially wages and interest.
- o Freely functioning markets with multiple marketing channels.
- o Fairly valued exchange rate.
- o Well functioning and articulated financial market, with interest rates market determined.
- o No unjustified or inappropriate protectionism.
- o Efficient tax system.
- o Workable legal system that, among other things, ensures property rights, contract obligations, and encourages expanded capital ownership.

IV. USAID/Guinea

An analysis of USAID/Guinea's recent, and as yet unofficial, Country Development Strategy Statement (CDSS) for the interim period from FY 1988 - FY 1990 can provide some insight regarding the fit of USAID/Guinea's strategy with the private sector environment in Guinea. In addition, a review of the strategy provides a look at its implications on USAID/Guinea its selection of constraints and policy issues to target, and its possible options to follow in intervening to assist the growth of the Guinean private sector.

A. Goals

USAID/Guinea's most immediate concern is to achieve the interim goals it has established for FY 1988 - FY 1990. The selection of these interim goals is guided by USAID/Guinea's long-term purpose.

Long-term: Promote economic growth, particularly through promotion and diversification of agricultural sector.

Interim: 1) Consolidation and implementation of economic policy reform.

2) Revitalization of Guinean private sector.

B. Interim Objectives

The CDSS describes objectives in three areas of particular interest during this interim period.

Agriculture: In the short-term, to sustain momentum of reforms that favor production responses by farmers and increased role for private sector in agriculture processing and marketing.

Transport: To provide discrete assistance to the transport sector.

Policy Reform: To place priority on policy dialogue which insures pace of reform is maintained (implementation of reform increased?), and on discrete interventions in training, technical and financial assistance aimed at reform implementation.

C. Implementation

The basic strategy USAID/Guinea proposes in its CDSS "is to concentrate its resources on activities that facilitate the emergence of a healthy private sector in Guinea." More specifically the plan is to:

- o Draw on various ideas and activities, presented throughout the CDSS, that focus on one or more key sectors that assist private sector and develop human resources.
- o Pursue these ideas and activities through the use of short-term consultancies, buy-ins, and discrete financial assistance.

Essentially, the rationale is that the environment (in all its aspects) is not conducive just yet to successfully implementing a long-term project aimed at the private agricultural sector. Nor will it be until appropriate economic policies are in place and the private sector is confidently engaged in the myriad activities that directly relate to or indirectly support private agricultural endeavors.

Interviews with Guineans and expatriates, from the private and public sectors, appear to support this rationale. In fact, most people talked with estimate that the environment may not be truly conducive to private sector development and growth for at least five years, i.e., two years beyond the period covered by the interim CDSS.

D. Considerations & Implications

Every strategy comes with certain institution related considerations and concomitant implications. Some of the considerations and implications resulting from USAID/Guinea's strategy are discussed below.

Consideration: Limited funds, vis-à-vis other donors, to work with.

Implication: Tap other sources such as TDP, AFR/PRE, YPO, IESC, PRE, S&T, etc.

Complete or complement assistance provided by other donors pursuing similar objectives.

Leverage assistance by working with entities that really (monetarily) need (and want) help; thereby, providing AID a greater voice in assistance implementation than its actual contribution may normally have warranted.

Consideration: Limited personnel and desire to keep staffing to a minimum.

Implication: Fewer bodies to manage short-termers (don't underestimate past role CNPIP has played in this regard) and fewer bodies to follow up on assistance provided (regardless of form).

Limit assistance to within a manageable distance of Conakry or buy into existing projects.

Reliance on consultants and organizations inside and outside of AID (e.g., AFR/PRE, S&T, PAID, IESC, TDP, etc.).

Consideration: Desire to remain active in policy dialogue throughout period of interim CDSS, despite limited resources.

Implication: Focus on issues through policy dialogue that are specific, well defined and have been identified through thorough and pragmatic policy analysis, at macro and micro levels, including relevant nonpolicy constraints.

Consideration: Use of hit and run, short-term assistance leaves no support or reinforcement mechanism in place.

Implication: Tie-in with (complement) other donor agencies that have long-term projects or entities (Guineans or otherwise) that have a permanent presence.

Leverage assistance by working with entities that really (monetarily) need (and want) help; thereby, providing some incentive for self-reinforcement between short-term assignments. Consider limited long-term advisor assistance.

Consideration: Desire to undertake a new project in FY 1990 aimed at assisting the private agricultural sector.

Implication: Interim work (or at least some part of it) should deal specifically with the private agricultural sector.

Consideration: Many of the important GOG agencies already have a contingent of expat experts (or will shortly) or will receive some other kind of financial, technical, or training assistance.

Implication: There should exist ample opportunities to associate with or complement the work of other donor agencies (provided their objectives parallel AID's).

Should AID not wish to associate/complement work of others, it may necessitate operating contrary to AID's typical M.O. (and, perhaps therefore, comfort factor), i.e., working with/through government offices and institutions.

Consideration: For the moment, limited USAID and US exposure in Guinea (other than mining).

Implication: Assist, complement, work through/with existing U.S. projects (e.g., CNPIP, OIC, Peace Corps) and/or pursue endeavors which will bring USAID/Guinea exposure to new constituents.

V. GOG Priorities

Promoting change, policy or otherwise, may be more effective if the buttons that USAID/Guinea pushes are the same ones that the GOG punches, rhetorically if not actively. In preparation for the recent Consultative Group meeting in Paris, the GOG circulated to the donor agencies its "Programme de Redressement National, Perspectives de Developpement a Moyen Terme, 1987-1991." In this document the GOG covers a number of objectives that directly or indirectly will impact on the private sector.

The two guiding principles in developing this "programme de redressement" were: 1) encourage the development of private sector initiatives and 2) continue the state's disengagement from the productive sector, but reinforce its essential responsibilities as a guide (pilote), a supervisor (arbitre), and a promoter (promoteur) of investments necessary to the emergence and the development of productive activities.

Several GOG objectives, which stem from the two guiding principles, are presented below. The list is not comprehensive but rather reflects a selection from the previously mentioned document.

- o Private Sector Promotion. In the area of small and medium enterprises priority will be given to the promotion of Guinean enterprises through the establishment of a dynamic Chambre de Commerce and assistance to PME to identify, prepare, and start investment projects.
- o Administrative Reform and Training. It is necessary to reduce and reorganize the civil sector. It is also necessary though to offer to those civil servants, who will make up the new administration, decent pay and quality, professional training.
- o GOG's New Role. The development strategy is to let the private sector handle the majority of economic activities. Nonetheless, the state has certain obligations to operate an efficient public service, define the orientation and priorities of economic policies, invest in infrastructure, and to promulgate and apply stimulative measures to facilitate exchange and production.

- o Conakry Port. Beginning as early as 1987, port activities will be privatized. (Note: The GOG has already made a public statement to this effect, but as with PROSECO, FRUITEX, et. al., the GOG has not presented any concrete plans.)
- o Communications. Restructuring telecommunications service into an autonomous, but still public, corporation.
- o Rural Development. A new rural development program will be progressively instituted throughout the country. The program will be comprised of three aspects:
 - An improved seeds, applied research, and advisory service.
 - Assistance in the organization of cooperatives and other types of associations.
 - Encourage the private sector to supply needed agricultural inputs. Complementing this, credit policies will be elaborated.

A leaner, meaner Ministry of Rural Development (MRD) will be the mechanism by which rural development will be achieved and its Bureau de Strategie et de Developpement will play a central role. (Note this is a World Bank created and assisted office). An important aspect of MRD work will be to create a reliable system for gathering statistical information.

- o Manufacturing. The government will undertake all necessary measures which will permit private enterprises to take initiatives to create a web of manufacturing activities. Customs reform and simplified importing procedures will help in this regard. As will public investment in improved electricity, water, and petroleum distribution and an improved road network.

VI. Constraints on Private Sector Growth in Guinea

The following lists of constraints reflect the opinions of Guineans and expats, from both the public and private sectors, as well as comments taken from assorted readings. Inclusion in this list does not imply that it is a valid constraint nor that resolution of it will have a positive impact. Rather, it simply means that various individuals perceive these matters as impediments to private sector growth.

The list is divided into subjects which may be of concern to a typical private enterprise: finance, marketing/sales, operations, personnel, promotion, government relations. Classifying a constraint according to one of the subjects is in some cases somewhat arbitrary, as the constraint impacts on more than one topic.

In summary, and as succinctly stated in the CDSS, the Guinean industrial, commercial, and agricultural private sector remains undefined, unarticulated, unorganized, and underfinanced.

A. Finance

The constraints in finance are largely of a credit nature, that is there is not enough credit (especially Guinean francs), rates are too high, and access to the credit that does exist is difficult.

Identified Constraints:

- o The amount of credit available is scarce. Although this may be less of a problem for foreign currency now that all three foreign currency lines are open. It is still considered a serious problem when it comes to Guinean francs.
- o Lack of term credit, especially in Guinean francs.
- o Difficult access to the credit that does exist. The process is considered too complicated and restrictive.
- o Lack of affordable credit. Interest charges are too high.
- o Continued overvaluation of the Guinean franc by as much as 20% to 25%.

- o Shortage of foreign exchange in the auction. The Central Bank typically auctions about \$2 million a week and says that it satisfies 100% of the demand. The system, though, is more of a fixed auction, which the Central Bank admits, and is somewhat subjective in that the Central Bank can manipulate bids so that there are never any more approved bids than foreign exchange being "auctioned."
- o Difficult access to the foreign exchange that is available. The process is considered to subjective and restrictive. The subjectivity of the system is alluded to above. With respect to restrictiveness, the system actually appears to be fairly straight forward and uncomplicated.
- o Incomplete/inadequate banking system. There exists a need for a development and/or an agricultural credit bank. Feeling by some that BICIGUI can not effectively play dual role of commercial and development bank.
- o Lingering lack of confidence by Guineans in banking system due to inadequacy of the former state banks.
- o Lack of equity and security from Guineans seeking loans.
- o No credit policy or leadership from the Central bank.
- o No refinance or discount window(s). The Central Bank is apparently drawing up at least one such mechanism. This and AID's facility may partially address the problem.
- o Unlikelihood that Guinea will enter the CFA zone for at least three years.

It is interesting that Guineans in general find interest rates, at 20% - 23% for short-term loans, too high, especially when rates from money lenders can go as high as 100%. While this attitude could reflect the inadequacy and uncertainty of conditions and events outside the borrower's control (i.e., the level of unmanageable risk), it is certainly also the result of a mentality that has evolved over 20 years of state intervention and subsidization and, therefore, an uneasiness in taking risk.

"Difficult" access to credit refers to the normal banking practice of requiring some form of security (collateral), whether legal like a lien on property and/or financial such as equity or guarantees. The former renders access to credit difficult because the GOG has not yet promulgated a bankable property ownership law. The latter is a difficulty because of 1) lack of understanding as to the need for equity or guarantees and 2) simple lack of risk capital or guarantee mechanisms.

B. Marketing/Sales

Of the five constraints listed here, probably the two which will have the most negative impact, especially as the infrastructure takes shape, are the lack of purchasing power and the complete inadequacy of useful market information.

Identified Constraints:

- o Lack of marketing infrastructure. This includes roads, communications, energy, as well as storage, transport, buildings, etc. All that is needed to support the production of a good or service and its delivery to the consumer.
- o Paucity of useful information, data, statistics for use by the private sector. Moreover, there is no identified single entity to efficiently gather, manage, and disseminate the information to the private sector.
- o Weak purchasing power of consumer segments.
- o Limited market, due to consumption habits, population density/distribution, weak purchasing power.
- o Lack of medium and long haul transport. Although one expatriate entrepreneur said that this is developing and there exist some healthy competition.
- o Low "fonction publique" salaries. This can't be expected to change until the roles of fonction publique are drastically reduced.

C. Operations

The major perceived impediments relating to operating a business revolve around the affordability of and accessibility to needed inputs.

Identified Constraints:

- o Lack of affordable raw materials and inputs. This attitude may result from a combination of low income and risk capital, risk adversity, and years of artificially low official prices. Although in the latter case, most people operated outside the official economic sector where prices for inputs were market determined.
- o Supply bottlenecks. This problem may solve itself with the continuing improvement in the marketing infrastructure, especially transport, and in the liberalization of import/export activities.
- o Old equipment, lack of spare parts, and inappropriate technical skills.
- o Need for protectionism for nascent import substitution industries.

