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FINANCIAL AND ORGANIZATIONAL REVIEW OF LA FINANCIERE COTE D'IVOIRE (LFCI)

FINAL REPORT

February 1, 1992

Office of Government Services
1801 K Street, N.W.
Washington, DC 20006
Telephone 202 296 0800

Price Waterhouse

February 1, 1992

Mr. Warren Weinstein
Associate Assistant Administrator
AFR/MDI

Dear Warren:

RE: Financial Sector Development Project Contract Number PDC 2206-Z-00-8191-00 Financial and Organizational Review of La Financière Côte d'Ivoire (LFCI).

Attached please find five copies of our final report entitled Financial and Organizational Review of la Financière Côte d'Ivoire (LFCI), prepared by Price Waterhouse, Prime Contractor under FSDP.

As you recall, when we first attempted this review in October-November 1990, we were unable to obtain the information we needed to finish the work. Accordingly, we only issued a draft report, which was never finalized as we decided to attempt to perform the financial and organizational review one more time. Therefore, this report should be considered as the final report for both the draft report issued in 1990 and the one in 1991.

It has been a pleasure working with you on this important assignment. We look forward to further collaboration with you in the future.

Sincerely,

J. Richard Breen
Project Director, FSDP

FINANCIAL AND ORGANIZATIONAL REVIEW OF

LA FINANCIERE COTE D'IVOIRE

EXECUTIVE SUMMARY

A. Background

Established in Abidjan in 1980, La Financière Côte d'Ivoire (LFCI) is a private investment company with the goal of mobilizing domestic savings and encouraging increased participation in the local private sector. More specifically, LFCI raises capital from private individuals and utilizes this capital to promote development of new private business ventures, or to provide expansion capital to existing businesses. The U.S. Agency for International Development (A.I.D.) has taken an interest in the organization because of its potential in promoting development of private enterprises in Africa, and engaged Price Waterhouse to perform a financial and organizational review of LFCI as of September 30, 1990.

B. Engagement Objective

The objectives of this financial and organizational review can be broadly defined as: the determination of the viability of LFCI's financial position and results of operations; the delineation of the organizational attributes of LFCI and, in particular, the assessment of technical assistance needs for strengthening its financial and management practices; and the establishment of a framework from which a strategic plan for LFCI can be developed.

C. Scope and Methodology

In achieving the objectives of this engagement, Price Waterhouse performed an organizational and financial review of LFCI and investment projects in which LFCI is the majority equity holder, namely, Brasivoire, SIGHRES, and FAC, as of September 30, 1990. Further, we extended our evaluation of the financial results, which were presented by the management of each entity, back to 1989 so as to provide comparable financial results from the operations. Moreover, in order to assess the diversity of LFCI's past investment strategy, Price Waterhouse conducted a survey of the companies in which LFCI is a minority investor. Finally, we performed a survey of La Financière Internationale (LFI) to enable us to better understand the regional context of LFCI and the Financière network. Our surveys of LFI and of LFCI's minority holdings are not to be considered detailed evaluations and were performed to provide an overall strategic overview of the network of Financieres.

Price Waterhouse did not perform a financial audit of the financial statements of these business entities. Therefore, the financial statements included in the Appendix of this report are presentations of the management of each entity, and Price Waterhouse does not express an opinion on the fairness or accuracy of these. However, some adjustments were made to the financial statements to address those irregularities which came to our attention during our review.

D. Economic Overview

Côte d'Ivoire is categorized as a "Severely Indebted Middle-Income Economy" in the World Bank's 1990 World Development Report. In fact, according to the same World Bank report, the country's current account balance before office transfers increased from a negative $73 million in 1970, to a negative $1,335 million in 1988. Inflation, which is measured by the Consumer Price Index for Africans in Abidjan, increased at an average rate of 7.3% per year from 1985 to 1989. The higher than average population and urbanization growth rates have resulted in a growing problem of urban unemployment. In an attempt to address this situation, the government launched an unsuccessful campaign to persuade young people to return to rural areas.

Government decisions to reduce the cocoa producer price in 1989 paved the way for a fresh injection of funds from multilateral agencies and the rescheduling of official and commercial debts. Nevertheless, economic indicators predict an overall downturn in economic growth. Moreover, the persistent lack of availability of working capital from the formal local credit markets is a constant impediment to private entities such as LFCI and its investment projects in raising capital for financing of existing operations or expansion plans. In addition, the government has failed to meet its deadlines for the resumption of interest payments to international commercial creditors and the domestic banking system. This has reduced the likelihood that international commercial creditors will provide the capital that is required both for reviving the domestic banking system--which is in a virtual state of bankruptcy--and for financing government spending.

E. Overall Conclusion

Our financial and organizational review of LFCI and the projects in which it is the majority equity holder revealed several deficiencies with respect to the general management structure and the system of internal controls. The magnitude of these deficiencies is such that they may impair the ability of these entities to continue their operations. However, immediate and comprehensive reevaluation of the existing procedures and practices, would allow management to create a more solid, viable, and professionally managed institution. With good strategy and controls, such an institution could absorb additional resources, deploying them in existing or new investment projects. In the following sections of this report, we present an overview of the key areas where we believe immediate management attention is warranted.

1. Management Structure

In general, the management structures of LFCI and its subsidiaries are characterized by extreme centralization of decision making. Decisions are made at the highest levels, in the absence of formal policies and procedures, and middle management is practically non-existent. This has led to operational inefficiencies, as decisions are often not made in the absence of the chief executive. Another product of over-centralization is a general lack of accountability, exacerbated by the frequent lack of job descriptions or performance measures. Middle and lower levels of management have little motivation to accept responsibility, and performance suffers. The poor financial performance (as evidenced by the results of operations) of each entity we reviewed can be largely attributed to the ineffectiveness of management's administration of the day-to-day business affairs.

2. Management Expertise

LFCI has not developed the capacity to provide managerial expertise and training to the companies in which it invests or in which it holds a majority equity interest. The lack of management expertise could be partly due to LFCI's inability to identify and attract personnel with the required skills. LFCI has tended to provide financial support to these entities, but not provide the needed technical expertise in the areas of business planning, human resource development, systems development or internal financial controls. Successful venture investors must couple their financial investments with a strong contribution of business management skills.

3. Internal Control Structure

The internal control environment is also an area of major weakness. Existing structures fail, for example, to ensure that management's personal expenses are not absorbed by corporate financial resources. Formal operational procedures are generally lacking and, as a consequence, financial management activities are often conducted in an ad hoc fashion. In many cases, documentation of business transactions is wholly inadequate. The information system is ineffective due to unreliable original data. The statutory audits do not seem to be carried out in accordance with generally accepted accounting principles. The following is a brief overview of some of the issues that came to our attention:

- We were unable to obtain some of the financial statements which were reviewed by the statutory auditors for 1990. We had noted, however, that the 1989 financial statements which were audited by the Statutory Auditors contained gross errors and, as a result, were not usable.

- For some of the entities reviewed, we noted that income and employment taxes had not been accrued and/or paid to the government.

- Due to the lack of formal accounting policies and procedures, we noted that the majority of fixed asset and inventory values were inflated.

In general, management's lack of commitment to the establishment and enforcement of an adequate system of internal controls coupled with imprudent financial management practices has resulted in operating losses in the majority of the entities reviewed.

4. Financial Management and Viability

A review of the financial statements, included in the Appendix of this report, revealed a lack of profitability, liquidity, and hence, financial soundness, of LFCI and its investment projects. Revenues from sales and net income sharply decreased in 1990, as compared to 1989. This decline in net income is further exacerbated by a decrease in each entity's productive asset base, and an increase in their short-term obligations, creating a significant liquidity problem. In general, continuation of the business operations of each of the entities reviewed could be considered doubtful in the absence of serious austerity measures taken by management and injection of additional working capital.

Notwithstanding the macroeconomic factors that may adversely affect the operations of LFCI and its investment projects, the management of these entities should focus their attention on internal improvements which would increase the efficiency and effectiveness of their operations. Members of the management teams of some of the entities reviewed possess insufficient knowledge of cash management, planning, budgeting, collection procedures and other basic financial management tools. This lack of business skills could be the cause of the existing problems with profitability and liquidity, probably contributing significantly to the mediocre financial performance of the enterprises. Moreover, failure of management to comply with business and tax laws brings an avoidable element of risk to LFCI's activities.

F. Short-Term Action Plan

In light of the deficiencies identified, an action plan was designed by Price Waterhouse. This action plan will have to be endorsed and executed by LFCI, within the specified time frames, in order to establish an acceptable base from which Price Waterhouse can suggest further plans of action for strengthening the quality of operations of LFCI. In general, the plan is designed to address policy formulation and establishment of an acceptable financial reporting capacity by LFCI and some of the investment projects.

The main purpose of policy formulation is for the management of LFCI to start exploring methodologies by which they can improve the efficiency, effectiveness, and the legality of LFCI's operations and those of its existing and potential investment projects. The plan requires formulation of statements of policy regarding:

- Accounting principles;
- Investment project identification and evaluation criteria;
- Investment monitoring and support;
- Independent financial audits of LFCI and selected investment projects;
- Strategy for implementation and monitoring of system of internal control;
- Human resources analysis and training;
- Relationship of LFCI with investment projects and evaluation of their performance; and
- Definition of the role of FAC in providing accounting services and implementing controls.

(Further detail on each of these points can be found beginning on page 33.)

In addition to formulating policies in the above areas, LFCI should ensure the transfer of the general ledger maintenance function for Brasivoire from CIAC (present accountants of Brasivoire) to FAC as of October 1, 1991. Also, LFCI should accomplish complete automation of the accounting function by FAC for SIGHRES and LFCI by October 1, 1991.

The objective of transferring the accounting and financial reporting functions from other parties to FAC is to evaluate FAC's capabilities and also to prepare it for assuming its new responsibilities of producing reliable and timely financial statements. Further, implementation of the recommended plans will be an indicator of LFCI management's level of commitment to improving the quality of their operations through policy formulation and establishment of a solid system of internal controls.

I. INTRODUCTION

A. Background

Established in Abidjan in 1980, La Financière Côte d'Ivoire (LFCI) is a private investment company with the goal of mobilizing domestic savings and encouraging increased participation in the local private sector. The U.S. Agency for International Development (A.I.D.) has taken an interest in the organization because of its potential in promoting private enterprise in Africa and, in 1990, engaged Price Waterhouse to perform a financial and organizational review of LFCI. Due to the unavailability of the required financial information at the time of our review, we were unable to complete our evaluation of this entity's operations during our initial review. In 1991, the management of LFCI asserted that they had compiled the required financial data as of September 30, 1990, and that other pertinent information was available for a comprehensive review of their organization. Accordingly, A.I.D. renewed its engagement with Price Waterhouse to complete the task that had been initiated in 1990.

This report is the result of our financial and organizational review of LFCI and the other business entities in which it has majority investment holdings, i.e., Brasivoire, Societe Ivorienne de Gestions d'Hotel de Restaurants et de Spectacles (SIGHRES), and La Financière Assistance Conseil (FAC).

Adjusted financial statements for the companies reviewed are contained in the Appendix.

B. Objectives

The objectives of this financial and organizational review were to:

- determine LFCI's net asset (equity) position, which would, in turn, allow valuation of its shares;
- delineate the organizational attributes of LFCI in particular to assess technical assistance needs for strengthening the management structure; and
- establish a framework from which a strategic plan for LFCI could be developed.

C. Scope and Methodology

In achieving the objectives of this engagement, Price Waterhouse performed an organizational and financial review of LFCI, Brasivoire, SIGHRES, and FAC as of September 30, 1990. We extended our review of the financial statements, which were presented by the management of each entity, back to 1989 so as to provide comparable financial results from the operations. In order to assess the diversity of LFCI's past and ongoing investment strategies, we conducted a survey of both the companies in which LFCI is a minority investor, and those new enterprises which had not commenced operations as of September 30, 1990. Finally, we performed a survey of La Financière Internationale (LFI) to enable us to better understand the regional context of LFCI and the Financière network. Our surveys of LFI and of LFCI's minority holdings are not to be considered detailed evaluations.

Our review of the organizational and management structure of each entity consisted primarily of:

- delineation of the organizational management structure, of marketing and strategic plans, and of the general control environment through formal interviews with management;

- evaluation of organizational lines of reporting through study and analysis of job responsibilities; and

- identification and survey of customer groups, suppliers, and/or investors through review of management and financial reports.

Our review of the financial statements presented to us by the management of each entity included:

- delineation of the system of internal controls within each business entity through formal interviews and review of operating procedures;

- evaluation of the appropriateness of the accounting policies and procedures through interviews with management; and

- modification of some financial statement components through review and identification of departures from acceptable accounting practices.

Price Waterhouse did not perform a financial audit of the financial statements of these business entities. Therefore, the financial statements included in this report are presentations of the management of each entity, and Price Waterhouse does not express an opinion on the fairness or accuracy of these. However, adjustments were made to the financial statements in the case of irregularities that came to our attention during our interviews with management. The consent of each entity's management was obtained in cases where it was determined that the accounting principles utilized were incongruent with generally accepted accounting principles in Côte d'Ivoire and the international business arena. It should be noted, however, that the scope of Price Waterhouse's work was substantially less than a financial audit and therefore our methodology may not have identified all irregularities in the financial statements included in this report.

II. BACKGROUND

A. Macroeconomic Overview

In this section of our report, we present an overview of the general economic environment in Côte d'Ivoire in order to provide a framework for a more thorough understanding of LFCI and LFI's activities and goals. As these external macroeconomic factors will impact the operations of the entities under review, they should be considered in developing and evaluating future courses of action. The economic data used in this section were drawn primarily from reports by the World Bank and the African Development Bank.

1. Overview

During the first two decades following its independence, Côte d'Ivoire experienced a relatively high rate of economic growth. The gross domestic product (GDP) increased, in real terms, by an annual average of 11% in 1960-70, and 6.5% in 1970-80. During the early 1980s, however, the economy experienced a downturn, mainly due to a weakening in international prices for the country's major export commodities (i.e., coffee, cocoa, and timber) and the severe drought of 1982-84. GDP stagnated in Côte d'Ivoire in 1982 with further reductions of approximately 2% per year in 1983 and 1984.

