

THE FINANCIAL SECTOR IN GUINEA

Submitted to the  
Africa Venture Capital Project  
Contract Number: AFR-0438-Z-00-0006-00

By Gordon Bradford  
Gilbert Crawford  
Jane Seifert  
as  
Consultant for Harvey & Co.

1 August 1991

INPUT FOR THE CPSP FIVE YEAR MISSION PLAN ON  
THE FINANCIAL SECTOR IN GUINEA  
MAY 2, 1991

- I. INTRODUCTION
- II. SUMMARY AND CONCLUSIONS
- III. OPPORTUNITIES FOR USAID/GUINEA
- IV. THE BANKING SYSTEM OF GUINEA
- V. OTHER FINANCIAL INSTITUTIONS
- VI. OTHER FINANCIAL SERVICES
- VII. AGRICULTURAL CREDIT

HARVEY AND COMPANY, INC  
1910 K STREET, N.W., SUITE 300  
WASHINGTON, D.C. 20006

## **EXECUTIVE SUMMARY**

### **FINANCIAL SECTOR IN GUINEA OPPORTUNITIES AND CONSTRAINTS**

The banking system of Guinea consists of (1) a central bank, the Banque Centrale de la Republique de Guinee, which may be considered to have certain commercial banking and development banking aspects in addition to its more traditional central banking activities, (2) five commercial banks, three affiliated to the " Big Three" French banks, one formerly owned by a French bank doing limited domestic business in France but covering Francophone Africa plus Nigeria, and recently acquired by a bank headquartered in Zambia, and finally and fifthly, a bank affiliated with an Islamic banking group, headquartered in Switzerland, and practicing Islamic Banking; and (3) several very small local credit cooperatives, resembling pilot projects, similar to Raffeisen or Desjardin units.

BCRG performs a large percentage of the market's commercial banking and development banking functions. Among its commercial banking functions, it continues to act as a commercial bank for the remaining non-privatized parastatals, providing the usual range of services. The most important activity here is the financing of the importation of POL (petroleum, oil and lubricants), which accounts for between 25 and 30% of all imports. The mineral exports (bauxite, alumina, gold and diamonds) which account for 90% of the total exports, are effectuated by the enclave mining companies themselves.

The insurance companies: There are two, but they are not factors in whatever financial markets there may be, since they do not invest funds coming from unearned premiums in Guinea, but reinsure practically all policies written with their affiliated groups in France.

There are several private investment groups, organized by Guineans living in exile in France, Senegal and Cote d'Ivoire during the First Republic. The investment companies serve as a vehicle to repatriate funds to Guinea for investments in (1) privatized para-statals, (2) expanded existing enterprises, and (3) de-novo investments, sometimes with GOG or donor assistance. Results have been spotty. Generally, the larger the enterprise (beer, soft drinks, cigarettes, matches, soap, granite), the less satisfactory the results, largely because of competition from undocumented cross-border imports.

CCG, Chambre de Commerce de Guinee: Despite the name, this organization is a government-controlled institution.

None of the following financial services companies or professionals exist at this time in Guinea: stock exchanges, discount houses, government bond dealers, stockbrokers, installment sales finance companies, leasing companies, savings and loan associations mortgage banks, bankers and brokers:

Agricultural credit: Mention was made above of several small, pilot-type projects to establish sustainable credit union-type entities (credit rural, credit mutuel) sponsored by a variety of donors, under the auspices of GOG, most notably the Ministry of Agriculture and Animal Resources (MARA). While the scale to date has been too small to include a review of the banking and financial system of Guinea, the alternatives available to the 90% of the population living outside of Conakry and hence the formal financial sector, are so horrendous (interest rates up to an effective 500% per annum rate) as to make the further encouragement of these first steps most desirable.

#### SUMMARY AND CONCLUSIONS

- o The current banking system limits itself to short-term, self-liquidating loans, financing imports of food and other consumer goods.
- o Few loans are made to manufacturing or other productive enterprises, because only a few of these are profitable due to:
  - (1) High overhead: infrastructure deficiencies compel producers to provide own services, e.g., electric power, telecommunications.
  - (2) Moral Climate: unreliable judicial system, pilferage at port/airport, bribes and petty corruption.
  - (3) Relative Smallness of the official market to the overwhelming size of the informal market, making competition with smuggled goods difficult.
- o Scarcity of productive enterprises limits the need for intermediation usually found in the early stages of financial and capital markets development, such as securities dealers, investment companies, and stock exchange.