D. Personnel

In the Guinean context, personnel impediments take on a wider meaning than simply those employed. Personnel constraints also refer to the attitudes of employers, that is those entrepreneurs who wish to undertake a business activity.

The problem is more than one of training, it is also largely attitudinal, resulting from years of little (and then usually underground) private sector activity. This attitude is evident when a potential entrepreneur feels that 23% interest is too much, yet, he is willing to undertake the investment without considering the potential profitability or lack thereof.

One interviewee commented that most Guineans don't have an investor's mentality but a gambler's mentality. This may be only partially correct, a gambler usually knows and understands the odds (risks) involved.

Identified Constraints:

- o Lack of private sector mentality. Training, experience, and mentality are oriented towards public sector.
- o Inexperience of potential Guinean investors.
- o Little private sector training and experience.

- o Poor level of education, in general, especially language skills.
- o Lack of understanding as to the nature of the labor market (supply/demand).

E. Promotion

Promotion here means the promotion of the private sector, rather than promotion of a particular product or service. Guinea is a country where private enterprise, for practical purposes, didn't exist for years and, as alluded to above, the consequence is a lack of comprehension as to what is private enterprise.

In this environment, it is just as important to define and promote private initiative as a concept, as it is to define and promote specific investment opportunities. From this perspective, an important constraint on the development of private sector in Guinea is the complete lack of an effective institutional spokesperson for the private sector.

Identified Constraints:

- o Lack of true private entity which speaks for private sector, defines it, carries its mantle, and advocates its development.
- o No coordination and too much competition among various public entities trying to define and assist private sector development, specifically PME, Chambre de Commerce, and CNPIP.
- o No effective organization of activity groups (e.g., carpenters, bakers, rice farmers, etc.) into mutually beneficial societies, associations, federations, or cooperatives.
- o Non-promotional investment code. Descriptions of the new code by interviewees ranged from "a mess" to inadequate incentives to unimportant, as everything is still arbitrary anyway. This last statement is certainly a comment on the effectiveness of the government reforms.

F. Governement Relations, Intervention, Effectiveness

The GOG's language seems to be touching all the right buttons, but the actions are either slow to support the rhetoric, ineffective, or nonexistent. As one person indicated, nothing will probably really happen in "fonction publique" until the number of civil servants is reduced. And perhaps the only way to accomplish this expeditiously is for the donor agencies to provide the money needed to "retire" the superfluous. USAID/Guinea is providing GF 6.5 billion for such "retirements."

Identified Constraints:

- o Anti-private sector sentiment in GOG.
- o Need to speed up pace of reforms.
- o What reorganization that has been implemented has not been effective.
- o Centralized government and one that is not effective in the provinces. One businessman described each Prefet as running his own little fiefdom.
- o Uncertainty regarding GOG seriousness.
- o Incomplete or inappropriate legal structure and context. Resulting in, for example, no clear land ownership or system of liens.

VII. Translating Constraints into Policy Issues and Activity Options

With respect to USAID/Guinea, perhaps its best trump card for encouraging change this fiscal year has already been played: \$10 million grant for use in the auction to generate a local currency credit line for the divestiture of AGRIMA, SEMAPE, PROSECO, FRUITEX, all state enterprises. Given the likely limited amount of future effort (financial and manpower) that USAID/Guinea can bring to bear vis-a-vis other donor groups, its impact on continued reforms or even the pace of implementation is uncertain.

It is not necessary though to provide resources only in return for change. If the right situations are identified, USAID/Guinea can also provide resources in support of change.

A future role for USAID/Guinea in policy development may be to participate in select areas where changes are suppose to have taken place to see how effective the changes really are. Such experiences could be parlayed into additional reforms or improved implementation of existing reforms. These experiences may also be beneficial to other agencies in their discussions with the GOG (enabling USAID/Guinea to capitalize on the leverage these other donors may have).

For CNPIP to have an effective voice in lobbying for policy changes and promoting the private sector it desperately needs to have an adequate and capable local staff, as well as the continuing presence of a long-term resident advisor. Moreover, it needs to develop a constituency within its own ministry and throughout the government and within the private sector in Guinea.

USAID/Guinea assistance, whether provided in return for or in support of changes, could be brought to bear on any number of policy issues and activities. Certain of the policy issues presented here could also be effectively tackled by CNPIP provided, as mentioned in the previous paragraph, it strengthened its staff. Based on readings, discussions, and the previously listed constraints, some possible policy issues and activity options are presented here.

Policy Issues:

- o Strengthen the investment code. Make it promotional, not regulatory. Make it generous compared to competing countries. Make it relevant.
- o Improve accessibility to credit.

- o Encourage Central Bank policies conducive to increasing the availability of credit.
- o Encourage continued movement in the divestiture of parastatals.
- o Push for faster reduction of the "fonction publique."
- o Promote private initiative.
- o Seek market determination of interest rates.
- o Encourage establishment of a workable legal system, supportive of private activities, yet protective of the public interest.
- o Emphasize the need for continued movement in decentralization.
- o Encourage further devaluation of Guinean franc.
- o Continue to seek government improvement of public infrastructure, especially as it pertains to marketing.

Activity Options:

- o Establish "bankable" legal rights regarding land ownership and liens.
- o Create refinancing or discount windows at the Central Bank or incite the Central Bank to do it.
- o Help to mobilize Guinean franc savings.
- o Assist with the creation of Guinean franc credit lines.
- o Support the development of financial service institutions.
- o Perform agricultural surveys and agronomic studies.
- o Develop a system for the collection, analysis, management, and dissemination of information useful to the private sector.
- o Strive for open and orderly liquidation of parastatals, so that the Guinean private sector can participate.
- o Provide training for civil servants.

- o Promote investment by Guineans and foreigners.
- o Educate the potential Guinean entrepreneur.
- o Promote the creation of cooperatives, associations, etc.
- o Implement the privatization of port activities.
- o Improve the management and organization of customs and immigration formalities at the airport.
- o Assist the development of specific industries, especially construction and transportation.
- o Advocate Societe Mixte or Societe Publique Autonome status for SNE, ONAH, and the communications sector.
- o Create an agricultural credit program.
- o Perform market studies, e.g., labor, inputs, distribution, commodities for local consumption, commodities for export, disposable income survey, etc.
- o Perform a census of the small/medium business subsectors.
- o Push for divestiture of BATIPORT and LIBRAPORT.

VIII. Translating Options into Recommended USAID/Guinea Programs

Two factors were considered in identifying possible program options. First, the fit with USAID/Guinea objectives and strategy and its implications. Second, the fit with the needs of the private sector in Guinea.

Three broad programs of action are discussed here. Each program implies several specific activities. Other program options are presented in Annex I for consideration, although in less detail.

These options were selected because of the possibility of developing specific, achievable objectives that could be reached through manageable short-term assistance. Moreover, the options address important aspects of the Guinean private sector environment. These and other aspects, such as what commitments to obtain from the GOG, will be explored further during the follow on assignment, possibly in May.

Two of the options suggested here strive to overcome two constraints most often cited by interviewees (again both Guinean and expatriate, from the public and private sectors): 1) lack of Guinean franc credit and 2) lack of an entrepreneur's mentality and of an understanding of what private enterprise is. Another option recommended is oriented towards gaining some experience in and working with the private agricultural sector.

A. Promoting Private Agricultural Enterprise

One program option for USAID/Guinea is to participate in the private agricultural sector. The suggested mode of participation is through one or more existing agricultural association or cooperative.

The example used here is the Federation Fruitiere en Guinee. Others might include though the Association Guineenne des Planificateurs en Developpement Agricole (which is associated with the Assoc. Africaine des Planificateurs en Developpement Agricole), Association Mutuelle des Bassins-Est du Niger et Affluents pour le Developpement, Cooperative Avicole de Commercialisation, or others that may surface during the agricultural credit study presently underway.

The Federation Fruitiere is composed of about 600 members, most within 150 km of Conakry. Its objective is to export fruit.

The real potential of this federation is not being realized. For example, the federation could probably participate in one of the foreign exchange credit lines or the auction system to obtain needed equipment and supplies, bypassing middlemen and the concomitant charges. The federation could use assistance in management, organization, marketing, and agricultural methods.

Pro's:

- o The organization developed without outside coaxing, therefore, the members are already convinced of the potential benefits of group action.
- o USAID/Guinea would be able to test the effectiveness of agricultural reforms, and other market related reforms, to identify continued obstacles to private agricultural development.
- o USAID/Guinea could play a direct role in actually marketing an export commodity, gaining experience in this important activity and possibly identifying areas of long-term assistance.
- o Could lead to value added processing.
- o To extent that exports are involved or that downstream processing occurs, the endeavor could complement CNPIP's role as promoter and broker of joint venture investment opportunities.
- o It is outside Conakry but within a manageable distance.
- o The Federation needs the assistance; therefore, USAID/Guinea has some leverage with the organization.
- o Help with identification of inputs for the Commodity Import Program (CIP).
- o Focus group for specific technical assistance regarding agricultural practices.
- o Identified group that may benefit from regional travel.

Con's:

- o Don't know much about the Federation or any other associations/cooperative organizations.

- o Perhaps too specialized, fruit only, and too geographic, maritime; therefore, perhaps too ethnic, Sousou only.
- o Some difficulty in the past from the GOG in trying to work with specific private group.

B. Creating Guinean Franc Credit Lines

Simply establishing a line of credit in Guinean francs doesn't necessarily address an underlying problem: how to get the average Guinean to participate in the mainstream banking system. This is a problem with potential, continuing long-term repercussions.

This may be somewhat problematic given the low levels of income. Nonetheless, without such eventual participation, a partial source of Guinean francs remains untapped and most Guineans remain an unknown commodity to the banks, limiting the banks' desire to lend to them for entrepreneurial activities.

Creating a line of credit also doesn't specifically address the bankability of Guinean projects or the accessibility of Guineans to that line of credit. This option, therefore, looks at three aspects of one problem: mobilizing savings, creating Guinean franc lines of credit, and increasing Guinean participation in lending activities.

1. Mobilizing Savings & Creating Credit Lines

Two examples for mobilizing savings and establishing Guinean franc credit lines are described below. These are only meant to be representative of the possibilities and not necessarily the only ones USAID/Guinea should pursue. In both cases, the credit management training recommended by Don Rhatigan in an earlier study under this project could be useful.

Example: Attracting the medium size saver/entrepreneur.

This might be referred to as a Project Savings Account. The account would have to be opened with some minimum amount, perhaps GF 75,000 to GF 100,000. The depositor would make deposits and withdrawals as desired over a fixed time period, say one year. During that time any money on deposit would receive perhaps 8% interest.

At the end of the time period, the depositor would be entitled to receive a loan for a bankable project equal to perhaps three or five times his average account balance over the time period. The loan would be provided at a reduced rate of interest, reflecting the interest foregone over that period of time. Or, at the end of the time period, the depositor could receive a bonus interest payment paid on the average account balance.

USAID/Guinea could participate by providing the loan money to the bank. Repayments by the borrowers could be used to establish the inevitable revolving fund. Eventually, USAID/Guinea may even be able to withdraw its original credit facility, depending on the terms worked out with the banks.

Example: Attracting the small depositor/entrepreneur.

This would be like a certificate of deposit. Various maturities could be offered. The bank would pay a decent interest rate to attract these deposits. Therefore, the bank would also need to lend at a higher rate.

USAID/Guinea could participate by paying the interest difference between what the bank would need to charge on loans from this pool of funds and what it would normally charge if the funds were coming from a discount window at the Central Bank.

Pro's:

- o Opportunity to work with Central Bank to liberalize interest rates.
- o Banks manage the line of credit and savings programs.
- o Mobilize Guinean savings, bringing Guineans back into banking system.
- o Creates additional Guinean franc credit lines.

Con's:

- o May discourage the Central Bank from moving expeditiously to establish own refinance windows.
- o Except for BICIGUI, all other commercial banks are restricted to Conakry and nearby markets.
- o Not necessarily oriented towards agriculture.