Economic growth was resumed in 1985, with record harvests of cocoa and cotton coupled with an increase in coffee output to pre-1980 levels. This recovery was primarily due to more favorable weather conditions in the country, and higher world prices for most export commodities. Furthermore, during this time, the Government of Côte d'Ivoire was also able to execute rescheduling agreements with its international creditors, thereby effectively reducing the level of debt-service payments on the country's external debt. These conditions all contributed to an increase in GDP of approximately 4.9%, and 5.4% in 1986.

These improvements were short lived, however. The economy's sensitivity to developments in international markets for cocoa and coffee was revealed when the sharp fall in export prices for both commodities in 1987, and in prices for cocoa in 1988 and 1989, resulted in an estimated decline in GDP of 15% in the period 1987-89.

Côte d'Ivoire is categorized as a "Severely Indebted Middle-Income Economy" in the World Bank's 1990 World Development Report. In fact, according to the same report, the country's current account balance before office transfers increased from a negative $73 million in 1970, to a negative $1,335 in 1988. Inflation, which is measured by the Consumer Price Index for Africans in Abidjan, increased at an average rate of 7.3% per year from 1985 to 1989.

Côte d'Ivoire's rate of population growth, 4.2% per year, is one of the fastest in the world. By the end of 1988, the total population was estimated at 11.6 million. The rate of urbanization has been rapid (almost double the overall rate of population growth). Approximately 46% of the population resided in urban areas in 1984--more than double the proportion in 1960. Abidjan's population was thought to be 2.5 million in 1989, eight times its level twenty-five years earlier.

Another major source of population growth is the uncontrolled immigration of skilled and unskilled labor from less prosperous and politically unstable neighboring countries to urban areas; immigrants from Burkina Faso, Guinea, Mali, and Liberia constitute approximately one-quarter of the country's entire population.

The higher than average population and urbanization growth rates have resulted in the growing problem of urban unemployment. In an attempt to address this situation, the government launched an unsuccessful campaign to persuade young people to return to rural areas.

2. Agriculture

Despite attempts by the government to diversify, the Ivorian economy is still largely dependent on agriculture and related industries. Employing 60% of the labor force, the agricultural sector accounts for over one-quarter of GDP and about 75% of export earning.

More than one-half of Côte d'Ivoire's total export earnings is provided through sales of coffee and cocoa, the two principal cash crops. The cultivation and processing of coffee is the main source of income for about one-half of the Ivoirian population, or more than 2.5 million people. Production of cocoa doubled between 1970 and 1979, making Côte d'Ivoire the largest exporter in the world. The government has implemented a major replanting program, eliminating aging cultivation in the traditional cocoa belt in the south-east and developing it in the west, where rainfall is abundant. The recent shifts in world commodity prices, however, have badly affected the production of coffee as well as cocoa. Recognizing the vulnerability caused by Côte d'Ivoire's overeliance on these two cash crops and emphasizing the need for diversification in agricultural production, the government has encouraged the cultivation of sugar, cotton, rubber, bananas, palm oil, and coconut palm.

Since the 1960s, Côte d'Ivoire has been a major producer of palm oil, and since the mid-1970s there has been greater emphasis on the local processing of palm products. Cotton cultivation has also done particularly well in recent years: Côte d'Ivoire is now the third-largest producer in Africa, after Egypt and Sudan. The rubber industry has also achieved considerable success, and the government has ambitious plans to overtake Liberia as Africa's most important rubber producer by the end of the century.

Forestry has also contributed to agricultural diversification, though exports of wood and wood products have steadily fallen. A reforestation program has been initiated by the Government to promote the growth of this economic resource.

The diversification program has led to improved output of basic food crops (mainly rice, maize and manioc) and the country is now nearer to its long-term aim of self-sufficiency.

3. Manufacturing

The manufacturing sector, which accounted for 10% of GDP in 1987, was one of the most dynamic areas of the economy during the period of its most rapid growth. This sector is dominated by agro-industrial activities, the processing of cocoa, coffee, cotton, palm kernels, pineapples and fish. The tobacco industry, which uses imported tobacco, is also important.

Immediately after independence, the manufacturing sector was stimulated by the need to replace goods traditionally imported from Senegal, the manufacturing center for colonial French West Africa. In the first decade after independence, Côte d'Ivoire's manufacturing output expanded in real terms at an average rate of 11.6% per year, with growth easing to 5.4% per year in the following decade, after the main industrial opportunities had been exploited. However, this sector continues to be sustained by the high rate of growth of domestic demand, arising from the rapid increase in the country's population.

The major part of manufacturing output is accounted for by the processing of agricultural products. In the late 1980s, the emphasis of government policy shifted from import substitution to export promotion.

4. Mining

Mining contributed 1.5% of GDP in 1986. The exploitation of the country's petroleum resources has been hampered by technical difficulties and revenue from the extraction of petroleum has consequently failed to meet initial expectations. Diamonds are extracted by private companies. However, much of the production is said to be smuggled out of the country. Significant deposits of iron ore, copper, nickel, phosphates and cobalt remain unexploited.

5. Tourism

Tourism developed strongly in the 1970s, with a newly created ministry promoting diversification in location and in the types of visitors. This sector, although now less buoyant than in the 1970s, continues to make a significant contribution to Côte d'Ivoire's foreign exchange earnings.

6. Finance and Development

Budgetary spending has risen in parallel with economic growth to the extent that investment spending is largely financed by foreign borrowing. The deterioration in the economy during the early 1980s, and the associated decline in tax receipts, resulted in a series of austerity budgets, with total spending declining, in real terms, each year from 1982 onwards. Recruitment to the civil service was restricted and salaries for staff in parastatal bodies were reduced. The sharp fall in commodity prices in 1986 resulted in continuing fiscal austerity in 1987 and 1988, with investment spending scheduled to fall to 200,000 million CFA and 190,000 million CFA respectively. Current spending is slightly lower in real terms.

Despite this austerity, the fiscal deficit rose to 218,000 million FCFA in 1987 and to 412,000 FCFA in 1988. The growing deficit resulted from the decline in revenue due to reductions in international prices for Côte d'Ivoire's principal commodities, together with increased expenditure to compensate for those prices. In 1989, the government imposed a series of austerity measures, including a levy on income that was to have contributed to the repayment of the country's external debt, but it was forced to drop these measures in April 1990 due to strong public opinion.

7. Foreign Trade and Payments

Due to its very rapid economic growth during the period 1950-75, Côte d'Ivoire in past years had fewer problems with its balance of payments than was the case for most other African economies. Exports increased at a faster rate than GNP, with real expansion averaging 9% per year in 1962-75. Exports currently remain the largest contributor to the growth of GNP. The principal market for exports is the Netherlands (16.9%); other important markets include the United Kingdom, France, the USA, Germany, Nigeria and Japan. The main exports to these trading partners are cocoa, coffee, and their related products, as well as fuels and wood. Imports, the principal source of which is France (31.7%), are composed mainly of machinery and transport equipment, fuels, chemicals and cereals.

Côte d'Ivoire's balance of trade has always been in surplus because of the strength of its exports, particularly of coffee and cocoa. Production of both these crops has increased, except when weather conditions have been unfavorable. Surges in export earnings have occurred when world market prices for coffee and cocoa have been high. The boom in exports precipitated a record trade surplus of 99.646 billion FCFA in 1977. The trade surplus sharply declined in the late 1970s and early 1980s, however, as a result of the lower world prices for cocoa and coffee combined with the continuing rise in the value of imports, driven by rising prices of petroleum products and manufactured goods.

The external debt has escalated sharply since the beginning of the 1980s. At the end of 1988, it amounted to $14.125 billion FCFA, two-and-a-half times the level of 1980. Moreover, this was equivalent to 161% of annual GNP. The debt-service ratio has exceeded 40% of the value of exports of goods and services in almost every year since 1981.

The Government and the IMF agreed on an economic retrenchment program for Côte d'Ivoire which involved restraints on government spending and on foreign borrowing. In 1984, the Government's compliance with the program enabled it to negotiate a rescheduling of its foreign debt. The agreement covered $755 million in payments of debt interest and principal that were due to official creditors, and principal due to private creditors, for the period up to the end of 1985.

In 1986, despite a slight improvement in its payments position owing to a strong stock performance and a decline in both interest rates and the value of the dollar, the country negotiated and extended rescheduling of most of its commercial and official debts due in 1986-89. In May 1987, however, the government suspended all debt payments because of a sudden, substantial reduction in export earnings brought about as a result of the sharp decline in world prices for coffee and cocoa. In early 1988, a new agreement was finalized which rescheduled over a ten-year period all debt principal as well as 80% of interest due in 1987-88 to the thirteen major creditor countries in the "Paris Club." An agreement was also reached for the rescheduling, over fifteen years, of repayment due in 1988-95 on liabilities to 350 commercial bank creditors of the "London Club." However, the government failed to resume payments of interest, with the result that the supporting standby funding from the IMF was suspended.

In 1989, the government agreed to an 18-month economic adjustment and fiscal stabilization program devised by the IMF and the World Bank. Following this agreement, the country's official creditors rescheduled outstanding arrears over 14 years with an eight-year grace period. In mid-1990, President Mitterrand of France announced bilateral debt-relief measures for middle-income developing countries that had previously been excluded from relief on concessionary terms.

While Côte d'Ivoire, with its middle-income status, depends substantially on private commercial sources for external borrowings (more than two-fifth of public external debt is due to these agencies), it has received significant sums of aid. In 1983-87 official development assistance from non-communist countries and multilateral agencies averaged $184 million per year. The most significant development assistance in the recent past has been in the form of structural adjustment loans from the World Bank, with $150 million in 1981-83, $251 million in 1983-85, and $250 million in 1986-88.

The release of these loans has been linked to Côte d'Ivoire's implementation of reforms in the economic structure and to the imposition of fiscal austerity. With the economy still highly vulnerable to trends in commodity prices and the very substantial burden of external debt, Côte d'Ivoire is expected to maintain its cooperation with the World Bank and the IMF.

8. Outlook

President Houphouet-Boigny's decision in 1990 to finally cut the cocoa producer price paved the way for a fresh injection of funds from multilateral agencies as well as for the rescheduling of official and commercial debts. This step should ease the pressure on public finances and encourage some diversification of farm output. Nevertheless, given the gloomy outlook for cocoa and coffee prices on the world market, due in part to the prospect of continued bumper Ivorian harvests, the economy seems unlikely to improve significantly for several more years.

B. La Financière Internationale

In this section of the report we present a general overview of the role and organization of "La Financière Internationale" (LFI). The purpose of this overview is to highlight the organization, objectives, and capabilities of this entity, and to describe its relationship with LFCI in particular, and with the other West African Financières in general. It is important to note that LFI's ultimate objective is the promotion and support of entities similar to LFCI throughout West and Central Africa. The international Financière network is shown in Exhibit I.

1. Background

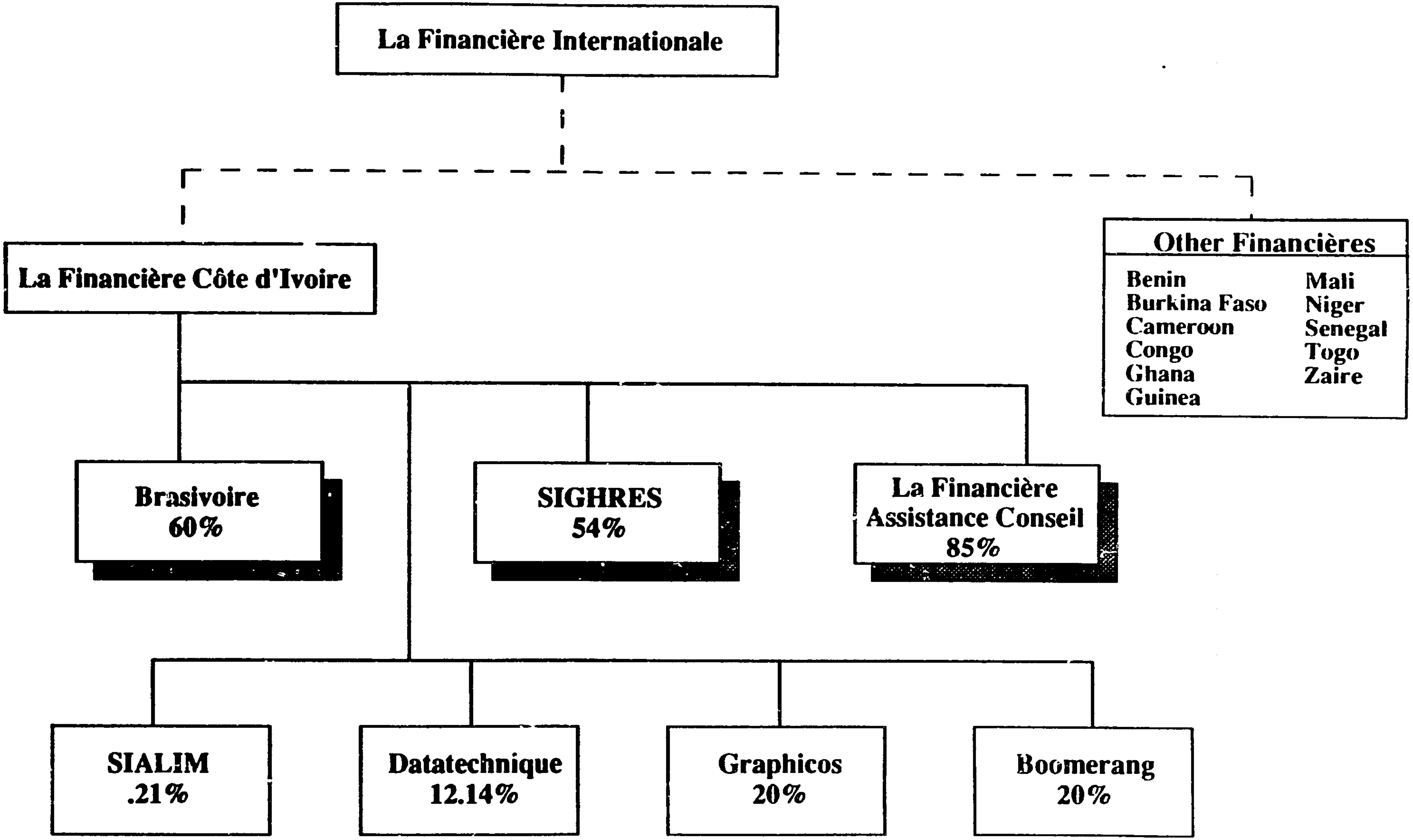
La Financière Internationale (LFI) is a non-governmental organization (NGO) established in May 1989 under the initiative of the national Financière organizations of Benin, Burkino Faso, Cameroon, Congo, Côte d'Ivoire, Ghana, Guinea, Mali, Niger, Senegal, Togo, and Zaire. The headquarters of the organization is located in Abidjan, Côte d'Ivoire.