#### V. OPTIONS FOR USAID/GUINEA

1. Financial Sector Non-Project Assistance (NPA) aimed at improving Central Bank regulations, the commercial code and other business laws and at training their implementors.
2. Support to Credit Rural
3. Encouragement of Peace Corps credit programs
4. A truck leasing operation.  
A road maintenance equipment leasing operation.
5. The furnishing of technical assistance to La Financiere Guinea.
6. A non-governmental agriculture promotion institution.

7. A smaller venture captial fund oriented to companies providing goods and services to the enclave mines.
8. A large nationally-oriented venture capital fund.

PROJECT DECISION MATRIX

	Potentially Profitable	Possible Role of USAID/Conakry	Possible Role of AVCP
1. Financial Sector Non-Project Assistance NPA	No	Yes	No
2. Credit Rural	Yes	Yes	No
3. Peace Corps	Yes	Yes	No
4. Truck Leasing	Yes	Yes	No
4. Road Eq. Leasing	Yes	Yes	No
5. La Financiere Guinea	Yes	Yes	Yes
6. Agricultural Inst.	No	Yes	No
7. Enclave VCF	Yes	Yes	Yes
8. National VCF	No	No	No

INPUT FOR THE CPSP FIVE YEAR MISSION PLAN ON  
THE FINANCIAL SECTOR IN GUINEA  
MAY 2, 1991

- I. INTRODUCTION
- II. SUMMARY AND CONCLUSIONS
- III. OPPORTUNITIES FOR USAID/GUINEA
- IV. THE BANKING SYSTEM OF GUINEA
- V. OTHER FINANCIAL INSTITUTIONS
- VI. OTHER FINANCIAL SERVICES
- VII. AGRICULTURAL CREDIT

HARVEY AND COMPANY, INC  
1910 K STREET, N.W., SUITE 300  
WASHINGTON, D.C. 20006

## **GUINEA FINANCIAL SECTOR ASSESSMENT**

### **I. INTRODUCTION**

At the end of the First Republic in March 1984, the financial sector in Guinea consisted of a Central Bank and a number of state-owned banks (agricultural, industrial, development), all of which had, in practice, ceased operations; and a government-owned insurance company enjoyed a monopoly. The mineral exports (bauxite, alumina, gold and diamonds) were done directly by the mining companies. The agricultural sector was completely outside of the official economy, with surplus production of food and commercial crops sold clandestinely, for dollars or CFAs.

Seven years later, the only material change has been to move the imports of food from the central bank to four French-affiliated commercial banks. The bankrupt state-owned banks have been liquidated. Mineral exports, and petroleum imports are still outside the commercial banking system, which after disastrous attempts to make commercial and industrial loans, now confines itself to short-term trade finance, essentially financing imports of food and consumer goods. There has been only limited development of private investment groups, and none of other intermediaries such as securities dealers. Growth in the private financial sector has been inhibited by the absence of an independent, impartial judiciary, including the usual features of lien perfection, collateral recovery in the event of default, and any kind of land title registry system. Under these circumstances it is difficult to envisage private investment in Guinea other than service companies designed to assist the mining companies in breaking out of their enclaves, transportation leasing companies designed to take advantage of the improvements in rural roads, and more remotely, agricultural export promotion and marketing. At the present level, however, not even these merit more than feasibility studies, supplemented by technical assistance, without direct capital investment, either equity or loans.

### **II. SUMMARY AND CONCLUSIONS**

- o The current banking system limits itself to short-term, self-liquidating loans, financing imports of food and other consumer goods.
- o Few loans are made to manufacturing or other productive enterprises, because only a few of these are profitable:
  - (1) High overhead-infrastructure deficiencies compel

producers to provide own services, e.g. electric power and telecommunications.

(2) Moral climate: unreliable judicial system, pilferage at port/airport, bribes and petty corruption.

(3) Relative smallness of the official market to the overwhelming size of informal market make competition with smuggled goods difficult.