2. Increasing Guinean Accessibility to Credit

To complete the circle, USAID/Guinea could provide assistance to the Centre de Developpement des Petites et Moyennes Entreprises (CDPME). The CDPME essentially is to direct, coordinate, and control a system aimed at supporting the development of small and medium size enterprises in Guinea. USAID/Guinea could provide assistance to CDPME in organization and presentation of dossiers to the banks, labor supply/demand analysis, feasibility studies, market surveys, business census, creation of associations or cooperatives, etc.

Another possible target would be the United Nations Development Program (UNDP) micro-enterprise project. The UNDP pre-PME project targets what is the largest potential entrepreneurial sector in Guinea. It essentially seeks to bring into the realm of PME those entrepreneurs with existing businesses or with ideas.

UNDP has already identified over 150 entrepreneurs most with some capital to bring to the project and some past experience. The identified needs are technical (management, organization, operations, maintenance, etc.) and financial (three to five million Guinean francs per enterprise). Note: At GF400/\$ this is not a lot of money per enterprise.

The project has already been approved by the GOG. UNDP needs, however, some help with the financing and possibly on the technical end. USAID/Guinea could bring to the table about \$250,000 to \$290,000 for the project. Note: This amount represents almost 75% of the project's budget.

Pro's:

o With respect to PME:

- Working with SMEs is historically an area of some comparative advantage for AID and an area emphasized by AFR/PRE.
- Helping PME to organize small enterprises into activity groups could provide the small entrepreneur access to foreign exchange. Currently he is shut out due to minimum requirement.
- May encourage civil servants to leave as there would be accessible credit and assistance for them to start own business.

- Working with small and medium size businesses will provide an opportunity to see where real constraints still exist.
 - An entity the GOG says it wants to improve.
 - Opportunity to complement an on-going effort, within an existing managerial and organizational structure.
 - Allow for identification of inputs for CIP.
- o With respect to UNDP project:
- A little money can bring a great deal of leverage in the program.
 - The pre-PME sector is not yet effectively address by others.
 - Allows for the creation of a base from which activity groups could be organized.
 - Would disperse assistance outside of Conakry.
 - Management would be by UNDP, not demanding too much from a limited USAID/Guinea staff.

Con's:

- o With respect to CDPME:
- CDPME doesn't have the best of reputations for the moment.
 - CDPME is already receiving a great deal of assistance, financial and technical.
 - No particular tie-in to CNPIP.
- o With respect UNDP project:
- Extremely difficult sector to work with.
 - Highly dispersed throughout Guinea, may call into question ability of UNDP to effectively manage project.

C. Promoting Entrepreneurship

There are basically three key players: Centre de Developpement de PME, Chambre de Commerce (C. de C.), and CNPIP. The objective would be to provide discreet assistance to all three entities to improve their abilities to reach the general populace of Guinea with the message of private initiative. A related objective would be to bring all three together to coordinate their activities to create an effective voice for the private sector.

Such an effort could follow a multiple step process, each phase covering a specific manageable activity and period of assistance. For example, the first phase might be simply to define, with the participation of CDPME, C. de C., and CNPIP the various attributes of each and coordinate activities. The next phase could create publicity programs for each entity.

A third stage would establish an outreach program to define and articulate private initiative. The program would be aimed at the general population and delivered through a variety of mediums. A subsequent step may identify and promote potential areas of investment opportunity and sources of assistance. A final stage could focus on solidifying the triad's effectiveness in advocating policies favorable to the private sector.

A review of other activities that could be pursued through CNPIP and the C. de C. are discussed below. Note that, with respect to the above, key players involved with each entity have agreed that coordination among the trio is required. CDPME is not elaborated on further, as it is briefly discussed above.

1. Chambre de Commerce

The C. de C. is a young organization, formed in 1986, that as yet has not effectively served its constituents. The C. de C. was formed by Guinean businessmen but today is an autonomous public entity that is to operate as a private one. The Secretary General is a public servant, while the executive committee is composed of private businessmen.

The C. de C. has four divisions: legal, promotion, statistics, and administrative. According to the Secretary General, the C. de C. could use help in all these areas. Plus assistance is needed to establish regional offices.

The C. de C., even at this nascent stage, or perhaps because of it, is in a state of flux. If the recommendations from the SODI report are implemented, the C. de C. would take on attributes resembling certain CNPIP and PME characteristics.

The SODI report calls for the C. de C. to identify Guinean investors/entrepreneurs, search for foreign partners (where applicable), and provide assistance to new project start-ups and existing enterprises in the conception and setup of management systems and other training activities. This "new" C. de C. would have the following offices: public relations, studies and documentation, provincial representation, and industrial promotion (consisting of enterprise assistance and training).

If these activities are adopted there would exist further duplication and conflict between C. de C., CDPME, and CNPIP. The result could be disastrous, particularly for CNPIP, as explored in the next subsection.

Pro's:

- o Means of promoting the private sector.
- o Institution the GOG wants to work through.
- o Means of creating associations, federations, etc.
- o Source of identifying Guinean investors who could participate in large scale investment opportunities analyzed by CNPIP.
- o C. de C. is in a state of flux, so may be able to help define its organization and attributes.
- o Entity through which visits for Guinean business people to other countries can be organized.
- o C. de C. could be an effective voice for the private sector.
- o At the moment, no other donor agency is providing direct assistance, although, the French reportedly are interested.

Con's:

- o C. de C. is not a true private entity, therefore, re-enforcing GOG intervention in private sector.

- o Doesn't specifically support private agricultural sector.
- o C. de C. is in a state of flux. May be premature to provide assistance until the nature of its organization and attributes are worked out.
- o At the moment, C. de C. is not receiving assistance from another donor agency, so may require too much of USAID/Guinea management time.

2. CNPIP

USAID/Guinea has indicated that it is most interested in continuing to assist the development of the private sector in Guinea and, more specifically, the private agricultural sector. It would like to accomplish this task through the most effective manner possible, even if this means that it does not continue direct assistance to CNPIP.

For USAID/Guinea there are certain advantages to at least complementing CNPIP activities or working through it to achieve other objectives. Not the least of these is that, as a result of continued USAID assistance, CNPIP would continue to exist and fill a very necessary role in promoting private sector development.

Without some kind of strong third party advocate, CNPIP will very likely be merged with another GOG agency or office within a year of the termination of USAID/Guinea's assistance. Several factors suggest such a fate for CNPIP.

- o Inability of CNPIP to develop a constituency outside its overview ministry and among private business people.
- o Continued nonexistent professional staff, which makes it easier to place the few people at CNPIP elsewhere and, perhaps more ominously, could indicate CNPIP's low priority within its own overview ministry.
- o The recent document drawn up by the Ministry of Plan, CNPIP's overview ministry, for the Consultative Group meeting, makes mention of the roles of both CDPME and Chambre de Commerce, but doesn't mention CNPIP.
- o A "third-party, independent" report (SODI) funded by the World Bank calls for the merging of CNPIP into CDPME activities.

Several possibilities exist for continued, if limited, USAID/Guinea participation in CNPIP. Whatever assistance is provided though should definitely be linked to 1) proper staffing of CNPIP with capable personnel and 2) continued long-term technical assistance, whether or not American.

The most attractive means of continued assistance to CNPIP outside of USAID is to convince the IFC that CNPIP is the GOG entity (or at least one entity) to work with and through. Note, that the GOG has reportedly already invited the IFC to assist them with investment promotion and USAID/Guinea could offer to pick-up part of the cost.

Another form of assistance would concentrate on the promotion program already elaborated. Still another form would provide continued financing for feasibility studies of specific activities or sectoral analyses. Among some potential studies are : limestone mining and production of lime for agricultural uses (potential import substitution industry); package/container/bag manufacturing; milling operations; for commodity transport and storage (Germans may also be interested).

Some pro's and con's to providing assistance to CNPIP are:

Pro's:

- o CNPIP would continue to exist and serve an important function.
- o Sectoral studies would seem to fit AFR/PRE objectives and, therefore, might be funded by them.
- o Small, manageable entity to assist. Official role, as set out in decree, appropriate to USAID's interests.
- o Assistance activities would be of a nature that would allow USAID/Guinea to tap other sources outside of its own budget.
- o With respect to IFC participation:
 - IFC would widen appeal of CNPIP, as it is primarily (although incorrectly) seen as for Americans only.
 - IFC would bring continued leverage for CNPIP within GOG.

- IFC would bring a long-term presence that, as indicated, is necessary.
- IFC can bring closer connection to sources of project finance, allowing CNPIP to complete circuit (feasibility study to project implementation).
- There would be a good fit between CNPIP and the work that the IFC does in the area of investment promotion.

Con's:

- o CNPIP's track record to-date is at best inconclusive.
- o Bringing in the IFC would diminish USAID/Guinea's influence at CNPIP.
- o Continued appearance as a US only investment promotion center, unless another donor or IFC also visably participate.

Annex A

Other Program Options for USAID/Guinea

o Provide assistance to the Commission Nationale d'Investissement.

This commission is charged with applying the investment code; reviewing applications; seeing that investment programs are followed; reviewing complaints and recommending action; providing opinion regarding laws, decrees, etc. that effect investment in Guinea; writing an annual analytical report of investment in Guinea, the environment, code, and the Commission's activities; following up investments to see that they are going according to the agreed plan; and initiating arbitration in cases of dispute. The Commission currently has four professionals.

The Commission needs help in office organization, presentation techniques, analysis of dossiers, legal review and development, and negotiation techniques, to name a few areas of assistance.

Pro's:

- o Allow for input on addendums to investment code.
- o Identified group that could benefit from travel to see how other such commissions operate.
- o IFC will likely provide assistance, so USAID/Guinea can tap their expertise and management without straining its limited staff.
- o Small and specific enough to be manageable through short-term assistance, although at least one long-term expatriate advisor is needed.
- o Relates to CNPIP activities. Ideally, CNPIP helps prepare projects, CNI approves and then supports.
- o In the scheme of things the Commission is an important entity.

Con's:

- o Working with government entities charged with private sector promotion, as CNPIP has shown, can be very problematic.
- c Given continued arbitrary environment, may be focusing limited resources on a forever impotent group.

o Provide assistance to OIC.

Pro's:

- o Wouldn't cost much.
- o Has own team, requiring little staff time from USAID/Guinea.
- o OIC typically offers complete vocational training, including fundamental business skills.
- o Located in Conakry.

Con's:

- o Located in Conakry.
- o Not agricultural related.

o Study the establishment of equity or guarantee funds.

Pro's

- o Definitely an identified constraint.
- o Could be handled with short-term assistance.
- o Could perform analyses through auspices of CDPME, taking advantage of its existing infrastructure and management.

Con's:

- o Historically such entities have a bad track record.

o Provide assistance to establish low income housing.

Pro's:

- o Definite need.
- o Create jobs and disposable income.

- o Could attach assistance to the divestiture of BATIPORT and a development of a bankable land ownership law.
- o Could be done through local businesses.
- o Health benefits.

Con's:

- o Probably require a great deal of staff time.
- o Housing is always a difficult undertaking even in the best of circumstances.
- o Question as to effectiveness of short-term assistance in this area.

- o Provide assistance to ONFPP.

The Office National de la Formation et du Perfectionnement Professionnelles is a semi-autonomous office in the MHR. Its mandate is to develop vocational training programs. Objectives include:

- o Study labor market to determine supply/demand.
- o Create training programs that respond to labor supply/demand equation.
- o Set up apprenticeship programs.
- o Oversee the operation of training and apprenticeship programs.

USAID/Guinea could offer assistance in all these areas.

Pro's:

- o Representative from above ministry has indicated a desire for assistance.
- o Past successful USAID/Guinea track record with MRD.
- o Manageable through short-term assistance.

- o OIC could benefit from findings of studies done under auspices of ONFPP.

Con's:

- o Unless the leadership at the ministry involved is behind training 100%, chances are that the training will not have long-lasting effect.

o Assistance to the GOG's Secretary of State for Decentralization.

Pro's:

- o Decentralization is at the heart of effective implementation of many other reforms.
- o Past successful track record with MRD.