The objectives of La Financière Internationale are :

- coordinate the activities of the member Financières, particularly their efforts to improve their operational efficiency;
- serve as a liaison among members by organizing conferences which facilitate the exchange of ideas;
- evaluate potential projects and promote investment opportunities on behalf of members;

Exhibit I

Universe of Financières



134

- mobilize international sources of financing for projects sponsored by one or more members; and

- formulate a reliable financial and economic database for the use of members.

2. Organizational Structure

LFI is headed by a General Assembly, which in turn is supported by an Executive Council and a Secretary General. The General Assembly meets on an ordinary or extraordinary basis and is the organizational unit responsible for achieving the entity's objectives. As such, the General Assembly is the deliberating body that is composed of the presidents of the national Financières, its members by right. Exhibit II depicts the organizational structure of La Financière Internationale.

The General Assembly is seconded in its deliberating task by the Executive Council, the body entrusted with implementing the decisions of the General Assembly. The Executive Council is made up of the presidents of the national Financières and is presided over by a president selected from its members for a period of one year.

Nominated by the Executive Council, the Secretary General is responsible for the daily management of La Financière Internationale's operations and the regulation of its expenditures.

3. Funding

La Financière Internationale receives subsidies from REDSO/WCA. Although these subsidies are not the main source of funding for the entity, they cover the organization's salaries, rent, equipment, and other costs/expenses. REDSO/WCA and AFR/MDI have cooperated in providing financial support and continued encouragement to LFI. USAID contacts with the President of the Executive Committee of LFI have been maintained by both REDSO and AFR/MDI representatives.

C. La Financière Côte d'Ivoire

1. Background

La Financière Côte d'Ivoire (LFCI) was established as a result of the founders' recognition of the need for new and innovative self-help initiatives in stimulating private sector development in Côte d'Ivoire. At the time of LFCI's formation, the overall business environment was not conducive to growth and promotion of private enterprises. The founders of LFCI identified the following hindrances to the growth of private enterprise in Côte d'Ivoire:

LA FINANCIERE INTERNATIONALE

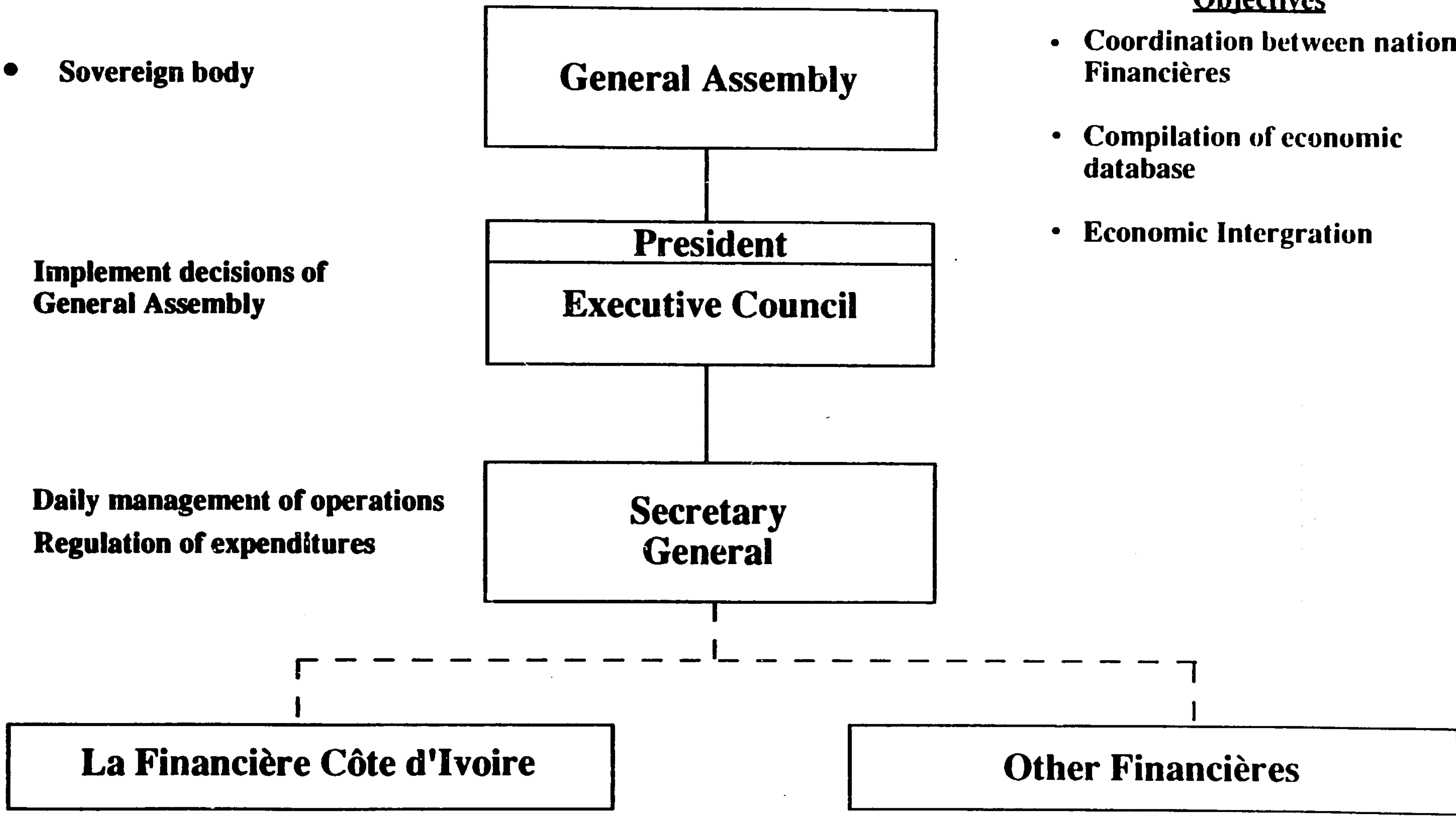
Exhibit II

Role

- **Sovereign body**
- **Implement decisions of General Assembly**
- **Daily management of operations**
- **Regulation of expenditures**

Objectives

- **Coordination between national Financières**
- **Compilation of economic database**
- **Economic Intergration**



- an increasingly unfavorable international, African and Ivorian macroeconomic environment;
- a need to promote private sector investment via mobilization of private savings;
- a recognition of the failure of the public sector to manage productive enterprises; and
- the inability of individual SME private sector entrepreneurs to obtain commercial bank credit, and the near collapse of government controlled development banks.

The founding members of La Financière were 200 professionals in positions of responsibility in such fields as economics, architecture and engineering, banking and insurance, private and public sector management, economics and public health.

2. Legal Format

La Financière Côte d'Ivoire was legally set up on December 19, 1981 as a "Société Anonyme" (S.A.) with an initial authorized capital of FCFA 10,000,000. On December 28, 1985, the authorized capital was increased to FCFA 500,000,000 and LFCI was transformed into a "Société Anonyme à Capital Variable." A "Société Anonyme à Capital Variable" operates exactly as a "Société Anonyme," except that the authorized capital can be increased over the years by decision of the company's management.

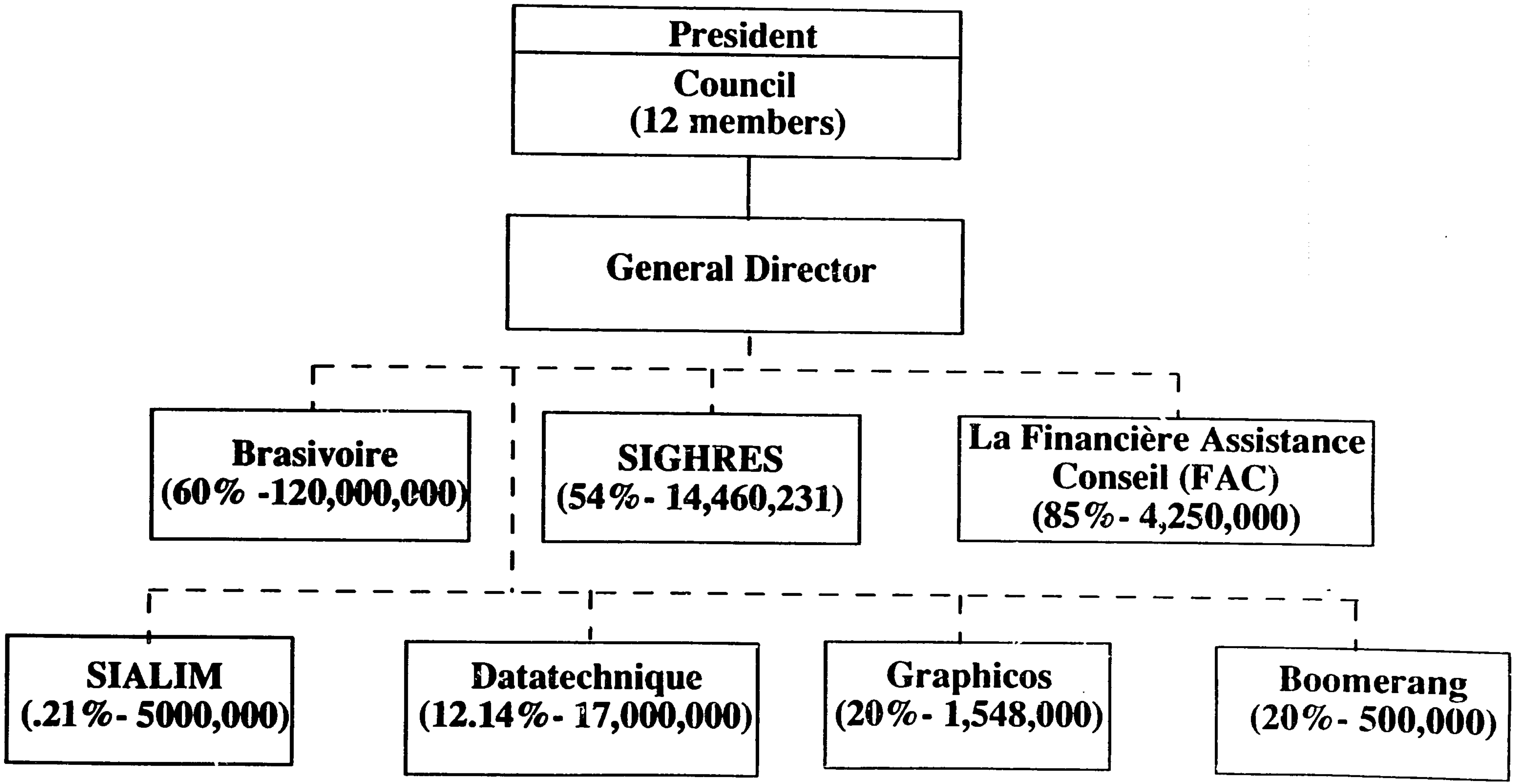
3. Objectives

According to the organization's articles of incorporation, the objectives of La Financière Côte d'Ivoire are to:

- study, research and set up of financial market studies;
- provide financial, legal and management consulting services to established companies;
- manage and organize companies;
- participate in the equity of companies with the same objectives; and
- operate in a broad range of activity areas from commercial and industrial sectors to the housing sector.

LA FINANCIERE COTE D'IVOIRE (LFCI)

Exhibit III



4. Organizational Structure

LFCI is administered by a Council composed of between three and twelve members chosen among the shareholders and nominated by the General Assembly of LFI. The Council is presided over by an elected President. This president is assisted by a general director, who is not required to be a member of the board of administrators. The organizational structure of LFCI is illustrated in Exhibit III.

5. Activities

By the end of 1987, La Financière Côte d'Ivoire had established its organizational structures and built up its investment fund through regular members contributions and fee income, developed a project investment review mechanisms and made investments in a number of new enterprises.

Today, LFCI's investment portfolio comprises ten companies, several of which were created entirely through LFCI's initiatives, and others which were pre-existing at the time of LFCI's investment. The following companies make up LFCI's current investment portfolio:

- Brasivoire
- La Financière Assistance Conseil (FAC)
- Pharmivoire
- La Financière Assurances et Services (FAS)
- Datatechnique
- SIGHRES
- SIALIM
- Graphicos
- Boomerang
- SILD

6. Donor Assistance

The Agency for International Development (A.I.D.) is aware of the serious need for private sector development in Côte d'Ivoire. A.I.D. believes that informal and/or cooperative mechanisms such as La Financière may currently be the only effective way of mobilizing savings and providing credit to micro, small and medium sized private sector venturers on a sustainable basis. Therefore, REDSO/WCA and AFR/MDI have cooperated in providing financial support and continuing encouragement to the leaders of LFCI. A.I.D.'s contacts with LFCI have been maintained by both REDSO/WCA and AFR/MDI representatives.

In addition, A.I.D. is in the process of considering a pilot program of assistance to encourage the growth and expansion of the Financière movement in West Africa. This assistance would be both financial and technical in nature.

7. Conclusion

The results of our organizational and financial review of LFCI revealed several areas where management's immediate attention is required. In general, weaknesses in the internal accounting and financial management control systems are pervasive throughout the organization. More specifically, lack of formal accounting and financial reporting policies and procedures had resulted in inappropriate disclosures in the statement of financial position and the statement of earnings. In addition, the existing centralized decision-making process at LFCI has resulted in this entity's inability to effectively monitor its investment projects to ensure the propriety of these projects' financial management and internal control practices.

We noted, for example, several instances where assets that did not belong to LFCI had been recorded on this entity's balance sheet. Further, other assets such as computer equipment and furniture and fixtures were recorded at market value, as opposed to at cost, and the difference between the cost and the market value of these assets was recorded as equity. This resulted in overstatement of both the entity's asset and equity position. The overstatement of equity was further accentuated by the problem of recording commission fees received from third parties as equity instead of as income.