- o Scarcity of such productive enterprises limits the need for intermediation usually found as infant financial and capital markets develop, such as securities dealers, investment companies, and a stock exchange.
- o Financial deepening is therefore inhibited.
- o Savings and other bank deposit growth has been hampered by lack of confidence in the monetary unit, leading to a reluctance to use bank accounts which might be blocked in case of yet one more monetary reform.
- o The central bank lends to the commercial banks at a rate near inflation (approximately 25%) for general financing, and they on-lend at a mark-up of about 15% in fees and commissions. Preferential rates are available to the banks for on-lending to productive borrowers but are seldom used because of previous loss experience. The commercial banks tend to add about 15% to their funding costs.
- o Statements of the banks were not made available to us, and the view was expressed that practically all of their respective capital funds have been wiped out as a result of the almost 100% default rate experienced on productive loans. Trade financing is undoubtedly profitable, but the banks probably would not give a break-out either on the balance sheet or the operating statement.
- o Credit Rural, Credit Mutuel, and other similar pilot projects, such as a credit cooperative managed by Peace Corp Volunteers, have had exemplary loan repayment experience. Since cost of funds is accounted for through allocation of reserves, and expatriate expenses have not been included in overhead, it is difficult to estimate sustainability on a nationwide basis. They are, however, certainly deserving of encouragement and further testing.
- o Foreign exchange control is still in effect, and the Guinean Franc is inconvertible. Exporters are legally obliged to sell foreign exchange earned from exports of agricultural products, financed by the commercial banks, to the central banks. In practice, however, only a limited number of such

transactions take place. Importers using the commercial banks must similarly purchase their requirements from the Central Bank at a weekly auction where the only seller is the Central Bank. Travellers arriving must declare foreign exchange, and Guinean Franc currency may be neither brought into nor taken out of Guinea. A sidewalk "free market" functions openly in Conakry at a discount rate of about 10%, but volume is hard to estimate. Usage of the "free market" may be primarily for tourist-type expenditures and imports of small, easily-transportable consumer goods. The official U.S. Dollar-Guinean Franc exchange rate is, in practice, an administrative rather than a market rate.

### III. OPTIONS FOR USAID/GUINEA

Having determined that there are a number of structural, institutional and economic reasons that the Guinean financial sector is not providing financing for cash flow projects, the next section will evaluate several options in suggested order of priority that USAID can consider to expand the availability of finance for productive investment particularly in the agro-export sector. We have purposely not dwelt on options that require highly articulated structures, subsidized credit, or extensive ministerial involvement given the current business climate in Guinea. In reviewing the options, USAID might want to look at an option that would tie in with its other programs in a given region of Guinea. For example, building roads and setting up storage facilities (preferably bonded warehouses) with links to Credit Rural.

Some of the options include:

1. Financial Sector Non-Project Assistance (NPA) aimed at improving Central Bank regulations, the commercial code and other business laws, and at training their implementors.
2. Support to Credit Rural.
3. Encouragement of Peace Corps' credit, business English and rudimentary business practices programs.
4. Leasing Operations:
  - a. A truck leasing operation.
  - b. A road maintenance equipment leasing operation.
5. The furnishing of technical assistance to La Financiere Guinea.
6. A non-governmental agricultural promotion.
7. A smaller venture capital fund oriented at companies providing goods and services to the enclave mines.
8. A large, nationally oriented venture capital fund.

In Appendix "C", we review each option to determine whether it could be profitable, and if there is a role for USAID/Conakry and AVCP.

## 1. FINANCIAL SECTOR: NON PROJECT ASSISTANCE (NPA)

The state of the financial sector in Guinea is such that a number of fundamental areas need to be addressed. The NPA could address various areas that need technical assistance and tie the disbursement of the funds or the technical assistance to policy changes that should be in place in order for the financial and business sectors to develop. The most logical way to approach this exercise would be to coordinate with World Bank and IMF programs and in the kinds of technical assistance they plan to put in place. For example, both organizations have been working with the Central Bank of Guinea to organize it both as a supervisory organization for the financial system and as a policy maker. USAID has hired temporarily a professional from the Central Bank of Tunisia to work with the Central Bank. In addition to this professional, further technical and training needs could be assessed and an implementation program established.

In order to sanitize the business climate, the commercial code and laws related to business practice, in general, need to be re-written. The particular issue of securing collateral in such a way that lenders will be able to collect if a loan goes bad is of primary importance. (N.B.: This is, obviously, closely related to the land tenure problem, but land is only one kind of collateral used to secure a credit.)

A problem which is closely related to the legal problem, but which must be dealt with quite separately, is the issue of judicial training and impartiality. Once the laws are written clearly and neutrally, they must be enforced by a well-trained, impartial judiciary. This does not exist at present in Guinea. While it will certainly be difficult and require a long-term commitment to train an able judiciary, the business climate will never be acceptable until business interests can be assured of a fair hearing in front of impartial judges.

However the final design of the NPA develops, it would be useful to be guided by two principles:

1. Guinea needs to be integrated in as many ways as possible into the world around it to break the pattern of negative development.
2. It is better to use technical assistance from countries one or two steps ahead of Guinea in terms of development. Among other things, it is much harder to ignore the technical assistance (T/A) by saying that they do not understand the country being assisted if

the T/A is from a country very close in development.