Con's:

- o Given potential political nature of decentralization, may be an activity better performed by multilateral donor agency with less of a perceived politically founded development program.
- o Probably require the management of short-term assistance throughout the country.
- o Perhaps some question as to effectiveness of short-term assistance (vs. long-term) in decentralization.

Annex B

Appointments

<u>Date</u>	<u>Usefulness</u>	<u>Name</u>
3-3-87	-	B. Hellyer, T. Duggleby, L. Stervinou
3-3-87	+	M. Wentling, B. Hellyer
4-3-87	0	M. Yansane, L. Stervinou
4-3-87	+	T. Stervinou
5-3-87	+	T. Curtis (CNI)
6-3-87	-	M. Laho (Chambre de Commerce, Admint & Finance)
9-3-87	0	Conference by M. des R.H., de l'I., & PME with private Guinean entrepreneurs)
9-3-87	0	Diallo (pvt. Guinean entrepreneur)
10-3-87	+	K. Zayatte (Pres., Federation Fruitière en Guinée, private organization)
10-3-87	0	Moutte (expat farmer operating 112 ha near Coyah)
10-3-87	+	B. Hellyer
10-3-87	+	J.C. Balcet (World Bank)
11-3-87	+	R. Gros (PME)
12-3-87	0	A. Diallo (Central Bank, Marché de Change)
12-3-87	+	M. Traore (Central Bank, Pvt. Sector Credit) G. Meyfret (IMF - towards end of meeting)
12-3-87	0	J.P. Billaud (Conseiller Commercial - France)
13-3-87	+	Borchardt (Commercial Officer - Germany)

Usefulness key: + very useful
 0 useful or obligatory
 - not useful

<u>Date</u>	<u>Usefulness</u>	<u>Name</u>
13-3-87	+	J. Frippiat (PNUD)
13-3-87	0	J.Y. Breus (BICIGUI)
14-3-87	+	J.C. Balcet (World Bank)
16-3-87	+	Verchere (SGBG)
17-3-87	0	Rivard (Canadian Embassy)
17-3-87	-	B. Hann (pvt. Guinean entrepreneur)
17-3-87	0	Fofana (Sec. Gen. Chambre de Commerce)
18-3-87	+	H. Yansane, C. Lamadi, L. Stervinou (CNPIP)
18-3-87	0	I. Hopwood (world Bank)
20-3-87	0	C.L. Manning (OIC)
20-3-87	0	Fofana (Sec. Gen. C. de C.)
21-3-87	0	Traore (Sec. Gen. M. RH, I, et FME)
25-3-87	0	Sow (Sec. Gen. M. of Plan)
26-3-87	+	Geerd Wurthmann (M. Plan, German Consultant)
26-3-87	+	Harry Sutherland (SOGUICAF)

Annex C

Meeting Notes

The notes which follow stem from conversations held with a variety of individuals, Guineans and expatriates, from the public and private sectors. The notes were drafted at the machine from hand-scratched comments taken during the meetings.

While the notes have been reviewed, they have not been retyped, so they remain as drafted at the typewriter. This was easier on the writer, although admittedly it may be harder on the reader. Nonetheless, there are a number of good ideas and interesting comments. Most of these hopefully have shown up in the body of this report.

MEETING NOTES: 3-387

Participants: BH, TD, LS

Duration: 45 min.

Re: TDs work, intro to study, and general philosophy of report and conclusions.

For what I am doing only picked up a few things:

- o Official rate 410GF/USD, parallel rate about 510GF/USD or about 25% differential.
- o Guinea not likely to get into CFA zone any time soon, i.e., >2 yrs.
- o TD will include me on trip to see some small entrepreneurs, if my schedule can jive with hers.

MEETING NOTES: 3-3-87

Participants: MW, BH

Duration: 1.5 hrs.

Re: SOW & Miscellaneous

No real problem with SOW. Mark wants me to be open minded and to interview private Guinean business people. Identify problems/constaints for an entrepreneur and present ideas as to what AID can do to alleviate constaints.

Suggested meet with Sec. Gen. de Chambre de Commerce, CNI, M. de Industrie.

He feels frustrated (my word) with CNPIP. Not displeased but frustrated. Feels perhaps now is time to have started CNPIP, not two years ago. If new endeavor has nothing to do with CNPIP--O.K. If it works with CNPIP or complements CNPIP--O.K. too. Latter probably the best (although not prerequisite of new project).

Provided me with Discussion Paper: Development of African Private Enterprise, which he wrote in October 1981. He still refers to it and it received wide distribution in AID.

Urged me to take a look at the above paper and the CDSS, which Mission hopes will be approved April 2.

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MEETING NOTES: 4-3-87

Participants: MY, LS

Duration: 30 min.

Re: SOW

In principle Yansane is in agreement with SOW and approach, i.e., two phases. He outlined his interest (concerns) as the following:

o Addressing the issues raised by the SODI report. Propose reasons why the two should exist. This is evidently starting to heat up, as World Bank pressing M. of Industry for its reaction to report.

o What are the issues of credit: are they access to, are they lack of, are they legal (collateral), are they procedural (e.g., application process), etc.

o What new assistance programs are needed for private sector?

Commented that the last is included in SOW as major output (note: HY had just received SOW, so he had not thoroughly read it). The second point would no doubt surface in the course of doing research, i.e., interviews. ~~XXXXXXXXXXXXXXXXXXXX~~

With respect to first point, I agreed to provide my thoughts/opinions as to why CNPIP should exist. Indicated that it would not be another SODI report but rather an outline of my comments and those of others, gathered in the course of doing research.

MEETING NOTES: 4-3-87

Participants: TS

Duration: 1.5 hrs.

Re: Thoughts on private sector development

Briefly discussed my SOW and two phase approach. Then proceeded with some general questions.

What are major constraints to expanded private sector participation in Guinea?

- o Lip service. Private sector still harassed in all phases of establishment and operation. Feels because people don't understand it.
- o Lack of (applicable) legal systems. (land tenure, tax code, recourse for private business, etc.; all aspects of system)
- o Infrastructure (roads, water, telecommunications, electricity). Most important being roads--point of view GOG.

(In terms of national plan, money to be spent on infrastructure (34%), rural development (includes agriculture) (27%), social health/education) (18%), general (SMEs, mining, urban water, etc.) (17%), general admint (decentralization & planning) (4%).)

- o No credit policy (or leadership) from Central Bank.

(recently established a 15% simple interest rate for savings deposit and 22% interest rate on short-term loans)

(IMF suppose to be taking lead here)

essentially chs of Gmo.
w/min. bal. of interest
on sight deposits

- o Human resource. Level and effectiveness of education is low. Work habits are poor. The generation lost syndrome.

(GOG employment down to 80,000 from 90K. Need to get to 50K or 60K. Private sector suppose to absorb those let go but can't at this time.)

4/1

Meeting of 3-4-87, TS, cont.

What are three major policy changes you would make?

o Decontrol everything (except for quality and environmental issues).

(especially process of doing business, e.g., 30+ signatures required to start business.)

(GOG still has fixed price for rice, palm kernel, and coffee. All other commodities not fixed in practice but are in reality (among sellers).)

(GOG can't and shouldn't offer farmgate floor prices. Wouldn't have to if open economy and market infrastructure in place.)

o Civil Service reform. Needs to be serious and rapid and include admint. management reform and training.

(AID is thinking about targeting this group for training.)

As an aside: For small/medium businesses, access to foreign exchange is impossible. Minimum amount is USD10,000. Must have full coverage ~~plus bank commission~~. Banks charge too much. Banks deliberately prolong processing (float issue). This is indicative of and refers back to GOG's lack of credit policy. *Must have 50% of needs and banks will provide credit for 50% at 20-24% for 3-6 months (lower limit for good customers).*

Re: SOW and Output.

Would be nice to have follow on to what AID already has invested in -but-

AID not wedded to CNPIP, i.e., idea of son-of-CNPIP or CNPIP II.

Perhaps could work with and thru Chamber of Commerce. A small business management training program.

Suggested Contacts:

BICIGUI - Mr. Pierrre Merchadier (has line of credit for SMEs and full-time hire to help with dossiers)

SOGEN - Claude Verchere (Admint. Dir. Gen.) or Alain Laugier (Adjoint)

BIAG - Mr. Durand or Madam. Diallo

Dar Al Maal - Mohamed Y Koroma

El Hadj Boubacar Hann - Hann & Cie S.A.

Fofana A.O. & Freres

Questions to Explore:

What would you like from AID? GOG? What should GOG not do that it is now doing? Thoughts re: auction system? What are your needs, e.g., credit, training, etc.?

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MEETING NOTES: 5-3-87

Participants: T. Curtis, DNI

Duration: 50 min.

Re: Sundry questions on private sector development in Guinea

Started by discussing reasons for my visit. Indicated that one or two others, more senior than I in policy and project development, may also visit him in April.

Responses to questions:

- o What role does the private sector have in the national development plan?

To provide necessary services and agricultural and industrial production. However, the state must put in place the "infrastructure de base."

- o Can the private sector in its current state provide the necessary services and production?

No, but little by little. Need to concentrate on promoting "petites et moyennes entreprises." These types of undertakings will have to absorb the anticipated outflow of people from "Fonction Publique." But again, the right conditions for the growth of the private sector must be in place.

- o What are the three most important constraints to private sector growth?

MONEY! Access to foreign currency. The small man is shut out. In reality there is not enough available. The paperwork is onerous. Too much time elapses between a successful bid and access to forex.

Transport (i.e., infrastructure routiere) and communications.

Energy, electricity and gas.

(These are areas the GOG should address and in some cases are addressing or studying. He later mentioned as another constraint access to credit.)

How can these problems be rectified?

Money. Stabilize the rate of exchange. Facilitate access and increase the amount available.

Transport and communications. Concentrate on the major axes. Tie all prefectures with Conakry thru reliable telephone service. Establish adequate and reliable telephone\telex service in and out of Guinea.

Energy. Concentrate on developing small, localized dams to provide electricity for limited region.

What are the needs of the private sector in terms of credit?

Lower interest rate (lower than 15%). Long-term credit for equipment, etc. and construction. Streamlined and simplified application process. Need a development bank.

In terms of training?

Training of all kind (management, acctg., credit, etc.) at all levels (smallest of small enterprise and all levels of large enterprises).

(Thought a program to retrain fonction publique people for jobs outside of public sector would be good. This entity would also act as an employment agency to place these people. But, cautioned that the success of such an institution would parallel the general growth of the private sector.)

What project would you create to help the private sector?

Started by saying too many involved in private enterprise promotion--CNFIP, CNI, PME, etc. Better if had an umbrella, or one tutelle, to oversee and coordinate efforts of all (Sec. Gen. de l'Etat pour l'Investissement Prive).

Like to see credit institution that had accessible credit.

M. Curtis then talked about difficulties in starting a business but that the problems were not necessarily on the side of the GOG. Said for Guinean business not seeking any breaks the process has been streamlined. He talked about difficulties (in Conakry) of finding buildings for a business or constructing one and getting credit. (Note: these are the problems his wife is facing in trying to open a flower shop.)

Talked about the need to retrain fonction publique people for entry into private sector and to give them an "esprit d'entreprise." Said fonction publique had set up a Commission Generale à la Réforme Administrative as an attempt to help those wishing to get out of fonction publique.

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What do you think of new investment code?

Not thrilled by it. But, willing to wait and see how actual application of it works.

Does CNI need help in fulfilling its role?

Yes. Has only four "professionals." They need financial assistance, material (equipment and supplies), vehicles (2), expert (technical assistance) help (in how to efficiently analyze requests, organize/manage the office/work).

What are his thoughts re SODI report?

Not in agreement at all (not surprising since he his part of M. of Plan). But then argued that an umbrella organization was needed (which is what SODI proposes, among other things, thru its CDFME). Did say that should do away with all the ministry participation. If this umbrella organization was in favor of proposal it would argue merits before the CNI, with CNI having final approval\disapproval.

As an aside, wasn't sure if Chambre de Commerce was doing it or not, but feels that some organization is needed to pick up private sector mantle. This private sector organization would review proposed legislation affecting the private sector and provide its comments to the GOG, propose legislation, do PR work with the public, etc. Sort of a private sector support\watchdog group.