Moreover, we noted that the process by which potential investments are identified and evaluated is informal and inadequate, resulting in LFCI's assumption of losses on several investment projects. For example, we noted that LFCI had made substantial investments in two projects that terminated their operations due to severe financial and operational difficulties shortly after incorporation. Additionally, we noted that none of the investment projects in which LFCI is a majority equity holder has paid any dividends to LFCI. In fact, not only have no dividends been generated by LFCI's investments, but the value of these investments has also deteriorated as the financial position of each investment project has consistently deteriorated over time.

Accordingly, LFCI has been unable to pay any dividends to its shareholders, whose funds were originally used to establish LFCI and make investments in other entities. Partly because of non-payment of dividends and partly because of lack of confidence in LFCI's ability to generate future revenues, approximately 20% of the subscribers have not paid the full value of their shares and are listed as delinquent subscribers.

In conclusion, if LFCI is to continue its operations and achieve its objectives, it is imperative that its management focus its attention on addressing some of the issues identified above.

D. Overview of LFCI Investment Projects

In this section, we provide an overview of the three companies in which LFCI holds majority equity: Brasivoire, SIGHRES and La Financière Assistance Conseil (FAC). In addition, because of its potential for future profits, we have included in this section a description of Datatechnique, in which LFCI holds 12.14% equity.

1. Brasivoire

a. Background

"Brasivoire" was founded as a result of a strengthening commercial relationship between a number of Brazilian companies involved in pioneering soy beans production in Côte d'Ivoire, and some private investors, notably LFCI. LFCI recognized the usefulness of extending the use of Brazilian agricultural technologies to improve the production of a wider range of agricultural commodities besides soybeans in Côte d'Ivoire. Brasivoire officially started its operations on January 21, 1986 as a "Société Anonyme" (S.A.).

b. Organization and Management Structure

Brasivoire is owned by LFCI (60%) and the Brazilian firm Procampo Participacoes e Emprendimentes Ltd (40%). The latter firm is the legal entity created by a number of Brazilian companies to coordinate their combined activities with Brasivoire.

Brasivoire is run by a board of directors in which both LFCI and Procampo are represented. The board develops operational guidelines and provides the company with overall direction and supervision. The President/Director General (PDG) is responsible for day-to-day management. The PDG is seconded in his managerial tasks by a Brazilian director who represents Procampo's interests and coordinates Brasivoire's activities with the Brazilian partners.

Brasivoire's staff is composed of an assistant to the director, a secretary, two salespersons, an accountant, a storekeeper, a mechanic, a driver/office clerk and a security guard. The overall organization and management structure of the firm is shown in Exhibit IV.

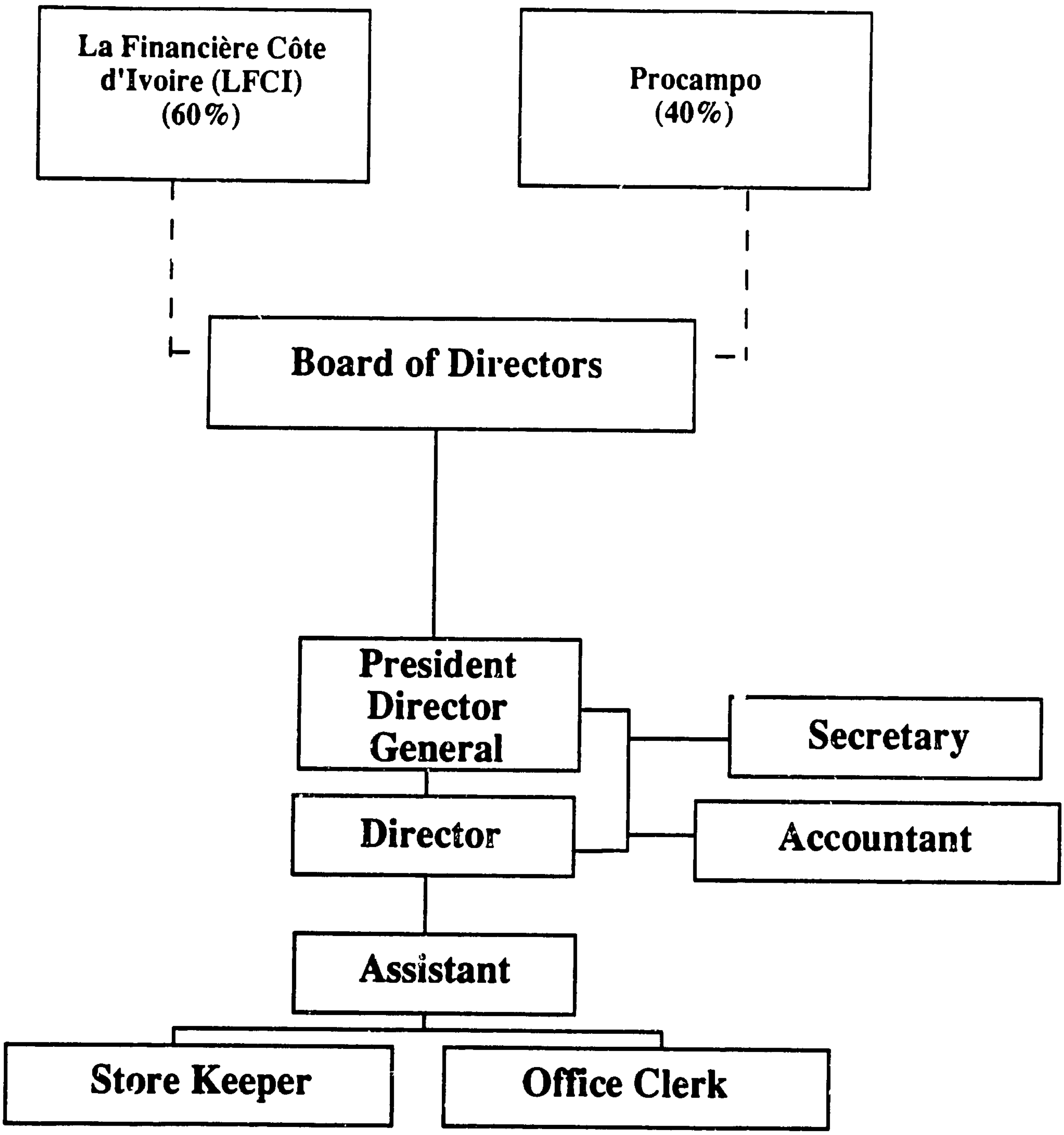
c. Activities

The original objectives of the founders of Brasivoire were:

- the import, export, purchase, resale and commercial representation of agricultural machinery, equipment and tools;

Exhibit IV

BRASIVOIRE



- the servicing and maintenance of this equipment; and

- the design and promotion of programs related to agricultural, livestock breeding, and industrial development.

To date, Brasivoire has largely confined itself to import and resale activities. It is attempting to establish a post-sale service and maintenance program but has not able to overcome logistical difficulties. Brasivoire also plans to provide technical assistance in the training of mechanics and final users of the equipment. The company has recently held discussions with research centers in Côte d'Ivoire, Brazil and other African countries on the development of technology transfer programs.

d. Business Environment

Brasivoire is one of several companies in Côte d'Ivoire that supply agricultural machinery, equipment and tools. Competitors include CFAO (Agence Centrale), SOGIAGRI, SOCIDA, DAFORCI, STOCKVIS, and lately JORY Afrique. These companies have close links with specific manufacturers for which they serve as local dealerships. Brasivoire enjoys a comparative advantage over this field of competitors, however, due to the equipment's low cost, suitability to the climate and appropriate technology level. (Brazil and Côte d'Ivoire have similar climates and rural educational levels.)

Brasivoire is involved in both direct sales activities and indirect sales activities.

- Direct sales activities: Direct sales activities have been defined as the process whereby the company actually purchases machinery equipment and tools from its Brazilian suppliers and operates its sales and other post-sales activities on the basis of the stock on hand. These direct sales are largely effected in Côte d'Ivoire. The biggest customers are the state run corporations such as SODESUCRE, followed by a large base of small private clients.

- Indirect sales activities: These sales do not involve a direct responsibility of Brasivoire. Brasivoire acts only as a commissioned sales agent by earning commission fees on every sales contract between its Brazilian suppliers and clients in West Africa. Until 1989, the indirect sales activities had represented the largest share of the sales revenue of Brasivoire, especially because of a large cooperation contract between the governments of Côte d'Ivoire and Brazil, financed largely by the latter government. However, by the end of 1989, this cooperation contract was brought to an end because of the harsh economic situation in Brazil. The contract's termination has considerably reduced the revenues of Brasivoire; new marketing strategies are being developed to address this problem.

e. Marketing strategies and future prospects

Following both the inevitable sharp decline in revenue after the termination of the Côte d'Ivoire-Brazil cooperation contract, and the cash flow difficulties resulting from the closure of Banco do Brazil, the banking institution that had provided Brasivoire with unlimited credit facilities, Brasivoire's management has adopted a new market approach. This approach has been described by one of the directors as follows:

- Develop a "just-in-time" sales tactic and require a 50% advance payment. This would address both the cash flow and the stock deterioration problems, since the pre-paid supplies would be forwarded to the customers immediately upon arrival of the goods.

- Strengthen links with international development and/or donor agencies so as to identify and win opportunities to supply machinery, equipment, tools and technical expertise for specific development projects.

- Undertake, especially through the Brazilian partners, case studies of specific development projects to educate donor and/or development agencies on the efficiency of specific technologies.

In the last six months, Brasivoire has successfully participated in numerous tender bids organized by international development agencies. These potential projects involve furnishing equipment to the research center IDESSA in Bouaké, Côte d'Ivoire and providing equipment and machinery to the public works management institution in Côte d'Ivoire with the financial support of the African Development Bank. Moreover, Brasivoire has entered into a joint venture with Sumitomo of Japan in which Brasivoire will act as a local partner in charge of promoting Sumitomo's products.

f. Conclusion

Our organizational and financial review of Brasivoire revealed a number of financial management and internal control weaknesses that require management's immediate attention. In general, we noted deficiencies in the areas of inventory valuation, collection of accounts receivable, accrual and payment of employment and value added taxes, and misclassification of income and expense items on the balance sheets.

More specifically, Brasivoire had recorded its entire inventory at a discounted sales price and not at cost. That is, inventory items were recorded at sales price in the inventory subsidiary system and the accountant would apply different discount rates, which were arbitrarily determined by the accountant, in different years to the total inventory balance before recording these in the balance sheet. This resulted in inaccurate computation of the variation in inventory, which is a component of the cost of materials sold and is used in determining the cost of materials sold and the gross margin on sales. Additionally, as the discount factors that were arbitrarily determined and applied against the inventory balances were very liberal, the inventory balance was also overstated in the balance sheet of Brasivoire.

Further, our evaluation of this entity's accounts receivable and the corresponding collection practices revealed that not only has the company not developed the appropriate reporting capability to be able to track its receivables, but it also has not developed a formal collection policy and procedures. All of these problems are exacerbated by inadequate guidelines as to absorption by the entity of non-business related expenses of the officers of Brasivoire. The statements of earnings do not specify and group these expenses as non-business related expenses which, in reality, should be considered as compensation to the recipient employees.

In summary, controls over transfer of funds through the entity's bank account, inventory valuation, recording of revenues and expenses, and accrual and payment of payroll, value added, and income taxes have to be either established or strengthened.

2. SIGHRES

a. Background

The "Société Ivorienne de Gestions d'Hotels, de Restaurants et de Spectacles" (SIGHRES) was set up as a "Société à responsabilité limitée" SARL with the main objective of setting up and/or managing such establishments as hotels, restaurants and entertainment centers, notably night clubs. SIGHRES assumed full operations in 1986. The company was set up when La Financière Côte d'Ivoire (LFCI) and three investors bought the "Hippopotamus" night club, which they subsequently renamed "Le Millionnaire." SIGHRES is planning to expand its operations through the addition of a restaurant and a bar. However, the source of funds for this expansion is not yet clear.