The two principles stated above indicate that the best sources of T/A would be the Mahgreb or the BCEAO countries and that the more regionalized the T/A (i.e., the more exchanges among the countries involved), the better.

## 2. CREDIT RURAL

Our team concluded that the Credit Rural pilot project was a much needed component of the agricultural credit equation. We felt that the Mission might be able to provide Credit Rural with technical assistance or the funds to prepare a credit training course for their members. The mission could also write the agricultural banking regulations for the Central Bank and/or other bank supervisory agencies that can be envisioned if Credit Rural continues to grow as planned.

## 3. PEACE CORPS

The Mission may want to investigate manageable methods of providing the Peace Corps with grant funds to create additional credit circles in the countryside to teach business English and rudimentary business practices, such as bookkeeping.

## 4. LEASING COMPANIES

Leasing companies which would import trucks and import, or purchase from the Ministry of Public Works, light road-building and maintenance equipment, for month-to-month lease to operators for:

- (A) Truck-transport of agricultural produce from farm-gate to Conakry for export or consumption in the Greater Conakry area, which accounts for the bulk of the cash economy consumption.
- (B) Road building Equipment: construction and maintenance of rural feeder roads.

### Advantages

- 1) Defects in the existing legal/judicial structure may be circumvented by keeping title documents in the name of the leasing companies (although this does not solve the problem of a contractual dispute).
- 2) All French banks have leasing affiliates in Africa, and know the business.

- 3) CCCE would probably be interested if imports of French trucks and equipment were involved.
- 4) Synergy with Rural Roads Program.
- 5) Probable best bet for road transport of agricultural products to Conakry:
  - i. Short haul: "Banana Triangle" fruits from Forecariah, Coyah, Dubreka, Kindia and Mamou.
  - ii. Intermediate haul: vegetables from Dalaba.
  - iii. Long haul: coffee from Gueckedou and Macenta.

5. LA FINANCIERE de GUINEE

The Mission may want to designate an AID employee in Conakry to follow the progress of La Financiere de Guinee. The AVCP in Washington has been working with La Financiere Cameroon to help them develop a business plan and operating budget. This is being accomplished through a Mission buy-in to the AVCP for \$44,000. USAID/Conakry may want to consider developing a similar program with the AVCP to provide training and technical assistance to La Financiere de Guinee.

6. NON-GOVERNMENTAL AGRICULTURAL PROMOTION INSTITUTION

USAID could help organize and support a non-governmental agricultural promotion/financing institution to provide management advice and marketing guidance.

Areas of action in an initial stage might include necessary market research abroad (possibly through USDA attaches at US Embassies), and in Guinea through a census of available products and facilities.

Research might include analyses of potential for new agricultural exports:

1. Spices: nutmeg, cloves, ginger, arrowroot
2. Fruits: kiwi, plantains, uglyfruit
3. Other: vanilla, dressed timber, chilled, frozen or smoked fish.

7. ENCLAVE VENTURE CAPITAL COMPANY

USAID could help organize a venture capital company in

Kamsar which would contract with CBG to provide services/sell agricultural products and small-scale, artisanal, manufactured goods. The venture capital firm would provide CBG with confidence that any goods or services contracted for would be provided in a timely manner within the quality guidelines specified and at a competitive price. The venture capital firm would also provide management services to the new firms to help them overcome initial problems. The management group might initially sign contracts directly with CBG and subcontract with Guineans. The second phase would be to develop independent companies from the staff employees on the subcontract. Peace Corps volunteers might be used to teach basic accounting and business skills.

The firm would make equity financing available to the new Guinean firms created to satisfy the CBG contract. However, we view the financing component as a secondary issue, and the contracting and management services as a major component in the initial phases of this type of project. The capital for the venture capital fund could come from enclave companies, NGOs like Societe d'Investissement et de Developpement International (SIDI), La Financiere de Guinee, and high net-worth Guineans.

This type of grassroots venture capital is currently being investigated by the AVCP in Zimbabwe with the Manna Corporation/Opportunity International and throughout Africa with SIDI, to see what some of the lessons learned have been. SIDI is actively participating with APEK (Association Pour La Promotion Economique de Kindia) in Kindia, Guinea. APEK represents the type of small grass roots venture capital group which can succeed in the Guinean environment. Gil Crawford held extensive meetings with APEK in Abidjan and recommends that the mission become aware of the activities of Mr. Lanfia Berete & Mr. Bachir Diallo (tel. 224-61-08-57).