MEETING NOTES: 6-3-67

Participant: Mamadou LAHO, C de C (admint & finance)

After failing to meet again with Fofana decided to meet with M. Landy, although will try to meet with Fofana towards the end of next week. This meeting was not particularly useful (perhaps my fault, but don't think he is wealth of information). Best thing to come out of meeting was a rendez-vous on Monday with two or three Guinean entrepreneurs.

o Role of private sector in national development plan?

The GOG is opening up the working environment so that the private sector can participate in all areas, especially agriculture.

o What are major constraints on the private sector?

Lack of financing and public administration procedures.

o What are the training needs of the private sector?

Management, accounting, organization.

o Does the auction system work?

Works well enough. Any business can participate and there is enough forex available. (More inclined to believe M. Curtis' remarks concerning the auction system).

o What is role of Chambre de Commerce?

Intermediary between private sector and GOG. It is a public institution operating as a private entity. It will help in negotiations between Guinean entrepreneurs, Guineans and foreigners, Guineans and GOG. It is a young, with only limited staff (10). Considering a project to undertake promotion of the private sector thru training programs. It has held in the past seminars on what is the C. de C. and the advantages it offers. In theory the C. de C. will have four functioning offices: Legal, Promotion, Statistic (market info), and Admint.

o What, if any, assistance could the C. de C. use?

Training of personnel, material (equipment and supplies).

o What should future role of CNPIP be?

He was not that familiar with CNPIP! (Note: Few people are. Which is a comment on CNPIP's success at promoting itself.)

o What did he think of SODI report?

Had seen it but had not read it. Felt though that there was a need to coordinate all the players involved in promoting the private sector.

MEETING NOTES: ~~29~~ 9-3-87

Participants: Conference of Ministère des Ressources Humaines, de l'Industrie, et des PME with private entrepreneurs

Duration: All Bloody Day!

Re: To discuss PME's reorganization, the assistance PME will be able to provide, available lines of credit, etc.

Essentially the objective of the seminar was to introduce the new PME, i.e., the Centre de Développement des PME (CDPME). That's right, to those familiar with the SODI report, the UNFPME was dissolved and the CDPME created right from the pages of SODI (many times during the meeting, they simply read from the report).

Some confusion on my part as to the extent the Chambre de Commerce was being changed. In any event, they (M. des RH, I, et PME) plan to provide the Chambre de Commerce with the means necessary to carry out its task. Again, the changes seemed to come pretty much from the SODI report.

CNPiP was discussed briefly, but here SODI's recommendations were not implemented, i.e., the dissolution of CNPiP. There seemed to be acceptance of the fact that CNPiP and the new CDPME address two different markets. However, the Minister seem to put a capital limit on the difference between the two entities. CDPME is to address the investment market defined by ventures of less than \$1 million in capital. While the CNPiP would pursue the investment market which represents ventures over \$1 million in capital.

This distinction, in terms of total capital, would be different than that indicated in the investment code, which puts a cap a capital investment for a SME at about \$750,000. As far as I could, and can, tell this definition of markets for CDPME and CNPiP is only the Minister speaking personally and isn't necessarily official GOG policy.

Present lines of credit being offered by World Bank, EEC, CCEE through BICIGUI were discussed. Interestingly, all three only provided forex for the purchase of equipment and supplies (équipement et fournitures). For the CCEE it must be of French origin and for the EEC it must be of European origin.

With respect to sources of Guinean francs, AID's counter part fund, through the Central Bank (see Meeting Notes of 10-3-87 with B. Heliyer), was mentioned plus the creation of a source of equity funding and guarantees: Fond de Participation and Société de Caution Mutuelle. These are both described in detail in the SODI report (pgs. 137 to 138) and will be managed by CDPME.

MEETING NOTES: 9-3-87

Participant: Mr. Diallo (aren't they all)

Duration: Met for dinner

Re: His thoughts on private sector in Guinea

o What are major problems for Guinean private sector?

Lack of understanding of what is private enterprise, coupled with little experience and initiative.

Financing, lack of, is a problem. As is the nonexistence of ~~an~~ agricultural credit.

o What would he do to alleviate some of the problems?

Would offer training as to what is private sector, ~~and~~ how one gets started, and how one manages an entity to those people of fonction publique who are desirous of leaving. Would create a guarantee fund and a source of equity (venture capital). (Note: We were talking about Fond de Participation and Société de Caution Mutuelle which am certain put last point in his mind.)

He thought marketing was an area oftentimes neglected. In addition, he believes that protectionism is justified for fleeing business in areas of import substitution.

o What project would he create?

if he could, he would create ~~a~~ projects that helped the construction sector (he has bias as he is starting brick operation) and agricultural sector.

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MEETING NOTES: 10-3-87

Participant: Mr. Kalil Zayatte, President Federation Fruitière en Guinée

Duration: 45 min.

Re: Private agricultural sector development

Mr. Zayatte spoke only from his experience, and that of the members of the federation, in private agriculture. The Federation has about 600 members, most located within 150km of Conakry. Also said he would be happy to meet with whomever follows me and people doing fruit pre-feasibility studies.

- o What are the biggest constraints to private agricultural sector growth?

Lack of long-term credit and at less than 15%. Also need for material, tractors, pumps, fertilizers, insecticides, etc. What is available now is too expensive.

- o What did he think of auction system?

Said the system didn't concern the Federation. (Note: This shows a little shortsightedness, as the Federation could "cotise" its members, buy the forex, and import fertilizer and other inputs that he says they need. Thereby avoiding the markup of the middlemen.)

- o What sort of training could his members benefit from?

Said the members were pretty savvy farmers but that there probably was specialized technical assistance they could use, although he did not suggest any specific areas of TA.

He did say that if somebody wanted to reach the farmers, the Federation would be a good instrument to work through. He also said that the Federation itself could use help in marketing.

(Note: The idea of working through the Federation or other associations if they are identified, is a good idea. Those who belong to the Federation are, by implication, eager to profit from such membership.

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The Federation makes coordination easier for training, and eventual export of fruit. One could reach a larger group, for example, with the technical assistance necessary to grade and to enhance/maintain quality in the field. Through the 600 members you could be realitively sure of sufficient exportable qauntities and reduce the cost of shipping through volume.

Organization of Federation management and assuring members of the accountability of funds may be a necessary first step. These and other aspects would need to be explored in greater detail.)

- o What infrastructure could the federation profit from?

Mr. Z talked in terms of marketing infrastructure and equipment as being the most beneficial to the Federation. As an example of the former, Mr. Z mentioned cold storage at points of shipment and/or intermèdiate storage spots. Regarding the latter, he indicated a need for trucks.

(Note: This is another area where the Federation's power (potential power) is under utilized. The Federation as an entity could probably secure a loan from one of the forex lines of credit available to purchase needed equipment. Although, the operation and management may require additional overhead that the Federation can't absorb or justify due to uncertain exportability of its produce.

While this would need to be explored it certainly is a possibility and another example of how the Federation or other associations true potential could be developed and exploited, provided it had some assistance (technical and/or financial). Assistance which would not necessarily require long-term commitment but could be accomplished through specific intermittent short-term assistance, if properly coordinated and managed.)

- o What are the needs of private agriculture sector re: credit?

He strongly felt that an agricultural credit bank is needed or at the very least a development bank. Does not think BICIGUI can play dual role adequately. Plus BICIGUI charges too much, a 15% loan becomes 17% - 18% after their various commissions.

- o What did he think of investment code?

No problems with it. Said he was familiar with it, but I wonder.

MEETING NOTES: 10-3-87

Participant: Mr. Moutte (independent farmer who obtained right
to farm 112 ha of x-GOG operated land)
S/C France Cable Radio
B.P. 569 Conakry

Duration: 45 min.

Re: His problems and thoughts on agricultural private sector
development

Went to see BH, who had Moutte in his office and suggested we
get together. Was convient for both of us so we met right then.

Moutte operates 112ha farm about 50km from Conakry, growing
papaya, passion fruit, mango, some vegetables. He hopes to
produce for off-season market in Europe. His results over
last two years and two harvests have been good. He had hoped
to export this year but has had problems with local residents,
not however, with GOG officials.

Locals evidently jealous that he got right to farm land. (He
indicated that he owned it but I am under impression that GOG
does not have legal system in place for land ownership. Perhaps
since it was x-GOG property there wasn't a problem transferring
title.)

Regarding development of private agricultural sector, ~~xxxxxxxx~~
rhetoric and action are differnet on part of GOG. Some
resistence on part of fonction publique people to perform as they
should (old ways die hard). You still have to go to the top
to get anything done, according to Moutte.

Another problem facing private agriculture is lack of agricultural
credit. He said that interest rates would have to be concessional,
specifically less than 15%. (Note: Many are saying this, but
this smacks right in the face of AID private sector philosophy
in vogue these days that any lending should be done at market
rates.)

Moutte said that farmers could use material to improve yields,
but don't necessarily need technical assistance in general.
Biggest need is in fertilizer, insecticides, fungicides, etc.

Also mentioned the high acidity of the land and the need to decrease this acidity with limestone (calcaire).. One possible local industry he mentioned, that could help agriculture and serve as import substitute, is the mining of limestone near Kindia. He said there was a fairly sizeable mining possibility there, but no one as yet has undertaken to exploit it, or even explore the feasibility. Instead limestone is still imported.

(Note: Moutte good man for consultants doing tropical fruit and pulp concentrate studies to meet with. He said he would be glad to.)

MEETING NOTES: 10-3-67

Participants: B. Hellyer, AID

Duration: 30 min.

Re: AID's role in establishment of local currency line of credit.

AID has agreed to provide the GOG with \$10 million for use in the auction, if the GOG 1) presents solid plans for the divestiture of AGRIMA, CEMAPE, FRUTEX, and PROSECO and 2) the GOG undertakes the actual divestiture of these parastatals. Upon adherence to the first requirement, AID will provide \$5 million. Undertaking the sale of the enterprises releases the second tranche of \$5 million.

The GOG evidently is dragging its feet and claims that the market (import/export) involving these parastatals is open for the private sector to participate. Certain representatives of the private sector say that in theory that may be true, but in practice the GOG makes it difficult for private entrepreneurs to participate when the GOG still is playing an active role in the same field.

AID has reached an agreement with the Central Bank and the commercial banks that the local currency generated from the eventual sale of \$10 million at the auction will be used to establish a local currency line of credit. All the private banks will have access to this line (BIAG, BICIGUI, SOGEN, Dar Al Mal) and can on-lend following their own standards (e.g., interest rate, term, grace, etc.).

The only stipulation that AID-Washington placed on the line was that the banks must assume the risk. That is they can not demand collateral or guarantees. Effectively ^{and as a result of stipulation} through the banks will still only lend to a certain elite group with whom they have done a certain amount of business in the past.

In short, except to the extent that those who receive the loans choose to undertake activities which will impact on the private agricultural sector (e.g., the import and distribution of fertilizer, insecticides, etc.), the little guy in agriculture (for that matter, the little guy in any private sector endeavor) will not be able to benefit from this line of credit. This is too bad, as the lack of local currency credit lines is often cited by Guinean entrepreneurs as a real hinderance to private sector growth.

[Note: Report by Deschamps re: this line of credit provides an explanation for the above. This is a good report for understanding AID's credit strategy and should be read.]

(Note: It is not clear to me who is actually assuming the risk, the commercial banks or the Central Bank. As the repayments of principal are to go back into the pool of local currency (being generated from the auction of the \$10 million) for future lending, the Central Bank could be assuming the risk and not the commercial banks. Stay tuned in future meeting notes for a clarification.)

Note: See Meeting Note of 13-3-87 with Brews.
The banks accept the risk, at least on credit
extended from the first tranche.

MEETING NOTES: 10-3-97

Participants: Jean Claude Saicet, World Bank (first meeting)

Duration: 1.25 hrs.

Re: World Bank efforts with policy reform and AID.

Unfortunately, and sadly, we were interrupted a great deal, as one of the world Bank's permanent staff people died today. Jean Claude was very preoccupied with making necessary arrangements to get the body to Conakry and then out. I rescheduled the meeting for later in the week.