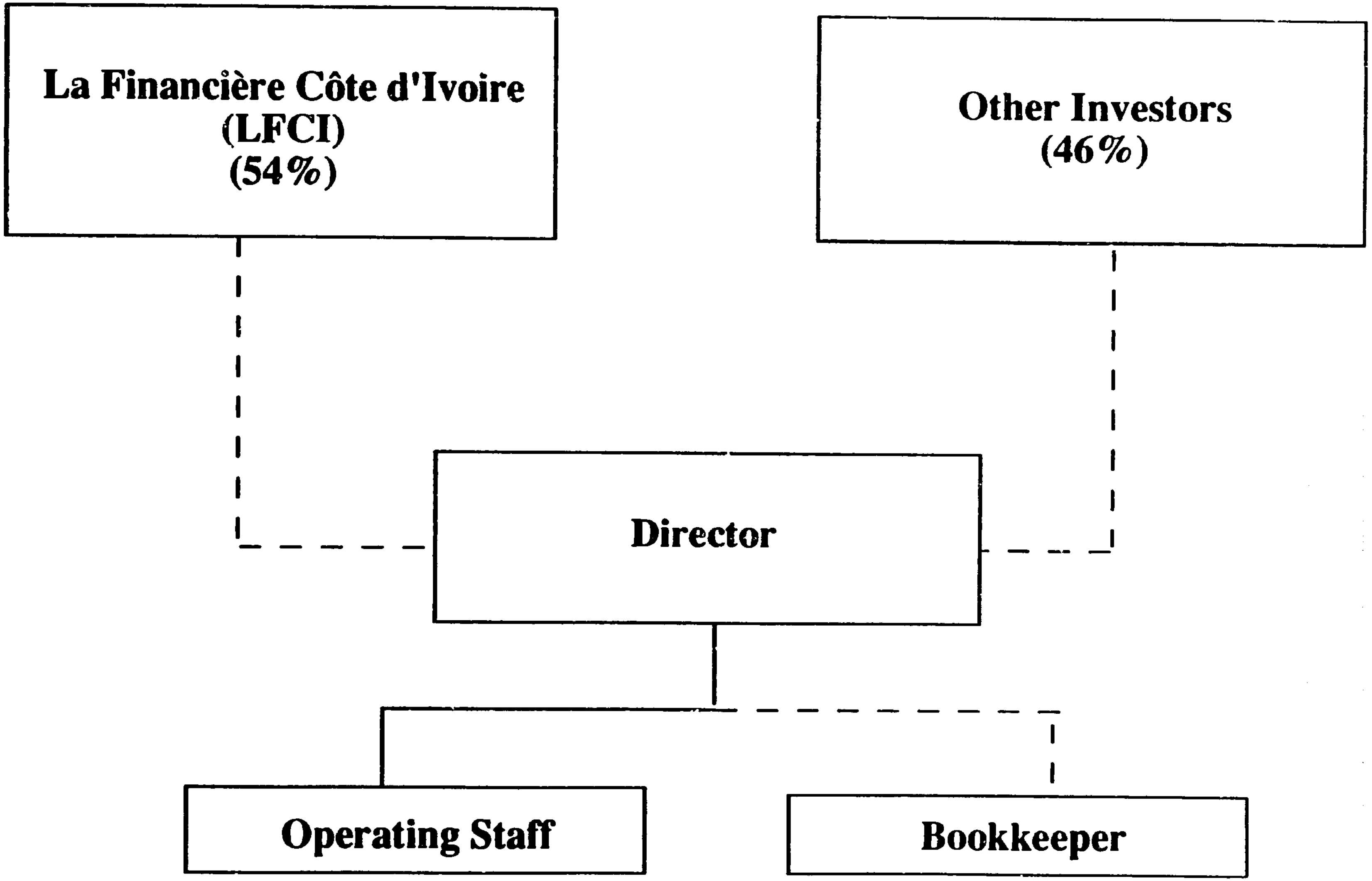
b. Organization and Management Structure

La Financière Côte d'Ivoire owns 54% of SIGHRES while the remaining three investors own 23.25%, 16.75% and 6%, respectively. SIGHRES is managed by one of LFCI's shareholders. Exhibit V portrays the management structure of SIGHRES.

c. Conclusion

The results of our organizational and financial review of SIGHRES revealed a number of internal control and management issues that will have to be addressed by management. The general system of internal controls is deemed inadequate in ensuring

SIGHRES


La Financière Côte d'Ivoire
(LFCI)
(54%)
Other Investors
(46%)
Director
Operating Staff
Bookkeeper

that all revenues are recorded in the financial statements and that all costs are incurred only for business-related reasons. Specifically, the nature of SIGHRES's business is such that most transactions are accomplished in cash, and therefore, a system of cash control is essential in ensuring that all cash collected is properly safeguarded, completely accounted for, and accurately recorded in the financial statements. Our review of SIGHRES's system of cash control revealed several deficiencies which may lead to mishandling of cash by the employees of the entity.

In addition, the accounting policies and procedures that were followed by management in formulating the original makeup of capital overstated the capital contributions by members. Since SIGHRES was originally purchased from a third party, the purchase price was recorded as an asset in addition to the individual assets that were transferred to the owners of SIGHRES at the time of the purchase. This had resulted in an overstatement of the assets and equity.

Although SIGHRES started full operations in 1986, the first year for which complete financial statements were prepared was 1989. The beginning retained earnings balance in the 1989 balance sheet was reported as zero, since management states that the entity had operated at a break even point for fiscal years 1986 through 1988. In addition, we noted that management had not depreciated the assets reflected on the books as of 1986. Therefore, the accumulated depreciation for the years 1986 through 1988 was adjusted against the retained earnings balance in the 1989 financial statements.

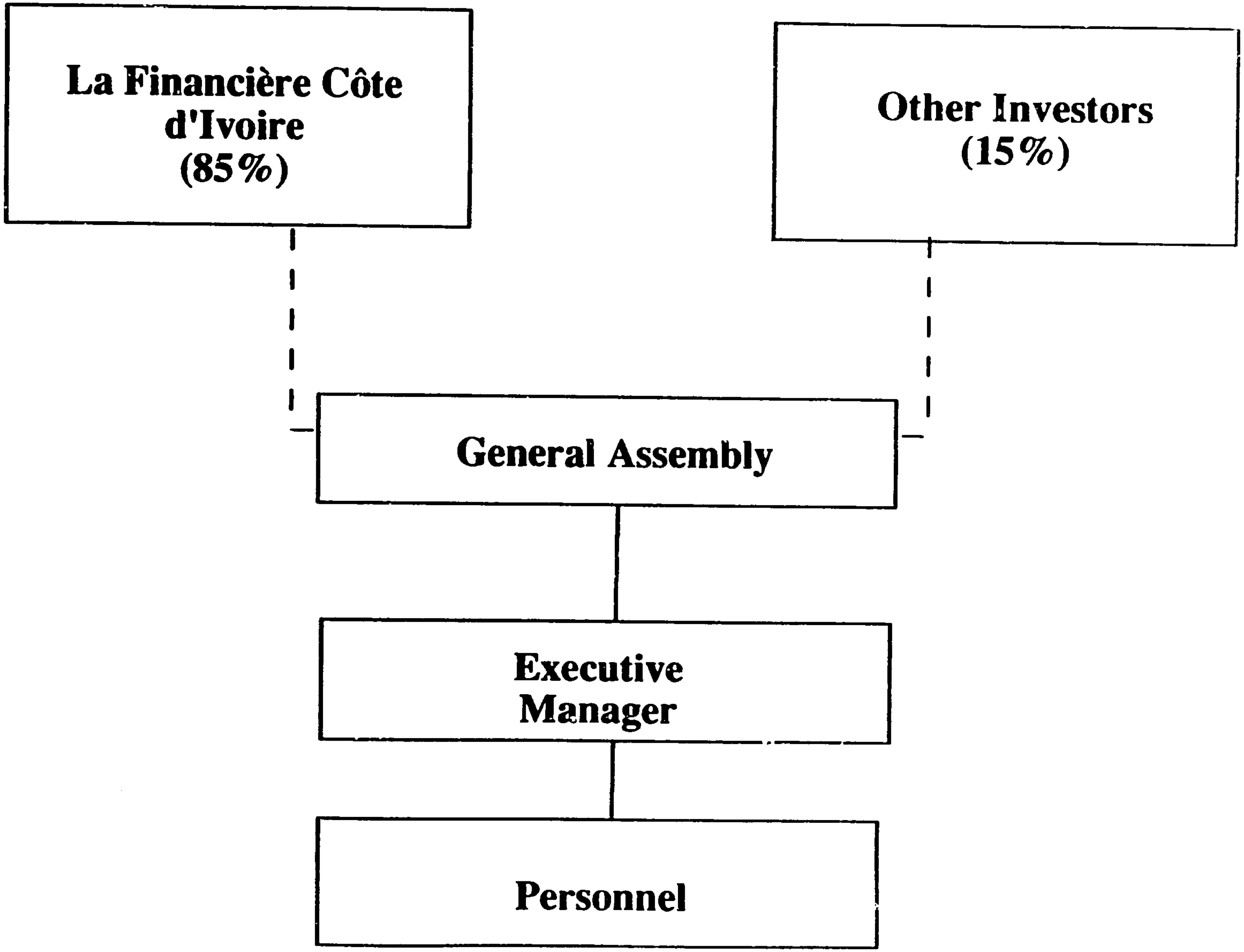
In summary, our general review of the organization and the financial results of operations revealed deficiencies that require immediate management attention and commitment. We believe that management's attention and ongoing commitment to some of the issues that have been raised herein is essential for the continued operations of this entity.

3. La Financière Assistance Conseil (FAC)

a. Background

"La Financière Assistance Conseil" (FAC) was purchased by LFCI in 1989 and set up as a "Société à responsabilité limitée" SARL on March 26, 1990. Although FAC started operations only in July of 1990, the entity has been in operation in Abidjan since the early 1970s. FAC performs accounting, financial and organizational and management consultancy services. Its future plans involve providing these services to all the companies in which LFCI obtains majority shareholdings or exercises management control.

LA FINANCIERE ASSISTANCE CONSEIL (FAC)



b. Organization and Management Structure

LFCI owns 85% of FAC, while the remaining four investors own 5%, 5%, 2.5% and 2.5%, respectively. Oversight is provided by a General Assembly which represents all the shareholders, i.e., LFCI and four other partners. Day-to-day management is the responsibility of the Executive Manager, who reports to the General Assembly. Other personnel include an accountant, a secretary, a computer clerk and a general duty clerk, all of whom report to the Executive Manager. Exhibit VI portrays the organizational structure of FAC.

c. Conclusion

In general, the operations of FAC do conform to general principles of internal control. The entity, however, has experienced a reduction in revenues since it was purchased by LFCI in 1989. The management of FAC and LFCI will have to determine the reasons for this loss in FAC's client base. If the loss in client base is attributed to unavailability of the level of expertise that an accounting and consulting practice similar to FAC should possess, then management should develop the means to acquire this expertise to ensure continued sustainability of the FAC.

4. <u>Datatechnique</u>

a. Background

Datatechnique was founded on December 11, 1979, and was awarded an exclusive right to distribute hardware, software and other products of Wang Laboratories. In addition to distribution activities, the company engages in:

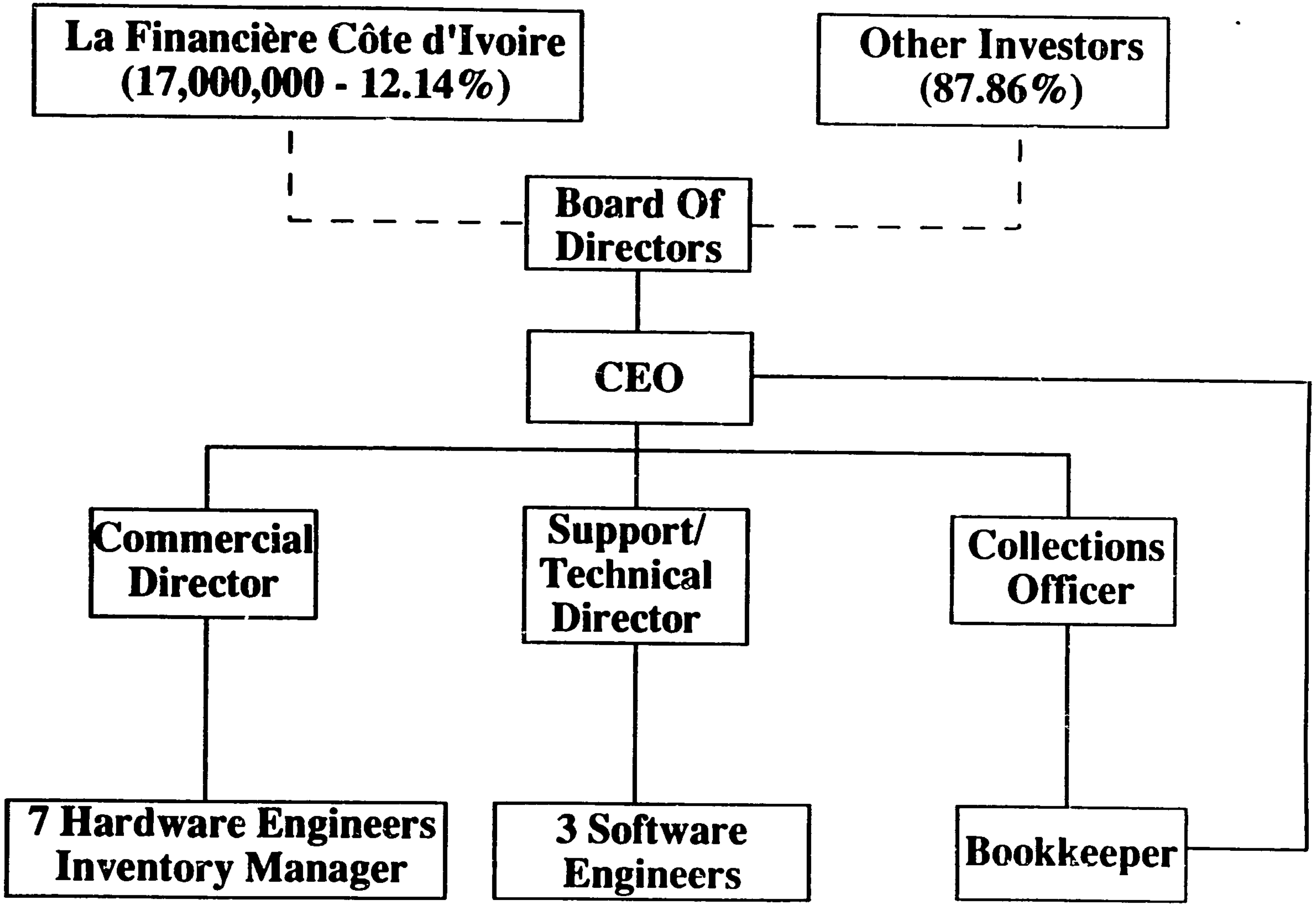
- the promotion, commercialization, installation and maintenance of hardware and software of Wang Laboratories;

- the development and maintenance of application software on mini and personal computers produced by Wang;

- the training of users on Wang hardware and other products.

Datatechnique has customers in virtually all industries from public administration, universities, banks, insurance, agriculture to textile and manufacturing companies. However, the most notable customers are the African Development Bank and the U.S. Agency for Development's offices in Abidjan.

DATATECHNIQUE



b. Organization and Management Structure

Due to the general downturn in the computer hardware/software sector, Datatechnique's trading position worsened considerably by early 1990. In order to revitalize the company, a new CEO was hired and one of the investors injected considerable amounts of capital into Datatechnique through his own company, GILGAL International Corporation. Originally, the company's capital had been valuated at FCFA 175 million. However, in 1990, a devaluation of the company's shares was agreed upon by the board of directors. The devaluation reduced the total share value of the corporation to FCFA 145 million.

Datatechnique is governed by a board of directors. Overall management is provided a CEO who is supported by a Commercial Director, a Support/Technical Director and a Collections Officer. Other personnel include seven hardware engineers, three software engineers, an inventory manager and a bookkeeper. Exhibit VII presents the organizational structure of Datatechnique.

c. Conclusion

With the arrival of GILGAL International Corporation's interest in the company, a major rationalization of Datatechnique was effected, and over half the employees were laid-off, leaving a total personnel of fifteen, including nine engineers. The GILGAL corporation has guaranteed all bank credit of the company, and with a strong existing client list, including ADB, USAID and the Caisse d'Amortissement, Datatechnique's future prospects appear promising.