Before rescheduling, however, we were able to pursue a few matters. Concerning policy issues the WB is pushing that effect the private sector, the most current is revision of the commercial text. Jean Claude describe as being very liberal. Prices, except for a few strategic items (gas) and certain floor prices for exportable produce (coffee, palm kernels), will be unregulated. The floor prices are to show the rural sector that it, the GOG, is supportive of their needs.

At one point in a recent meeting, a gentleman from Commerce began to outline suggested rules for fixing various prices and was evidently verbally abused by all his comrades. This of course pleased JCB. The commerce text under review now, and which JCB expects to be enacted into law, does not address definitions and establishment of SAs, SARLs, etc. This will be subject of part two of the commercial text.

Continuing along the lines of support to private sector, JCB said that the WB will finance a consulting team to review all the new codes and tie them together. Any unresolved issues or contradictory promulgations or unclear texts will be resolved and cleaned up.

Regarding the divestiture of parastatals, the orderly liquidation/sale/privatization that the bank would like to see is not taking place. Certain enterprises have been and are being liquidated, but in a decidedly Guinean manner, i.e., those who are well placed in the GOG are buying bits and pieces of the different enterprises. The true private sector in Guinea has not had a chance to participate.

AID is currently helping with the divestiture of four of the parastatals (FRUTEX, PROSECO, AGRINA, CEMAPE) by withholding from the auction system \$10 million dollars (to be provided in two tranches) until the GOG accomplishes certain tasks associated with the sale of assets from these enterprises. (See the meeting notes from 10-3-97 with B. Hellyer.)

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JCB mentioned BATIFORT as being a high priority for liquidation but one the GOG is moving slowly on.

JCB feels that the auction system is really a fixed system. The Central Bank, in collaboration with the commercial banks, effectively sets the exchange rate at what it desires. The Central Bank meddles too much in the approval process, i.e., the process is too subjective. It is for this reason, that the Central Bank effectively satisfies 100% of the approved requests.

If the process was more objective than subjective, the Bank would certainly not satisfy all the approved requests, as only \$1.5 to \$2 million is auctioned weekly. JCB feels that this "auction system" probably overvalues the GF by 15% against the dollar (a little less for FF and a more (up to 25%) if you are talking about large denominations, in cash). Even 15% is beginning to worry them.

JCB felt that any backlog (see meeting notes of 4-3-87, with T. Stervinou) (JCB was not aware of any) was probably due to some float manipulation by the commercial banks, but that it probably ~~was~~ ^{wasn't} too much or out of the ordinary.

MEETING NOTES: 14-3-87

Participant: Rene Gros, PME

Duration : 1 hr.

Re: Environment for PME in Guinea.

Mr. Gros is expat who has been working with PME in Guinea for more than 5 years. He has some very good ideas and is attempting to gather some basic marketing information in those areas typically pursued by PMEs (e.g., boulangerie).

He is also a man that Mima and co. should talk with as he has feel for market size for poultry (perhaps he is too pessimistic, he would say realistic) and knows small poultry producers. In addition, he pursued a poultry project in Gabon.

He is more than happy to meet with Mima and crew, the people going fruit studies, and whomever follows me (if needed).

As an aside, we talked about all the fighting among the different entities that is going on (CNPIP, PME, C de C, etc.). I feel he favors somehow coordinating efforts if the nationals involved can get over this idea of turf. I may be a bit naive, as he does to a great extent favor the SODI report, but he seemed to agree that managing one large bureaucracy would be impossible in Guinea when smaller bureaucracies (PME, CNPIP, etc.) weren't efficiently managed.

Securing an amicable working relationship among all the players would be a great step forward in making better use of donor assistance and saving time, money, and effort.

o What are the major constraints to PME development?

He mentioned a number, all of which seemed to have great importance to him. The lack of purchasing power, without it he doesn't see how anything can evolve.

His idea is to move quickly with the decrease of fonction publique people and then, once roles are down, increase their wages. Thereby creating a group with some disposable income. He realizes there are some questions/problems with this idea but that it is at least an attempt to get the consumer ball rolling.

Among other problems he mentioned were "approvisionnement," especially as it pertains to raw material; the lack of associations or federations in almost every area to bring costs down; nonexistent markets stemming from small population, consumption

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habits, purchasing power etc.; no local currency line of credit; lack of personal equity; inadequate marketing infrastructure and material such as storage, packaging; and finally "une bonne volonte."

As an aside, RG said he had spent over 22 years in Africa and that the answers to problems that work elsewhere just won't work here. You might be able to transfer solutions from Senegal to the Ivory Coast, for example, or vice versa, but not from Senegal to Guinea. He feels things will change but only over a greater than 5 year period.

What are information needs?

Perhaps the greatest is to perform a census of the various groups of activities which comprise the PME sector. Nobody has any idea as to competition, saturation, entry costs, exist costs, etc. This would also help with the creation of associations.

RG is working on a marketing survey in a few areas that pertain to PMEs.

What are training needs?

In general PMEs need training in all areas but RG emphasized marketing. I happen to agree with him and think that most entrepreneurs don't have a notion as to what it is and so don't mention it as a training need as often as management, accounting, or organization.

RG emphasized that any training needed to be on the job. For PMEs classroom/book training is pretty useless. He talked about possibility of using volunteers to provide on the job training, but was a bit skeptical of their motivation and abilities, whether French, American, German, etc.

He also said language, lack of fluency in French, could be a problem. I disagree, as most of the small entrepreneurs (at least in Guinea) don't have a great proficiency with French anyway. However, communications could be a problem.

He also felt that when it comes to getting PMEs to think of value, i.e., quality for the money, the best way is through expositions. For example, you could have a carpentry exposition where PMEs would come to sell their desks, cabinets, beds, etc. By comparing and contrasting among themselves who is selling and who is not, they will learn to appreciate the meaning of quality/workmanship and its role in marketing.

Could AID help in the establishment of the Fond de Participation and the Societe de Caution Mutuelle?

He was rather doubtful that either of these will get off the ground soon. He would not recommend pursuing assistance in either of these for the moment.

Requests for less than \$10,000 are strongly discouraged. Rather the CB would prefer to see people with small requests band together.

As a result of the approval process, practically all approved requests for forex are satisfied.

Interestingly, the CB must approve all import and export, whether or not a request for forex is involved. When this is the case, the request for import or export is approved within one or two days.

Mr. Diallo, unofficially of course, did not foresee entrance into the CFA zone for another 2 or 3 years.

MEETING NOTES: 12-3-87

Participant: ^{Manga} M. Traoré, Private Sector Credit, Central Bank

Duration: 1 hr.

Re: CB policies concerning private sector credit

The CB recently set interest rates on ordinary credit at 15% and on ~~XXXXXXXXXXXX~~ credit to preferred sectors (e.g., PME) at 10%. The commercial banks are allowed to charge up to 5% on top of the ~~XXXXXX~~ rates set by the CB. Note: banks must be able to tack on additional commissions or points cause I have heard that rates go as high as 22%. *(Correction: this results from CB charges not additional commercial bank charges. See meeting notes of 12-3 with Bressat BICIGUI)*

The CB has authorized savings deposits to receive interest at 15% whatever the amount and whatever the duration (quel que soit le montant, quel que soit la durée). This makes no sense to me, as ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX~~ maximum interest charged on loans to preferred sector is 15%. I have heard that there is indeed a minimum deposit requirement and duration, making the sight deposit more like a certificate of deposit. (Will try to check this out when I talk with commercial bank people). *(See notes of 12-3 w/ Bressat of BICIGUI)*

Outside of AID's potential local currency pool, the CB has no other refinancing window (let alone a tiered system). They are working on developing one now aimed at ~~XXXXXXXXXXXX~~ establishing medium-term credit. As it was on the drawing table he would not go into details, other than to say that the objective (beyond having a medium term facility available in local currency) was to get the commercial banks to put some of their ~~XXXXXXXXXXXX~~ excess liquidity to use. The CB would do this by providing the commercial bank with 40% of the loan but let the commercial bank have that 40% interest free or at very low rates.

Biggest problem facing credit system is lack of a land tenure regulations. He indicated that this was being studied.

Interest rate on the unofficial market is around 100% outside Conakry, a little less in Conakry.

Inflation running at about 25% to 30%.

We were joined by IMF man (GÉRARD MEYFRET) who indicated that BICIGUI could have problems effectively playing dual role of commercial and development bank. (See Deschamps Report for some general comments on this and other credit topics). Felt that some creativity was needed to get around guarantee and equity issues given track record of guarantee funds and venture capital organizations in Africa. Both feel that AID might do something in area of housing or agricultural credit. Both also feel that 5 to 10 years away from having truly conducive pvt. sector environment.

Both gentlemen would be happy to review any specific proposals AID might consider putting forward to enhance the private sector credit situation.

MEETING NOTES: 12-3-87

Participants: J.P. Billaud, Conseiller Commercial, France

Duration: 40 min.

Re: Environment for private sector development in Guinea

Should first note that I did not make good use of this interview. I think he is probably a better source of information and of more information than following may indicate.

o What do you think of the investment code?

It is satisfactory. I don't think he really felt this way but, as he explained, the effectiveness of the code (any code, law, or regulation in Guinea) is an issue because none are applied. Everything, still, is arbitrary, i.e., you can make any arrangements you want. He doesn't feel for this reason that the CNI will be effective or play a strategic role, unless things change.

o What are the major obstacles to improving the private sector participation in Guinea?

The biggest problem is Guinea. Many are interested but are discouraged by the Guineans. They are their own worse enemies.

He also mentioned an absence of a legal framework regarding property rights and liens. He added that no one wants to make a decision, unless they have an interest at stake.

o His thoughts regarding the auction system?

IMF is the one who placed the auction. It is not bad but it is not very open in the typical sense of an auction. It is fixed.

o What can AID do to improve the environment for the private sector?

No specific answer. He did say that as many of the governments as possible must push the same button (i.e., in my words, coordinate and pursue the same policy issues).

MEETING NOTES: 13-3-87

Participants: Borchardt, Conseiller Commercial, Germany

Duration: 1 hr.

Re: Environment for private sector development in Guinea

o What are major problems facing the private sector in Guinea?

The mentality is one of the state is responsible. Those Guineans willing to undertake an investment have more of a gamblers mentality than an investors mentality.

There is the lack of legal property rights. To many government people have a vested interest in maintaining the status quo. Despite the rhetoric the government hasn't changed much.

There is little or no relevant and pertinent market information.

o What do you think of the investment code?

It is a mess. No incentives.

o What do you think of CNPIP?

CNPIP suffering from the same problems as other government entities. (Poor training, no private sector experience (sounds like PRE), limited usefulness for an investor).

o What do you think of Chambre de Commerce?

It is anti-Lebonese, anti-Peul. There is nobody promoting the private sector. Nobody identifying groups in related activities with whom one can do business with.

o What should be done to improve the environment for the private sector in Guinea?

Need to give Guineans the opportunity to learn from success stories in other developing countries. Guineans don't have a reference point.

Need to promote agricultural cooperatives. Need to work with small businesses, those beyond the small of PME, and find ways of assisting them without going through the government.

Need to coordinate. German study carried out in 1986 found that there were too many donors, not enough coordination, and too many working with the GOG, not enough working with the private sector.

MEETING NOTES: 13-3-87

Participants: J. Frippiat, PNUD

Duration: 30 min.

Re: Environment for private sector development in Guinea

As I didn't have a great deal of time till my next appointment, I only pursued two questions: What are current problems facing the private sector and what could AID do to help alleviate problems.

In response to the first, JF was very short. There has been enough rhetoric and now it was time for action, time to exploit and apply the various economic codes already promulgated. There also was a lack of confidence on the part of Guineans in themselves.

Responding to the second question, he had a bit more to say and became very enthusiastic. PNUD is working on a pre-PME project. That is one destined to help the very small enterprises, which is a large portion of the private sector in Guinea.

These people need technical assistance (management, organization, operations, maintenance of small equipment) and financial assistance (3 to 5 million Guinean franc per enterprise. At GF400/\$, we're not talking about a lot of money here). He had two documents covering at least 150 actual, existing small enterprises, description of their needs, resume of experience of proprietor, amount of capital the entrepreneur could bring to the investment, estimate of employment created, etc.

A project to assist a portion of these entrepreneurs (as yet which ones is undecided) has already been designed and approved by the GOG. PNUD is now looking for some additional capital (primarily credit funds).

FP's intentions are of course that AID could work with PNUD on this project by providing some of the funding, specifically about \$250,000 to \$290,000. (Note this represents almost 75% of the project's total budget. For a small amount AID could get a big voice in how PNUD actually undertakes the project and without undue manpower constraints on AID.).

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MEETING NOTES: 13-3-87

Participants: J.Y. Breus, Consultant CEE, BICIGUI

Duration: 1.5 hr.

Re: Banking environment

This interview I did not manage very well. JYB is a good source of info and patient. Should have gotten more out of him. His door is open should wish to see him.

He started by going on a half-hour discussion of the banking situation. Essentially, with the three lines of credit, there is enough forex available but there still is a need for local currency credit lines.

The lack of equity here is a problem. The land title issue is being worked on. A guarantee fund (Fond de Participation that PME wants to create) wouldn't really mean much to the banks given their dismal history in other countries. He likes the spirit of a Société de Caution Mutuelle but wonders where the resources will come from to capitalize such an entity. Liens don't mean much without a reliable insurance mechanism, which doesn't exist.

Request for loans must include the following: description of the business, experience of the investors, technical analysis, market analysis, and an economic review and finance requirements. About 30% of the IDA (WB) line of credit is committed

He felt that BICIGUI could play a dual role of commercial and development bank. Given the track record of development banks in Africa, it was at least worth a try. Those who are successful typically become commercial bank clients anyway. It is a growing process and BICIGUI will be in a better positioned to help because it will be more familiar with an operation, having been with it from inception.

BICIGUI has finished work on two regional banks (although I don't believe they have been officially opened). Work on two others will be completed in April and two more in June. By the end of 1987, BICIGUI hopes to have 10 branches.

He did feel that perhaps there would be problems with agricultural loans. That here a commercial bankers mentality might not be appropriate.

The bank can charge interest on ordinary loans at 15% plus 5% bank charge. Various government charges bring typical rate up to about 23%. A bon de developpment was soon to be offered. The duration of the bon would be 3 and 6 months. For a GF 100,000 deposit, the depositor receives 17% and 18% respectively for the two bons.

The bank does indeed pay 15% on saving deposits of any size but it does require a minimum duration of six months.

Regarding AID grant to central bank which will create a local currency pool, he will now be able to complete his dossiers. That is he will now also be able to finance some of the local costs of investments.

Regarding the success of pharmacy loans, he said that the bank only financed the renovation of buildings and that the finance was for a fairly short period of time--30 months. Inventories were financed by the supplier. The bank did draw from its own sources to provide the financing.

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MEETING NOTES: 14-3-87

Participants: J.C. Balcet, World Bank

Duration: 1 hr. 20 min.

Re: Continuation of last meeting on 10-3-87

o What does World Bank hope to accomplish at the Consultative Group meeting in Paris?

Meeting is essentially to give GOG opportunity to present their plans to all the donors at once. They will be looking for primarily balance of payments assistance as 80% to 85% of the investment program needs are already funded.

WB is not looking for any major changes. Perhaps reassess their administrative reforms and the approach taken. Truly implement the reforms: no more harrassment of the private sector, no mixing in the internal affairs of mixed companies, simplify procedures and establish legal framework.

Would like to see a more open liquidation of parastatals and see some movement in the divestiture of BATIFORT and LIBRAPORT. Would like to see a privatization process of port activities. The GOG has said the port will be privatized but no specifics as to how and when.

Perhaps can't expect too much till fonction publique straightened out. To speed this process the donor agencies should maybe just give the GOG the money they need to retire or move out the necessary bodies (12 to 15 million GF). The IMF may not like this though due to the inflationary effects of this much additional money in the economy at once.

o What do you think of CNFIP?

Not impressed. The approach is wrong. It is too associated with only the US.

o What can AID do to assist the private sector?

First, the WB has some disagreement with AID's PL-480 policy. Feels perhaps best use would be to help put in place a security stock of 40K to 50K tons. Private sector should handle inputs not GOG.

Perhaps AID can work with the IFC, buy-in or assist the GOG pay for the IFCs services. The GOG has already asked the IFC to come in and assist with private investment promotion. The IFC will provide the CNI with technical assistance. (Perhaps the IFC could be convinced to work with or thru CNPIP as well.).

Person to see in Washington is Boris Velic, 676-0781, IFC Development dept.

AID does have some advantage in applied agronomic research. Developmental research needs to be done and soon. Maybe something could be done in conjunction with the T & V extension project of the WB. Nobody is currently providing any agronomic research assistance.

Farmers also need help in organizing. Perhaps some NGOs could provide some assistance.

Can AID do anything with the C de C?

Work in this area may be premature. The French are well equipped to work with C de C.

What does he think of Frippiats project at PNUD?

Perhaps not realistic. Working with micro-enterprises is difficult (what isn't in Guinea) but it is possible. Perhaps some NGOs could be built into structured approach on project.

MEETING NOTES: 16-3-87

Participants: Claude Verchere, Administrateur Dir. Gen., SGBG

Duration: 40 min.

Re: Banking in Guinea

o What are problems facing the SGBG?

No refinancing window at the central bank. SGBG doesn't have the same access that BICIGUI does to the three forex lines of credit. A lack of guinean francs. No system of guarantees, such as property or liens (on certain items anyway).

o What could AID do to help motivate Guineans to open savings accounts.?

Two possibilities. One would be a project savings account. The depositor would make deposits and withdrawals as he desires over say a year. Over that period of time he would receive say 6% to 8% on his money. At the end of a year, the depositor would be entitled to a loan equal to perhaps 3 or 5 times his average account balance over the year, at a reduced rate of interest say 12%. Or he could receive a bonus interest payment of 6% to 8% paid on his average balance.

AID could provide assistance by a) providing (concessionally) to the bank the loan money at the end of that year or b) the bonus interest payment.

The second possibility would be a bon de caisse (a CD) aimed at attracting the small depositor. The Cds could have various maturities. The bank would offer a decent interest rate in order to attract these deposits. Therefore, the bank would also need to lend at a higher rate. AID could pay the interest difference between what the bank would actually need to charge on loans from this pool of funds and what it would normally charge if the funds were coming from a different source such as a rediscount window at the Central Bank.

Such a system would offer the small depositor a chance to enter the banking system again and regain confidence in it. At the same time, creating a pool of local currency for lending.

o When might Guinea expect to get into the CFA zone?

1990, maybe.

MEETING NOTES: 17-3-87

Participants: Gilles Rivard, Vice Consul, Canada

Duration: 1 hr.

Re: Constraints on private sector.

o What do you think of CNPIP?

Could be useful, but. CNPIP is seen too much as only an American investment promotion center and not as an operation promoting foreign investment in general.

Guinea is not ready to receive investors. There is too much resistance in fonction publique. There is a lack of creditable and financially capable Guinean partners.

o What are you telling Canadians re: investment opportunities?

Come and take a look see, but be very prudent.

o What do you think of the investment code?

It provides no incentives to potential investors, especially when you look at the neighboring countries Guinea must compete with.

o What are the Canadians doing that is directed towards the private sector?

Not doing anything specifically aimed at assisting the Guinean private sector. Do have people at M. of Plan, bureau of statistique to help put together system for gathering, analyzing, and disseminating information.

Three important players in this area: customs, central bank, and bureau of statistics. However this trio is not coordinated, each is receiving assistance from a different donor agency. Note this doesn't include World bank efforts to assist the Bureau of Strategy and Development at M. of Rural Development, which is charged with gathering, analyzing, etc. agricultural related stats.

o What can be done to improve private sector environment?

Change the attitude of the Guineans, of fonction publique, and create a cadre of Guinean investors.

o Do you think it might be possible to privatize via a société mixte communications and energy?

Would rather see a société publique autonome. In principle this should be possible but doubts the government would go along. More of a chance they would concur with a société publique autonome than a société mixte.

MEETING NOTES: 17-3-87

Participants: M. Fofana, Chambre de Commerce

Duration: 1 hr.

Re: Environment for private sector development in Guinea

o What are the problems facing the private sector?

In agriculture the incentives put in place are not yet effective. There is a lack of credit. There is a need for a development bank and for organization of cooperatives.

In industry, there is a need for improved management. The PME is not yet effective. There is a need to get the private entrepreneur involved in the divestiture of parastatals.

There is no guarantee system. The typical Guinean entrepreneur can not come up with the 20% - 30% equity that is normally required. There is no workable commercial legal system. Training is also important.

o What can be done to assist the private sector?

First understand its difficulties of the GOG and the entrepreneurs. No grandiose projects. Work in small increments. Promote the organization of like activities into support groups. Work through a system of apprenticeship.

It will be 6 to 7 years before environment is conducive to private initiative.

o What is future role of Chambre de Commerce?

The C de C should be a representative for the private sector, it should promote the private sector, and act as a consultant to it. The C de C should help with training private sector cadre and in encouraging efficient operation of services that the private sector depends on (e.g., the port, the airport).

o What assistance could the C de C use in performing its task?

Training of personnel, equipment (esp., printing) and infrastructure (road building improvements). Help in establishing regional offices.

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o Who has already provide assistance to the C de C?

The International C de C out of Paris. The C de C of Paris, as well as, the C de C of other African countries (e.g., Senegal) and UNIDO. Note: Appears to me that this past assistance either 1) addressed the wrong problems or 2) wasn't very effective.

Note the C de C in Guinea, as in many African countries I guess, is a government entity that is suppose to have operational and financial autonomy (see Meeting Notes of with Laho of C de C). The executive office, which is to be filled by a representative of the private sector has been vacant since November, 1986. Mr. Fofana is a GOG appointee, i.e., from fonction publique.

We had to cut the meeting office, as MF said he had others waiting to see him. We scheduled another meeting for Friday the 27th.

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MEETING NOTES: 17-3-87

Participants: El Hadj B. Hann, entrepreneur

Duration: 1 hr.

Re: Environment for private sector development in Guinea

This meeting did not go that well. First BH did not give us his undivided attention. I suppose he figured they were better things to be doing with his time. He brought in three other people, one in commerce, one in the fonction publique (who will start working with him soon), and one of his technical consultants (a Guinean). These three people would answer most of the questions, while BH read letters and generally carried on other business.

In addition, ~~ES~~ from CNPIP came along. He talked too much and answered questions. Don't take him with you on interviews!

o What are the major constraints to private sector growth in Guinea?

Lack of forex credit, even with the three lines of credit now in place for forex. The conditions are too rigid. Guineans can't bring the 20% - 30% in personal equity to a project.

No financing available for the rural population.

o What can be done to address these problems?

Provide a line of credit to a few large "commercants" (like BH). These people will then provide the loans to those that they know in the rural areas have confidence in to pay it back.

Start up example projects, which show other Guineans how things can be done and encourage them.

o What do you think of the Chambre de Commerce?

It exists in name only. It is not an effective voice for the private sector. The government won't consult it. It is young though, but in general such institutions in Africa are not effective. (I don't know how true this is.)

o What do you think of CNPIP?

They didn't know its role and felt they couldn't answer. Note BH was not participating at this point. I find it amazing that CNPIP hasn't effectively promoted itself to people such as BH and co. BH, and the few others like him in size, represent the small group of Guineans perhaps capable of contributing capital to a joint venture of the size typically envisioned in CNPIP studies.

o What do you think of PME?

Procedures there take too long?

o What policies practiced now discourage the private sector?

There are none in place now which discourage the private sector.

o What can AID do to assist the private sector?

Help with training entrepreneurs and their employees in all aspects of operating a business.

Create a line of credit such as the one discussed early.

MEETING NOTES: 18-3-87

Participants: I Hopwood, Ag Sector, World Bank

Duration: 40 min.

Re: Constraints on private agricultural sector.

o What are major impediments to private agricultural growth?

Institutional. No body gathers, analyzes, disseminates pertinent statistics. Training, especially in management.