We did not perform a financial review of Datatechnique as part of this engagement, since LFCI is not the majority equity holder in this entity. However, we held extensive interviews with personnel from all organizational levels to determine the scope of Datatechnique's operations. In general, the entity's system of internal control does not seem to be operating adequately to ensure that only business-related costs are absorbed by Datatechnique, that aggressive collection procedures exist to maximize turnover of receivables, and that all financial transactions are properly recorded and reported on the financial statements.

Further, Datatechnique appears to be experiencing a liquidity problem in terms of meeting its short-term financial obligations. In general, the entity has excellent potential, both in terms of the expertise of its technical staff that is not being fully utilized and a competitive advantage in being the official representatives of WANG in the country. As mentioned earlier, the African Development Bank and USAID are two of Datatechnique's major clients that have not been fully explored in terms of the range of services that Datatechnique could offer to them.

In summary, based on our observations, the investors of Datatechnique should determine the reasons for the financial difficulties that the entity is currently experiencing. Subsequently, the management of Datatechnique should be evaluated and suggestions should be made as to how the entity's difficulties could be resolved.

E. Other Existing Investments and Future Projects

In this section we provide brief descriptions of LFCI's investments which (a) represented less than 50% ownership by LFCI and/or (b) were not in full operation as of September 30, 1990. It should be emphasized that we did not conduct a thorough review of the entities described below and that, as these operations had no financial data available for review, the information included here is entirely as presented by the management. We did not attempt to assess the propriety of internal controls, management structure or any other aspect of the operations of these entities. The following information has been included in this report in order to provide a more complete picture of LFCI's overall investment portfolio.

1. Graphicos

The objectives of "Graphicos" are to undertake, directly and indirectly, in all countries and specifically in Côte d'Ivoire, the following activities:

- manufacture and commercialization of lead and cosmetic pencils;
- importation and purchase of all raw materials necessary for this industry; and
- manufacture, sale, importation, exportation and representation of school and office equipment.

Graphicos has not started full operations and has been in the organizational development stage since 1986.

2. Boomerang

The objectives of "Boomerang" are to undertake, directly and indirectly, in all countries and specifically in Côte d'Ivoire, the following activities:

- manufacture, importation, exportation, representation, purchase, sale and commercialization of all finished or semi-finished wood products, especially furniture; and
- investment in all Ivorian businesses dealing in the same field.

Boomerang has not started full operations and has been in the organizational development stage since 1985.

3. SIALIM

"La Société des Industries Alimentaires et des Produits Laitiers" (SIALIM), formed on the 19th of April 1985, was created to manufacture and distribute dairy products in Côte d'Ivoire. From April 1985 to May 1989, the activities of SIALIM consisted mainly of the planning and construction of the factory, as well as the search for financing. La Financière Côte d'Ivoire was instrumental in mobilizing financing resources for this business entity. Production started officially in June 1989. In order to diversify its products, SIALIM has also engaged in the distribution of orange and pineapple juice.

SIALIM's eleven-member board of directors develops operational guidelines and provides the company with overall direction and supervision. The President/Director General (PDG) is responsible for day-to-day management. LFCI owns a .21% equity stake in the enterprise.

Our discussions with management have revealed that SIALIM is currently facing cash flow and liquidity problems. Management is trying to develop a strategy to meet short-term cash needs.

4. SILD

"La Société Ivorienne de Levure et de Distillerie" (SILD) was officially set up on June 21, 1989 as a "Société Anonyme" (S.A.) with the objectives of studying, constructing and operating a yeast production factory and to commercialize the production of yeast for pastry, bakery or distillery purposes.

SILD is still conducting feasibility studies and attempting to raise capital for the enterprise. According to management, several international development institutions, including BOAD (West African Development Bank) and CEDI (European Center for Industrial Development) have expressed interested in financing components of the project. In October of 1990, SILD was officially granted the status of "Priority Enterprise." This designation qualifies SILD for various tax rebates and should help give the venture a comparative cost advantage.

SILD is headed by a four-member board of directors. The board has overall supervisory authority and is in charge of devising the general operational guidelines of the company. Day-to-day management is performed by the CEO, and, secondarily, by a coordinator. The coordinator, a chemical engineer, will assume technical and managerial functions once SILD commences operations.

5. Pharmivoire

Pharmivoire is involved in the research, production and sale of injectable pharmaceutical solutions in Côte d'Ivoire. The company was founded by Professor Yapo Abbe, Dean of the Faculty of Pharmacology at the University of Abidjan. A pre-investment study was completed in 1986. The conclusions of the study were favorable but implementation was delayed by the need to raise capital. In 1988, the African Project Development Facility (APDF) was asked to reexamine the parameters of the project and to assist in identifying and securing sources of finance. Market and feasibility studies were carried out by two consultancy firms. In 1988, Professor Abbe established "Pharmivoire" S.A. to execute the project.

BIOLUZ, a French subsidiary of a Swiss pharmaceutical company, is a technical partner and has agreed to furnish all required technology to this enterprise. Satisfying about 10 percent of the French market for intravenous solutions, BIOLUZ has developed a continuous production process using standardized modules of equipment. The solutions are packaged in PCV pouches which would provide greater security for the patient (by eliminating air contamination). The pouches are lighter than bottles, and unbreakable, reducing production and transportation costs.

The Pharmivoire factory is designed to produce approximately 1.2 million doses, or some 600,000 liters, of solution per year. Both technical and administrative staff are recruited locally; total staff is envisioned at 29 employees. The total cost of the project is estimated at FCFA 509 million (US$196,000), with an anticipated internal financial rate of return of 20 percent. Economically, this project should lessen the country's imports of pharmaceuticals, most of which come from Europe, resulting in a savings in foreign exchange anticipated at FCFA 300 million at peak production , most of which now come from Europe. The project will also bring about a transfer of technology which could stimulate the development of a more diversified pharmaceutical industry in Côte d'Ivoire.

Equity capital for Pharmivoire has been raised from 80 members of the pharmaceutical sector in Côte d'Ivoire (mostly owners of drugstores and importers of pharmaceuticals). LFCI owns 8.75% of the company, while "Les Pharmaciens Privés Ivoriens" owns 51.5%, BIOLUZ owns 20%, PROPARCO owns 18,75%, and the remaining, 0.85%, is owned by two private investors.

Pharmivoire started full operations in June 1991.

6. La Financière Assurances et Services (FAS)

"La Financière Assurances Services" (FAS) was set up as a "Société à responsabilité limitée" SARL for the purpose of the documentation of advice and the sale of various types of insurance policies. The company was formed on June 15, 1990 when La Financière Côte d'Ivoire and four of its members purchased a controlling interest in the "Ivorienne Courtage d'Assurances et de Réassurances" (ICARE). ICARE had been in existence since 1985 but at the time of the takeover was experiencing difficulties. ICARE had government authority to write all types of insurance contracts, including fire and accident insurance.

Prior to the formation of FAS, LFCI had been acting as a broker for L'Union Africaine and had a strong client base, including SIALIM, Brasivoire, SIGHRES and individual members of LFCI. Since its incorporation, FAS has actively sought and won the business of all of the enterprises in which LFCI has a significant investment holding.

FAS has a two-year plan to set up a sickness insurance union comprising not only all the employees of the companies largely owned by LFCI but also the 4000 employees of the recently privatized National Telecommunication company, CITECCOM, as well as 2000 high school teachers who are dissatisfied with the current policy subscribed to by their union. Should this plan materialize, FAS intends to become a full fledged insurance company.

FAS is headed by a General Assembly and managed and administered by a managing partner. Other personnel include two salespersons and a secretary who report to the managing partner.

LFCI owns 45% of FAS while the remaining five investors own 35%, 5%, 5%, 5% and 5% respectively.

7. SCORE

SCORE, a chain of supermarkets, was purchased very recently by a group of investors which included LFCI. A joint venture was formed between LFCI and two groups from Belgium, EPC (Economie Populaire de Ciney) and DELHAIZE.

SCORE caters to the more affluent segments of Ivoirian society. After the restructuring of operations, management has indicated its intention to lower its prices and to offer discounts on sales of merchandise and produce to members of LFCI.

The group of investors is planning the creation of two separate companies for the takeover of SCORE:

- UNICO-CI (Union Commerciale Coopérative en Afrique - Côte d'Ivoire), which will be responsible for the purchase, manufacture, sale and distribution of merchandise. The social capital of UNICO-CI is 500,000,000 FCFA. The principal shareholders are:

- LFCI 25%
- EPC 25%
- DELHAIZE 25%
- Société de participation 25%

- FINIMO (Financière Immobilière), which will be responsible for the acquisition, maintenance and administration of the buildings and supermarkets. The social capital of FINIMO is 1,500,000,000 FCFA. The principal shareholders are:

  - LFCI 51%
  - Group Insurance Companies 49%

III. OBJECTIVES AND STRATEGY

A. Objectives

The original objective of La Financière Côte d'Ivoire (LFCI) was to put together human resources and financial contributions by private investors in order to place investments in a liberal economy. Today, this remains the basic aim of LFCI as well as of the other national Financières of La Financière Internationale. However, the objectives have evolved and need to be redefined in a medium and long term perspective. The new objectives of LFCI can be defined as follows:

- to mobilize human resources in a cooperative organization;
- to mobilize private domestic savings through investment in new or ongoing projects in order to benefit from dividends and/or capital gains; and
- to enhance access to bank credit for selected private enterprises.

B. Strategy for Achieving Objectives

In general, LFCI's current strategy for achieving the above objectives is based on the principle that the Financière network should expand rapidly into as many African countries as possible, thus attracting the attention of large institutional investors and international development agencies. More specifically, LFCI is aiming to establish a savings and short-term credit fund and an investment fund. These funds are envisioned as follows.

1. Savings and Short-Term Credit Fund

This fund would be a source of short-term credit for members of LFCI, leveraging private domestic savings as an alternative to obtaining scarce bank financing.

The capital in this fund would come from four sources:

- from a blocked deposit fund, proportional to the shares of each member;
- from an imposed minimum savings contribution from each member;
- from current and future deposits; and
- from loans given by international aid organizations.

The interest rates used would allow for a small profit margin which will contribute to the financial stability of LFCI.

2. Investment Fund

The purpose of this fund would be to establish a self-sustaining revolving capital fund. Sources of cash for this fund would consist primarily of initial capital contributions by investors, and subsequent capital gains and corporate profits from the investment projects. The outflows of cash from this fund would consist of investments in private enterprises, any future losses associated with these and repayment of principal and returns to contributors of original capital.

IV. ENGAGEMENT CONCLUSIONS AND REQUIRED PLAN OF ACTION

In this section of our report we present a general discussion of the results of our organizational and financial review. In general, our organizational review identified problems in three interrelated areas: management structure, internal control structure and financial soundness.

Further, in this section of the report we present a short-term action plan. This action plan will have to be endorsed and executed by LFCI in order to establish an acceptable base from which Price Waterhouse can suggest further plans of action and pursue long-term objectives of this engagement. The plan involves policy formulation, financial reporting milestones and automation of the accounting function.

A. Organizational Review Results

1. Management Structure

In general, the management structures of LFCI and its subsidiaries are characterized by extreme centralization of decision making. Decisions are made at the highest levels, in the absence of formal policies and procedures, and middle management is practically non-existent. This has led to operational inefficiencies, as in the absence of the chief executive decisions are often not made. Another product of over-centralization is a general lack of accountability, exacerbated by the frequent lack of job descriptions or performance measures. Middle and lower levels of management have little motivation to accept responsibility, and performance suffers. The poor financial performance (as evidenced by the results of operations) of each entity we reviewed can be largely attributed to the ineffectiveness of management's administration of the day-to-day business affairs.

2. Management Expertise

LFCI has not developed the capacity to provide managerial expertise and training to the companies in which it invests or in which it holds a majority equity interest. This absence of management expertise could be partly due to its inability to identify and attract the appropriate personnel with the required skills. It has tended to provide financial support to these entities, but not provide the needed technical expertise in the areas of business planning, human resource development, systems development or internal financial controls. Successful venture investors must couple their financial investments with a strong contribution of business management skills.

3. Internal Control Structure

The internal control environment is also an area of major weakness. Existing structures fail, for example, to ensure that management's personal expenses are not absorbed by corporate financial resources and to prevent the absorption by the companies of the personal expenses of management. Formal operational p ocedures are generally lacking and, as a consequence, financial management activities are often conducted in an ad hoc fashion. In many cases, documentation of business transactions is wholly inadequate. The unreliable nature of much of the original data has rendered the information systems--which are generally satisfactory--ineffective. The inaccuracy of the financial statements prepared and distributed by management is further aggravated by audits that are performed by Statutory Auditors whose judgment and practices do not result in the presentation of reliable financial statements.

More specifically, during the course of our review of the financial statements of LFCI and the companies in which it holds majority interest, we noted a number of departures from generally accepted accounting standards as well as other deficiencies. The following is a brief overview of some of the issues that came to our attention:

- We were unable to obtain some of the financial statements which were reviewed by the statutory auditors for 1990. The unavailability of these statements 10 months after the end of the fiscal year is an indication of management lack of commitment to obtaining timely financial reports. We had noted, however, that the 1989 financial statements which were audited by the Statutory Auditors contained gross errors and, as a result, were not usable.

- For some of the entities reviewed, we noted that income and employment taxes had not been accrued and/or paid to the government.

- As mentioned earlier, in the absence of formal accounting policies and procedures, we noted that the majority of fixed asset and inventory values were inflated.

In general, management's lack of commitment to the establishment and enforcement of an adequate system of internal controls coupled with imprudent financial management practices has resulted in operating losses in the majority of the entities reviewed.

4. Financial Management and Viability

A review of the financial statements included in the Appendix of this report will reveal the lack of profitability, liquidity, and hence, financial soundness, of LFCI and its investment projects. Revenues from sales and net income sharply decreased in 1990, as compared to 1989. This decline in net income is further exacerbated by a decrease in each entity's productive asset base, and an increase in their short-term obligations, creating a significant liquidity problem. In general, continuation of the business operations of each of the entities reviewed could be considered doubtful in the absence of serious austerity measures taken by management and injection of additional working capital.