She mentioned a program of AIDs to assist upper level decision makers at M. de Developpment Rurale, through NASPAA. Evidently fairly successful, see Meeting Notes of 18-3-87 with B. Hellyer. (Nobody at AID mentioned this program to me. I find out from a third party). In addition, World Bank is help newly created Bureau of Strategy and Development with in the M. de DR.

Rural. Lack of inputs. Many people have study problem but now its time to move. Assist the private sector to develop mechanisms for delivering needed inputs to the farmers. Infrastructure (communications, roads, etc.), but this is being address somewhat. Still a need for access roads to be improved.

Training of agricultural extension people. World Bank pursuing this through a T & V project (see C. Olson report) initially targeted for six prefectures. Project will be evaluated in two years and expanded to other prefectures.

o Is timing of assistance to fonction publique people too early? Isn't there the risk that those training will opt to leave FP?

Perhaps. But most of those being trained are young and still have a good career ahead of them if FP gets its roles down and becomes efficient. If you do delay, how long do you delay? Which comes first, the decrease in roles or the training of decision makers?

o What can AID do to assist private agricultural sector?

Focus on inputs and getting them to farmers through the private sector.

What is World Bank doing in area of agriculture?

World Bank will start project in 1987 aimed at improving livestock health and management. A supply depot for veterinary supplies will be set up in CKY (how to get inputs to herdsman?). The Bank will also provide loans to those who wish to set up a business related to animal husbandry. The Bank will also bring in a herdsman association specialist to help get the cattlemen organized.

The Bank will also create a diagnostic lab in Conakry and provide assistance to the vaccine production laboratory in Kindia.

She also mentioned a rice project in Upper Guinea financed by IFAD and BAD that has a cooperative development component.

MEETING NOTES: 18-3-87

Participants: B. Hellyer

Duration: 20 min.

Re: What is NASPAA and what are they doing?

Essentially, AID received a request from the Minister of Rural Development for assistance to train his upper level and upper mid-level people (Direction Generale level). NASPAA came in and provided organizational development to the MRD. The financing came from the Africa Manpower Development pool of funds, from which AID-CKY receives about \$100,000 a year.

Evidently, the people from NASPAA were quite effective. They sat with these people, in their office, and watched them work. Correcting them, what decisions they should be making vs. those passing on up or down. Some feathers were ruffled but in the end the Minister of RD was very pleased.

The next stage is in April, when the project will be taken out to the provincial level. Later, the success will be assessed and the project likely carried on. Bess McDavid of AID (PSC I think) has more info on NASPAA.

Asked BH question re: timing of assistance to FP. He felt that the real glut was at the bottom of FP and that these are the people that would likely leave.

AS

MEETING NOTES: 19-3-87

Participants: HY, LS, ~~SS~~ *Coué Lamine*

Duration: 1 hr. 30 min.

Re: Private sector environment in Guinea

Since there were four of us the conversation tended to cover a number of topics at once. I've tried to attach initials to the various comments which follow. Meeting started with the question what are the major constraints to private sector growth in Guinea. It wasn't necessary to prompt the participants any further.

6\$ Human ressource. Poor attituded, lack of management and accounting skills, which makes it difficult to receive credit. Credit is also problem and the method of granting (approving) loans. The private sector soesn't recieve necessary information due to confusion by those who are to promote the private sector.

We started talking about the various entities which are suppose to promote the private sector.

HY C de C should principally be an intermediary between the private sector and the government. Like PME, CNPIP should have a line of credit that it can provide to finance large undertakings, those beyond PME.

Existing problem of lack of coordination among the various private sector promotion agencies is the result of no coordination at the time these institutions were created. Everyone sought to start from zero, rather than complement existing institutions. So they saw a need for certain services that, in reality, are duplicative.

LS CNPIP should maybe take the lead in proposing a promotion strategy/policy. This would have to be done through the various ministries involved (I believe that is Plan and HR, I et PME). However, until CNPIP is fully staffed, it would be at a disadvantage at such a meeting because it couldn't fulfill the tasks it would argue it should be doing.

HY C de C, PME, and CNPIP all have reason to co-exist but roles need to be clarified.

(Note: There was some discussion among HY, LS, SS as to the legallity of the Minster of Human Ressource etc. move when he created CDFME from the pages of the SODI report, as the GOG hadn't officially approved such a move.)

LS Three-quarters of those guineans who visit CNPIP should really be going to PME. (Comment on CNPIP's ineffectiveness in promoting its raison d'etre and on PME's ineffectiveness in fulfilling its mandate).

HY There is lack of personal equity and lack of funds to
LS even pay for competent feasibility studies. CNPIP needs
G\$ to staff a study office that can access, other than its own people, any specialist regardless of nationality. At least until its own staff is reasonably trained. CNPIP would initially do the studies for no charge but would have the right to market the study to anybody if the entrepreneur who proposed the study doesn't make an investment.

HY There is a lack of an international promotional strategy.

LS Two roles for CNPIP: 1) publicize investment opportunities and seek to bring together partners and 2) remove obstacles to private sector growth by making recommendations to the GOG based on CNPIP experience in promoting private investment.

HY CNPIP should be the one who assists an enterprise to install itself in Guinea and to take advantage of the investment code. CNPIP should be on the CNI and act as the intermediary between CNI and investors.

What about investment code?

HY Haven't read it thoroughly yet but heard that it isn't very attractive.

LS Not presented well, too confrontational.

(Getting back to constraints)

HY There are administrative constraints. People in fonction publique have bad attitude towards private sector and are always looking for a dash. FP people need to receive training in order to perform their jobs more efficiently.

HY There is an absence of industrial tradition in Guinea after so many years of private sector repression. There is a lack of esprit d'entreprise. To encourage growth in productive sector the GOG should identify some entrepreneurs with good projects and help them with their equity needs or provide guarantees. In this way can encourage others through example.

HY Need to create a business advisory service within the banks.

LS Some months ago the president of the islamic bank
approached him about possibilities of AID selecting and
financing some trainers to provide assistance to him to
create such a business advisor service in his bank.

HY Lack of security due to the inadequacy of present land
LS ownership laws. This is a cause of much of the
68 inaccessibility of credit.

MEETING NOTES: 20-3-87

Participants: C.L. Manning, OIC

Duration: 40 min.

Re: What is OIC?

OIC () is in Guinea to set up a vocational training school. The OIC concept is to offer a complete training program, one that includes some fundamental business skills. In Guinea, OIC is will offer initially masonry and carpentry. At some point in the program OIC places its trainees with contractors for on the job training. At graduation, OIC provides job placement and follow-up. OIC will have a technical advisory committee composed of community leaders and employers. OIC doesn't charge a fee for its training.

The GOG has provided OIC-Guinea with a building. OIC has a request in with AID-Cky for GF 20 million for renovation. AID-Cky has provided a car to-date and lodging. If approved these funds would come from F1-480 proceeds. The UNDP may equip the carpentry shop. OIC is seeking from the Canadians equivalent to the self-help fund, money to purchase supplies. In addition, Canada will likely provide to volunteers in carpentry and masonry.

OIC still needs some funds for long-term resident (\$150,000), equipment, housing for the volunteers, and other sundry items. OIC could also profit from a labor supply-demand study.

MEETING NOTES: 20-3-87

Participants: Fofana, Sec Gen C. de C.

Duration: 20 min.

What is future role of CNPIP?

Said that he was in favor of the recommendations of the SODI report. That aside as a possibility, he felt that the roles of the three players (PME, CNPIP, C. de C.) needed to be clarified. They should operate as a triumvirate vis-a-vis private sector promotion and advocacy.

Who should take the first step to bring these players together?

Felt that that was a delicate question. He said that first perhaps the various donor agencies providing assistance to these entities should unify. Then the directors of these organizations could get together to clarify roles and make combined recommendation to the respective ministries. Then the GOG could give its accord.

MEETING NOTES: 20-3-87

Participants: C.L. Manning, OIC

Duration: 40 min.

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MEETING NOTES: 21-3-87

Participants: Traore, Sec Gen M. of HR, I, & SME

Duration: 40 min.

Re: Private sector development in Guinea

What are the problems facing the private sector?

Traditional Guineans are entrepreneurial but the state was in charge of normally private sector activities for so long that those 20 to 40 years old don't have an understanding of, an education in, or experience in the private sector.

Lack of accumulated savings, personal resources.

Inadequate or nonexistent judicial code and system.

Banks not playing the role they should.

What project would you create?

Essentially, he talked about getting PME to do its job. He said he'd like to see a PME bank that would identify projects, promote them, provide credit, and follow up with assistance as needed.

Would be all for coordinating efforts of PME, CNPIP, and C. de C. Feels that there isn't effective promotion of private sector in Guinea. Also doesn't feel that any of the three entities does an adequate job of promoting itself.

What type of assistance would you like?

Would welcome assistance to help define industrial sector and regional policy.

ONFPP could also use assistance to get its house in order.

MEETING NOTES: 25-3-87

Participants: Sow, Sec Gen M. of Plan and LS, CNPIP

Duration: 20 min.

Re: Private sector in Guinea.

Very short meeting as he was called away by the Minister. Before he offered his comments on the situation of the private sector, he asked what I had learned. He then agreed that I had uncovered the important issues (amazing!).

He did concur that credit was a problem. Interest rates too high (I still after three weeks still don't fully comprehend this) and equity impossible. (Wonder what the possibilities are of establishing credit unions?)

He didn't believe that there weren't any Guinean businessmen, especially among the commercants, that couldn't bring equity to an investment. The problem here was that these traders were use to a quick return and didn't fully understand the private productive sector. Plus that they were probably uncertain as to the environment.

9.1

MEETING NOTES: 26-3-87

Participants: Geerd Wurthmann, GTZ, Coopération Technique, Plan

Duration: 1 hr.

Re: What the Germans are doing and AID might do

Wurthman is seconded to the M. of Plan to help identify, prepare, and follow up projects for the ministry. The other aspect of his work is to improve the administrative capabilities within Plan.

The Germans are considering helping in the area of FME based on a report done for them by a German firm. However, there is the possibility that they would consider assistance to CNPIP also. Wurthmann feels that above all else the three major players involved in private sector promotion must coordinate their agendas.

He is interested in knowing more about CNPIP and will pay Lucien a visit. He was also interested in what options I was recommending to AID-Cky. We discussed a few of the options. He indicated an interest in meeting with whomever follows me.

For CNPIP, I think there are some real possibilities for German assistance. Wurthmann was going to recommend to one German investor to drop by.

MEETING NOTES: 28-3-87

Participants: Harry Southerland, SOGUICAF
(Coffee producers and exporters. Brits.)

Duration: 1 hr.

Re: What was it like starting a business in Guinea

SOGUICAF has been in operation for about 20 months. They are organizing farmers throughout forest region. They also have the right to develop, wherever, up to 1000 ha for themselves. They have a seedling operation and provide extension service. They exported last year about 600 mt.

His biggest complaint was that everything was still arbitrary. Who do you see? Which signatures do you need? How long? Will others accept the rights granted to you by another ministry. Example, he is suppose to have the right to important all equipment necessary for the company to do business, hors tax. As soon as he brought in some trucks, finance was saying he had to pay a tax. The fact that he had an investment agreement stipulating otherwise doesn't mean a thing to finance. He is using the trucks, but on a provissional basis until the matter is sorted out.

He would tell another investor coming in that everything depends on the man in country and the Guinean partner (which you have to have, no way to succeed without one). Also to be flexible and patient.

Once outside of Conakry, decrees and agreements don't mean anything (as if they mean something in Conakry). Each prefet operates his own little fiefdom. There is alot of nitpicking. Feels that he is able to employ people and is working with farmers alleviates some of his difficulties.

He is pushing for the creation of a National Coffee House to replace PROSECO (which AID is trying to get liquidated). He has had nothing but problems with PROSECO but feels it is an entity he now knows. Its replacement would be an unknown quantity (better to work with the devil you know than the one you don't).

The National Coffee House would be coffee producers and exporters voice. Would set national standards so that Guinean coffee quality would be more freely accepted. Fees would come from exports (perhaps 1% of value) and used for administration (a very small portion) and for plowing back into coffee.

Perhaps AID could help establish such an entity?

Annex D

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