As for the external, hence uncontrollable factors, our overview of the general economic environment in Côte d'Ivoire reveals signs of an overall downturn in general economic activity and growth. Moreover, the persistent lack of availability of working capital from the formal local credit markets is a constant impediment to private entities such as LFCI and its investment projects in raising capital for financing of existing operations or expansion plans. In addition, the government has failed to meet its deadlines for the resumption of interest payments to international commercial creditors and the domestic banking system. This has reduced the likelihood that international commercial creditors will provide the capital that is required both for reviving the domestic banking system and for financing government spending.

Notwithstanding the macroeconomic factors that may adversely affect the operations of LFCI and its investment projects, the management of these entities should focus their attention on internal improvements which would increase the efficiency and effectiveness of their operations. Members of the management teams of some of the entities reviewed possess insufficient knowledge of cash management, planning, budgeting, collection procedures and other basic financial management tools. This lack of business skills could be the cause of the existing problems with profitability and liquidity, probably contributing significantly to the mediocre financial performance of the enterprises. Moreover, failure of management to comply with business and tax laws brings an avoidable element of risk to LFCI's activities.

B. Short-Term Action Plan

The following action plan was designed by Price Waterhouse and will have to be endorsed and executed by LFCI, within the specified time frames, in order to establish an acceptable base from which Price Waterhouse can suggest further plans of action and pursue long-term objectives of this engagement. The plan involves policy formulation, financial reporting milestones, and automation of the accounting function.

1. Policy Formulation

The main purpose of policy formulation is for the management of LFCI to start exploring methodologies by which they can improve the efficiency, effectiveness, and the legality of LFCI and its existing and potential investment projects.

a. Accounting Principles

A statement of policy regarding accounting principles should be established by LFCI and approved by its Board of Directors. It should be distributed and endorsed by all entities in which LFCI is a majority holder of equity. Accounting principles are defined as a set of guidelines that will result in objective measurement of economic activities of the enterprise. A copy of this statement should be forwarded to Price Waterhouse, Washington D.C., by September 30, 1991. The specific accounting principles that need to be defined and adhered to are:

- Revenues and Expenditures: Revenues should be realized and recognized (recorded in the financial statements) when services have been rendered or consideration (cash or a promise to make payment) has been received. Expenditures are recognized as incurred and are appropriately recorded for the right amount. Only revenues and expenditures directly identifiable with the operations of each business entity should be assumed or recognized by, and recorded in the financial statements of, each business entity. Management's personal earnings or expenditures should not be commingled with those of the business entity's.

- Assets (Historical Cost) and Liabilities (Determination and Accrual): All assets must be recorded at cost and not market value. In addition, assets should be periodically evaluated to establish the appropriate reserves to reflect their net realizable value. Liabilities should be recorded when expenses have been incurred, regardless of whether the entity has the cash resources to liquidate the liability. This includes accrual of employee withholdings, employer payroll taxes, value added tax withholdings, etc.

- Intercompany and Related Party Transactions: All borrowing and lending activities between business entities have to be for valid business, not personal, reasons. In addition, all such transactions have to be fully disclosed in the financial statements, and substantiated by supporting documents from independent sources.

b. Investment Identification and Evaluation Criteria

LFCI should establish framework principles which will guide formulation of the procedures to be followed by it in identification and evaluation of potential investments, i.e., formal process of investment analysis. A copy of the framework principles should be forwarded to Price Waterhouse, Washington D.C., by September 30, 1991.

c. Investment Monitoring Policies

LFCI should establish a framework for monitoring the investment projects in LFCI's portfolio. A copy of the proposed framework should be forwarded to Price Waterhouse, Washington D.C., by September 30, 1991.

d. Independent Financial Audits

LFCI should formulate a statement specifying the requirement for independent financial audits of entities in which LFCI holds majority equity interest (not statutory audits). A copy of this statement should be forwarded to Price Waterhouse, Washington D.C., by September 30, 1991.

e. Statement of Strategy for Implementation of System of Internal Control

Management should prepare a statement of strategy regarding implementation of a system of financial control for LFCI and the investment projects in which it is the majority equity holder. The main purpose of this system of internal controls will be to safeguard assets and to ensure efficient and effective use of resources. A copy of this statement should be forwarded to Price Waterhouse, Washington D.C., by September 30, 1991. In general, the two questions that should be addressed by LFCI in preparation of this statement are as follows:

- How is LFCI planning on implementing the system of internal controls that will be developed in cooperation with Price Waterhouse?
- How will LFCI ensure compliance with this system of internal control on an ongoing basis?

f. Relationship Definition and Performance Evaluation

LFCI should prepare a statement of policy regarding the relationship between LFCI and the investment projects regarding criteria for performance and monitoring (i.e., reports to be received from these projects in which LFCI has invested on a periodic basis). A copy of this statement of policy should be forwarded to Price Waterhouse, Washington D.C., by September 30, 1991.

g. Definition of the Role of FAC

LFCI should delineate the role that FAC will have to assume in the future in strengthening the quality of operations of LFCI and its investment projects, in a formal strategy document. In addition, LFCI should evaluate FAC's capacity to fulfill its goal.

Based on preliminary discussions, the following are some of the responsibilities that will be assigned to FAC:

- Receiving raw accounting data from each investment project in which LFCI is the majority holder of equity, determining the accuracy of data received, and maintaining the general ledger for each of these investment projects;

- Analysis of the financial position of each investment project and preparation of financial management reports for use by the management of each entity, including that of LFCI;

- Preparation of financial statements; and

- Evaluation of existing or implementation of new accounting systems for new investment projects.

LFCI should evaluate the capabilities of FAC to determine the adequacy of the skill base that is available for assuming the foregoing responsibilities. A copy of this statement of policy should be forwarded to Price Waterhouse, Washington D.C., by September 30, 1991.

2. <u>Automation of Financial Reporting Function</u>

The following is a detailed listing of actions that will also need to be completed by LFCI by the specified deadlines.

a. Financial Reporting - Brasivoire

The following are the milestones that must be met by LFCI with respect to financial reporting.

- Parallel transfer of the general ledger maintenance function from certain investment projects in which LFCI has majority equity interest to FAC. Transfer the general ledger maintenance function for Brasivoire from CIAC (present accountants of Brasivoire) to FAC as of October 1, 1991. Since the success of this conversion will depend on CIAC's cooperation, settlement of CIAC's account with Brasivoire is essential before this process begins.

- FAC should perform a survey of Brasivoire's accounting needs and establish a statement of accounting policy regarding the method with which the results of Brasivoire's business transactions will be treated in the accounting records. Once this is documented, a copy of this document has to be forwarded to Price Waterhouse, Washington, D.C. by September 15, 1991. Subsequently, FAC should establish the proper Chart of Accounts in its automated accounting system based on the statement of accounting policy developed. This chart of accounts should include both balance sheet and income statement accounts.

- Once the statement of accounting policy has been drafted and the chart of accounts has been established, FAC should record the balance sheet balances in the accounting system as of August 1, 1991. The purpose of this would be to have Brasivoire and CIAC maintain the same accounting records for the months of August and September 1991, to ascertain the propriety of the new accounting system in recording, summarizing, and reporting the financial position and results from operations. The most important factor in this process is for FAC not to record any balances in Brasivoire's general ledger if adequate supporting documentation is not available for these. The objective is for FAC to be able to support and explain each of the balances in the balance sheet.

- For the months ending August 31, 1991 and September 30, 1991, there should be a full reconciliation between the general ledger trial balance generated by CIAC's and FAC's accounting systems. This involves an account-by-account comparison of the balances and explanation of differences, if any, for August and September. A copy of this reconciliation for months ending August 31, 1991 and September 30, 1991 should be forwarded to Price Waterhouse in Washington, D.C., by October 5, 1991.

The ultimate goal of the aforementioned steps is to prepare FAC for the responsibility of maintaining the general ledger for Brasivoire as of October 1, 1991. Therefore, throughout this process, FAC should evaluate the condition of Brasivoire's accounting records and the appropriateness of its management's accounting practices. One of the key requirements is for FAC to develop a strategy for establishing an inventory control system where equipment and spare parts can be accounted for on an individual basis so as to improve costing techniques and develop objective determinants of margin on sales.

FAC should submit their assessment/proposal for improving the inventory management system to Price Waterhouse by September 30, 1991. Price Waterhouse will evaluate the proposal and assist FAC in formulating an implementation strategy.

b. Financial Reporting - LFCI and SIGHRES

Automation of accounting function for SIGHRES and LFCI should be accomplished by FAC by September 30, 1991. The following are general guidelines that should be followed by FAC in successfully completing this project:

- A chart of accounts should be established in FAC's accounting system for each of these entities.

A detailed general ledger trial balance should be generated by FAC for each of these entities as of September 30, 1991. Copies of general ledger trial balances should be established and sent to Price Waterhouse by October 5, 1991.

Since this function is currently being performed by an employee of LFCI, it should not require much time and effort. The key objective, however, is to determine the reasonableness of amounts and adequacy of proper support, before any balance is recorded in the general ledger module. The goal is to establish responsibility and accountability with FAC for appropriateness of the balances in the financial statements.

		As of September 30, 1989 Unaudited		1990 Unaudited
Assets				
CURRENT ASSETS:				
Cash and cash equivalents	F CFA	3,180	F CFA	84,185
Notes and accounts receivable, less estimated doubtful accounts		1,501,875		185,823
Receivables from personnel				
Intercompany receivables (FAC)				3,680,017
Inventories				
Prepaid expenses and security deposits				283,935
Total current assets		1,505,055		4,233,960
INVESTMENTS AND OTHER ASSETS:				
Investments in affiliated companies (Note 1)		184,438,248		162,758,231
Other long-term investments				
PROPERTY, PLANT, AND EQUIPMENT:				
Machinery, furniture, fixtures and computer equipment		21,704,608		27,479,196
Less - Accumulated depreciation (Note 2)		(13,022,760)		(3,833,061)
RESEARCH AND ORGANIZATIONAL STARTUP COSTS		45,995,801		45,995,801
Less - Accumulated amortization		(36,796,637)		(45,995,801)
GOODWILL, at cost less accumulated amortization				
Total Assets	F CFA	203,824,315	F CFA	190,638,326
Liabilities and Shareholders' Equity				
CURRENT LIABILITIES:				
Bank overdraft		22,912,559		22,961,463
Trade accounts payable (Note 3)		39,199,671		42,671,877
Salaries payable				
Loans from officers		18,195,341		37,239,817
Income and employment taxes payable (Note 4)		95,692,039		92,847,764
Other accounts payable and deferred charges				
Intercompany Payable		1,342,430		1,129,449
Total current liabilities		177,342,040		196,850,370
LONG-TERM LIABILITIES				
CAPITAL (Note 5)				
Paid-in capital		92,952,900		95,639,400
Paid-in capital in excess of par		1,911,553		2,124,251
Shares Subscribed to but not fully paid-in		39,760,200		39,222,900
Unpaid subscriptions		(30,029,320)		(28,235,793)
Total capital		104,595,333		108,750,758
RETAINED EARNINGS (Deficit)		(78,113,058)		(114,962,802)
Total liabilities and shareholders' equity	F CFA	203,824,315	F CFA	190,638,326

F CFA 285/ $1 U.S.

La Financiere Cote d'Ivoire - Statement of Earnings

		For the fiscal years ending September 30, 1989		1990
		Unaudited		Unaudited
Revenue from services	F CFA	1,814,768	F CFA	800,000
Commission fees (Note 6)		35,000,000		
Operating Income		36,814,768		800,000
Cost of products sold				5,030
Other product-related costs				
Income from operations		36,814,768		794,970
Rent				
Utilities Expense		837,483		
Office Supplies				
Transportation Costs		269,000		
Repairs and Maintenance				514,134
Professional Services		5,857,094		
Advertising				
Salaries and Benefits		5,563,916		7,461,425
Payroll Taxes		1,814,391		2,443,109
Insurance				
Patents and Licenses				
Interest Expense		578,562		
Provision for Bad Debt (Note 7)		24,858,831		700,392
Provision for Loss on Investments (Note 8)		84,308,831		14,697,559
Depreciation Expense		4,379,960		1,708,931
Amortization Expense - Research & Development Costs		9,199,159		9,119,164
Other Expenses				
Net Income Before Taxes		(100,852,459)		(35,849,744)
Taxes		1,000,000		1,000,000
Net Income	F CFA	(101,852,459)	F CFA	(36,849,744)

F CFA 285/ $1 U.S.

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Note 1.

The following is the detail of LFCI's investment holding account:

		1989		1990
Brasivioire	F CFA	120,000,000	F CFA	120,000,000
SIALIM		5,000,000		5,000,000
FAC		7,930,017		4,250,000
Graphicos		1,548,000		1,548,000
Boomerang		500,000		500,000
SIGHRES		14,460,231		14,460,231
Datatechnique		35,000,000		17,000,000
Total	F CFA	184,438,248	F CFA	162,758,231

The reduction in investment in Datatechnique in 1990 from 1989 is due to devaluation of its shares by Datatechnique's management. The reductiou of investment in FAC in 1990 from 1989 was established as receivable from FAC.

Note 2.

The change in accumulated depreciation from 1989 to 1990 is due to LFCI's disposal of the majority of its older fixed assets in 1989 and the purchase of new office furniture and computer equipment in 1990.

Note 3.

The trade accounts payable includes amounts that are owed to creditors for the purchase of FAC. Additionally, this account includes financial obligations to Air Afrique of F CFA 22 million, which has been outstanding for over three years.

Note 4.

The income and payroll taxes payable account includes accrual of tax liability associated with income that was never recognized by LFCI and was instead recorded as equity. The recognition of income and the corresponding tax expense were charged against the 1989 beginning retained earnings balance, since the transactions that resulted in generation of income originated in 1987. In 1987, commissions were received by LFCI from PROCAMPO for facilitating a business transaction by the former for the latter. Additionally, this account also includes accruals for estimated payroll taxes that were never reported and paid by LFCI to the government of Cote d'Ivoire.

Note 5.

LFCI had a total of 251 shareholders as of September 30, 1990. According to the official records of the entity, 73 of these subscribers were delinquent on their contributions. The value of each share is established at F CFA 5,373, and shares are only sold in blocks of 100. In 1989, LFCI had a total of 247 shareholders, 74 of whom were delinquent on full payment of their subscriptions.

Note 6.

This is the commission income received by LFCI for arranging a business transaction for WANG Laboratories. This amount formed the basis for LFCI's investment in Datatechnique. Therefore, this source of revenue is not to be considered as having been earned by LFCI in the normal course of business.

Note 7.

The provision for bad debt account includes receivables that were either not supported by detailed support or that were over three years past due and will most likely not be collected.

Note 8.

The balance of this account represents write-off of LFCI's investments in entities which subsequently ceased operations. Additionally, this account includes monies that were advanced to SECAVI and IMIS, which were projects LFCI had invested in that subsequently ceased operations.

		As of September 30, 1989 Unaudited		1990 Unaudited
Assets				
CURRENT ASSETS:				
Cash and cash equivalents	F CFA	4,399,996	F CFA	12,791,533
Notes and accounts receivable, less estimated doubtful accounts (Note 1)		162,881,881		105,610,085
Receivables from personnel		2,445,000		3,709,647
Intercompany receivables				
Inventories (Note 2)		70,807,850		61,601,330
Prepaid expenses and security deposits		1,908,640		1,908,640
Total current assets		242,443,367		185,621,235
INVESTMENTS AND OTHER ASSETS:				
Investments in affiliated companies		3,000,000		3,000,000
Other long-term investments		2,041,874		2,041,874
PROPERTY, PLANT, AND EQUIPMENT:				
Machinery, furniture, fixtures and computer equipment		47,356,237		47,602,549
Less - Accumulated depreciation		(24,366,645)		(32,675,367)
RESEARCH AND ORGANIZATIONAL STARTUP COSTS		3,621,500		3,621,500
Less - Accumulated amortization		(2,228,010)		(2,952,310)
GOODWILL, at cost less accumulated amortization				
Total Assets	F CFA	271,868,323	F CFA	206,259,481
Liabilities and Shareholders' Equity				
CURRENT LIABILITIES:				
Bank overdraft		103,776,202		100,395,104
Trade accounts payable		103,841,406		120,231,924
Salaries payable				
Loans from officers		2,457,254		7,547,652
Income and employment taxes payable		49,016,921		49,556,929
Other accounts payable and deferred charges		13,737,473		12,648,442
Intercompany Payable				
Total current liabilities		272,829,256		290,380,051
LONG-TERM LIABILITIES				
CAPITAL				
Public Bond Equity		2,041,874		2,041,874
Minority Equity Interest		80,000,000		80,000,000
Majority Equity Interest		120,000,000		120,000,000
Total capital		202,041,874		202,041,874
RETAINED EARNINGS (Deficit)		(203,002,807)		(286,162,444)
Total liabilities and shareholders' equity	F CFA	271,868,323	F CFA	206,259,481

F CFA 285/ $1 U.S.

BRASIVOIRE - Statement of Earnings

		For the fiscal years ending September 30, 1989 Unaudited		1990 Unaudited
Net sales	F CFA	272,832,697	F CFA	232,369,851
Other operating revenue & commissions (Note 3)		53,544,015		358,180
Operating Income		326,376,712		232,728,031
Cost of products sold		74,351,473		151,254,860
Other product-related costs		765,606		1,607,403
Income from operations		251,259,633		79,865,768
Rent		9,600,000		9,644,000
Utilities Expense		18,522,428		19,299,375
Office Supplies		482,425		616,853
Transportation Costs		2,147,440		1,257,700
Repairs and Maintenance		3,898,156		2,236,028
Professional Services		5,890,121		3,803,608
Advertising		438,020		2,703,500
Salaries and Benefits		64,878,262		58,400,419
Payroll Taxes (Note 4)		30,466,852		14,547,772
Insurance		1,219,102		1,523,704
Patents and Licenses		8,444,565		2,484,202
Interest Expense				975,486
Provision for Bad Debt (Note 5)		85,013,715		35,424,736
Provision for Loss on Investment				
Depreciation Expense		8,328,070		8,308,722
Amortization Expense		724,300		724,300
Other Expenses				75,000
Net Income Before Taxes		11,206,177		(82,159,637)
Taxes		5,603,088		1,000,000
Net Income	F CFA	5,603,089	F CFA	(83,159,637)

F CFA 285/ $1 U.S.

Note 1.
Brasivoire's accounts receivable included a receivable for F CFA 51 million from PROCAMPO. This amount was offset against an accounts payable to PROCAMPO for the same amount in 1990. Therefore, since the asset and the liability have an offset effect, the receivable was reduced against the liability in 1989. In addition, allowances for uncollectible receivables of approximately F CFA 49 million and F CFA 16 million were established in 1989 and 1990, respectively. The allowance for uncollectible accounts was increased by the latter amounts in addition to the F CFA 51 million that management had originally established as an allowance for uncollectible accounts.

Note 2.
Brasivoire has not established an effective system of perpetual inventory valuation and management. As such, the independent verification of the inventory balances resulted in write-off of inventory balance by approximately F CFA 144 million and F CFA 16 million in 1989 and 1990, respectively. The 1989 adjustment was recorded as a prior period adjustment and therefore was charged against the 1989 beginning retained earnings balance. However, the 1990 write-off was charged against that year's income.

Note 3.
Brasivoire receives sales commissions from PROCAMPO for the latter's sales in West Africa although Brasivoire is not involved in the marketing and actual sales transactions. Therefore, this cannot be regarded as income from direct sales.

Note 4.
In 1989, the government of Cote d'Ivoire charged Brasivoire with a tax assessment of approximately F CFA 15 million for non-payment of payroll taxes in prior years. Brasivoire established a liability for this amount and recognized an expense for the entire amount in 1989, which accounts for the fluctuation in the payroll tax expense account.

Note 5.
The provision for bad debt expense account in 1989 is primarily due to increase in the allowance for uncollectible accounts receivable. The 1990 provision for bad debt includes an increase in allowance for uncollectible accounts in addition to write-off of inventory which was recroded at discounted sales price as opposed to cost.

Assets	As of September 30, 1989 (Note 1) Unaudited	As of September 30, 1990 (Note 1) Unaudited
CURRENT ASSETS:		
Cash and cash equivalents	F CFA 439,116	F CFA 978,162
Notes and accounts receivable, less estimated doubtful accounts	5,590,947	4,992,419
Receivables from personnel		
Intercompany receivables		
Inventories		
Prepaid expenses and security deposits		
Total current assets	6,030,063	5,970,581
INVESTMENTS AND OTHER ASSETS:		
Investments in affiliated companies		
Other long-term investments		
PROPERTY, PLANT, AND EQUIPMENT:		
Machinery, furniture, fixtures and computer equipment	4,298,100	4,298,100
Less - Accumulated depreciation (Note 1)	(470,645)	(1,600,201)
RESEARCH AND ORGANIZATIONAL STARTUP COSTS	2,812,250	2,812,250
Less - Accumulated amortization (Note 1)	(293,343)	(997,366)
GOODWILL, at cost less accumulated amortization		
Total Assets	F CFA 12,376,425	F CFA 10,483,364

Liabilities and Shareholders' Equity	1989	1990
CURRENT LIABILITIES:		
Bank overdraft		
Trade accounts payable (Note 1)	977,318	14,804,817
Salaries payable		1,533,119
Loans from officers		
Income and employment taxes payable (Note 1)	1,997,030	6,321,880
Other accounts payable and deferred charges	1,621,151	1,497,706
Intercompany Payable (LFCI)		3,680,017
Total current liabilities	4,595,499	27,837,539
LONG-TERM LIABILITIES		
CAPITAL (Note 2)		
Minority Equity Interest		750,000
Majority Equity Interest	7,930,017	4,250,000
Total capital	7,930,017	5,000,000
RETAINED EARNINGS (Deficit)	(149,091)	(22,354,175)
Total liabilities and shareholders' equity	F CFA 12,376,425	F CFA 10,483,364

F CFA 285/ $1 U.S.

		For the period May 1, 1989 through September 30, 1989 (Note 1) Unaudited		Estimated for the period October 1, 1989 through September 30, 1990 1990 (Note 1) Unaudited
Revenue from Professional Services	F CFA	14,001,376	F CFA	6,073,725
Other operating revenue				
Operating income		14,001,376		6,073,725
Cost of products sold				
Other operating costs				
Income from operations		14,001,376		6,073,725
Rent				
Utilities Expense				
Office Supplies				
Transportation Costs				
Repairs and Maintenance				
Professional Services		3,065,879		853,056
Advertising				
Salaries and Benefits		7,424,760		21,213,252
Payroll Taxes		1,576,158		3,058,882
Insurance				
Patents and Licenses				320,050
Interest Expense				
Provision for Bad Debt				
Provision for Loss on Investment				
Depreciation Expense		470,645		1,129,546
Amortization Expense		293,343		704,023
Other Expenses		319,682		
Net Income Before Taxes		850,909		(21,205,084)
Taxes		1,000,000		1,000,000
Net Income	F CFA	(149,091)	F CFA	(22,205,084)

F CFA 285/ $1 U.S.

41

Note 1.
The statement of financial position is for the five-month period ending September 30, 1989, because FAC was purchased by LFCI and started full operations on May 1, 1989. Accordingly, the statement of earnings is for the five-month period, and not for the entire fiscal year. In 1990, FAC did not prepare financial statements for the entire fiscal year, since it was not formally established as a separate entity until July 1990. Although the organization was not registered, it did engage in normal business activities. Our discussions with the management of FAC revealed that all revenues earned during the full fiscal year had been recorded in the income statement, whereas only expenses for the last three months of the fiscal year were charged against operations. Through application of analytical procedures and estimates, the expenses of FAC were annualized so as to be comparable with the revenues earned for the entire year. Further, liabilities that had not been recorded on FAC's balance sheet were also accrued and depreciation expense and accumulated depreciation were also recorded to present a statement of financial position for the entire year.

Note 2.
In 1990, LFCI and FAC management reevaluated the capital structure of FAC. As a result, LFCI's equity interest in FAC was reduced by F CFA 3,680,017 and four employees of FAC contributed a total of F CFA 750,000 to the capital of the entity. Therefore, total capital of FAC was reduced from F CFA 7,930,017 to F CFA 5,000,000 with the structure altered.

SIGHRES - Statement of Financial Position

		As of September 30,	
		1989 Unaudited	1990 Unaudited
Assets			
CURRENT ASSETS:			
Cash and cash equivalents		F CFA 532,331	F CFA 51,500
Notes and accounts receivable, less estimated doubtful accounts		2,219,000	723,500
Receivables from personnel			
Intercompany receivables (LFCI)		1,342,430	1,129,449
Inventories		854,000	124,500
Prepaid expenses and security deposits			300,000
Total current assets		4,947,761	2,328,949
INVESTMENTS AND OTHER ASSETS:			
Investments in affiliated companies			
Other long-term investments			
PROPERTY, PLANT, AND EQUIPMENT:			
Machinery, furniture, fixtures and computer equipment		28,520,000	29,305,000
Less - Accumulated depreciation		(21,341,900)	(27,020,638)
RESEARCH AND ORGANIZATIONAL STARTUP COSTS		3,918,000	3,918,000
Less - Accumulated amortization		(2,040,000)	(2,823,600)
GOODWILL, at cost less accumulated amortization			
Total Assets		F CFA 14,003,861	F CFA 5,707,711
Liabilities and Shareholders' Equity			
CURRENT LIABILITIES:			
Bank overdraft			1,336,181
Trade accounts payable			
Salaries payable			
Loans from officers			5,233,468
Income and employment taxes payable		4,034,190	2,136,200
Other accounts payable and deferred charges			2,199,000
Intercompany Payable			
Total current liabilities		4,034,190	10,904,849
LONG-TERM LIABILITIES			
CAPITAL			
Equity Interest		26,996,990	26,996,990
Total capital		26,996,990	26,996,990
RETAINED EARNINGS (Deficit) (Note 1)		(17,027,319)	(32,194,128)
Total liabilities and shareholders' equity		F CFA 14,003,861	F CFA 5,707,711

F CFA 285/ $1 U.S.

149

SIGHRES - Statement of Earnings

	For fiscal years ending September 30, 1989 Unaudited	1990 Unaudited
Net sales		
Other operating revenue	F CFA 44,909,750	F CFA 30,432,000
Operating Income	44,909,750	30,432,000
Cost of products sold (Note 2)		
Other cost of sales	9,454,468	7,359,616
Income from operations	35,455,282	23,072,384
Rent		
Utilities Expense		
Office Supplies	1,800,000	2,346,000
Transportation Costs	1,330,461	1,560,647
Repairs and Maintenance		
Professional Services	107,350	120,550
Advertising	573,500	917,495
Salaries and Benefits	1,516,666	2,312,508
Payroll Taxes	1,531,050	1,303,750
Insurance	13,200,730	13,046,525
Patents and Licenses	3,778,196	3,769,260
Interest Expense	1,092,655	100,000
Provision for Bad Debt	2,969,825	1,717,000
Provision for Loss on Investment	197,268	476,900
Depreciation Expense	3,000	3,106,220
Amortization Expense		
Other Expenses	6,043,300	5,678,738
	288,000	783,600
Taxes Net Income Before Taxes	1,023,281	(14,166,809)
	1,000,000	1,000,000
Net Income	F CFA 23,281	F CFA (15,166,809)

F CFA 285/ $1 U.S.

Notes to financial statements of SIGHRES

Note 1.

Although SIGHRES started full operations in 1986, the first year for which complete financial statements were prepared was 1989. The beginning retained earnings balance in the 1989 balance sheet was zero, since management states that the entity had operated at a breakeven point for fiscal years 1986 through 1988. Management had not, however, depreciated the assets that were used in operations during this period. Therefore, accumulated depreciation was computed, and the corresponding depreciation expense was charged against the 1989 beginning of the year retained earnings balance.

Note 2.

SIGHRES does not have a formal inventory management system and therefore is unable to objectively determine the cost of materials sold. Therefore, the gross margin on sales may be misstated.