Such a company, once it achieves success in Kamsar, might be expanded to Fria for sales to Friguia and to Kindia for OBK. The company would contract with CBG in U.S. dollars, and pay Guinean subcontractors in Guinean Francs. CBG can thus avoid having to deal with a variety of Guinean suppliers, and also might make it possible for the company to finance itself internationally by assigning the contract proceeds. The advantages to CBG would include the creation of a constituency of Guineans having a vested interest in the continued, unmolested operation of the company in its present form.

Another advantage would be that items now imported by CBG, or services performed by CBG itself, would be purchased from

Guineans, resulting in a meaningful contribution to the Guinean GDP.

## 8. NATIONAL VENTURE CAPITAL FUND

Venture capital is meant to address two constraints in the development of enterprises in Africa: (1) it provides equity capital to firms and (2) it provides management services to the investee firm increasing the likelihood that the firm will be profitable. The management advice from a venture capital firm to a portfolio company is often more important than the actual provision of capital.

The African Venture Capital Project, a USAID funded project set-up in April 1990 by the Africa Bureau in Washington, has developed five criteria to investigate prior to recommending that a Mission contemplate supporting large-scale venture capital activities.

In the case of Guinea, the review of these five criteria indicates that a major venture capital initiative on a national scale would be highly inadvisable at this time.

### AVCP'S FIVE CRITERIA FOR VENTURE CAPITAL

#### A. COUNTRY CONDITIONS

Country conditions and the enabling environment in Guinea is relatively weak even by African standards. First, there is a pronounced lack of confidence in the business environment. Second, the rules of the game are not defined nor easily enforced. In short, the judicial system is not fully impartial. Its record on ruling on the investment code and commercial cases, in general, is poor. Finally, extra-legal payments are reported to be endemic to the system and particularly disruptive to businesspersons because they are not predictable.

#### B. ADEQUATE NUMBER OF PROFITABLE PROJECTS

It is a strain to find a reasonable number of profitable projects in Guinea. Venture capital firms typically look at a large number of proposals before selecting a very small percentage for investment. It is clear that Guinea does not have an adequate deal flow at this point to make a large venture capital fund viable.

There may be several markets where a smaller specialized venture capital firm might make sense. The Enclave Marketing Company concept represents such a pool of small financiable deals.

. IDENTIFIABLE INVESTORS IN THE FUND

The AVCP typically looks to several sources for local investment in a venture capital fund with only token or temporary investment coming from the donor investment community. It is the AVCP's philosophy that an excess of donor investment in a venture capital fund will succeed only in creating a new incarnation of the unsuccessful development banks of the 1960s, which are currently found littered throughout the third world.

Potential Investors:

(1) High Net Worth Guinean Investors

There is a limited likelihood that this group will be interested in investing in a donor sponsored venture capital fund. Most of the wealth accumulated and located in Guinea is created either through real estate or through commercial trading activity. The real estate money is highly illiquid and concentrated on the massive renovations and new construction projects taking place in Conakry and in the interior. Commercial trade money is making a 150%-200% per annum rate of return on its capital and is not attracted to the longer term, higher risk venture capital market.

(2) Commercial Banks

AVCP has found commercial banks and merchant banks willing to take a minor share interest in the venture capital fund in some African markets. Given the current climate in Guinea, there is little or no interest on the part of the local commercial banks to invest in a venture capital firm in Guinea. There are no merchant banks in Guinea.

(3) Remainder of the Formal Financial Market

- a) The Insurance companies reinsure 100% off-shore. They have very limited funds for reinvestment in the Guinean economy.
- b) There are no pension funds.

(4) High Net-Worth Guineans: Returned Exiles or Expatriates

This market appears to have been tapped out during the initial enthusiasm in the early days of the Second Republic. As cited in the State Department's Human Rights Violation report on Guinea (1989), the majority of Guineans have not returned home despite the GOG's encouragement.

SOFIG, an affiliate of the U.S.-based group, AMEX, has been particularly active in raising money from the exile group. When the soft drink bottling company required recapitalization, however, SOFIG was unwilling or unable to raise the additional equity and suffered a dilution of its ownership, indicating that the investors are either tapped out or taking a wait-and-see approach to new investment.

A second group of returned Guinean investors formed La Financiere. It has secured local notables as shareholders and is preparing to invest in several moderate-sized projects. It is not the plan of the management to invest in other venture capital firms at this time or in the future.

(5) Donor Investment Groups (IFC, CDC, DEG, Proparco, FMO, etc.)

It is the AVCC's philosophy that these donor investment companies should only provide limited initial capitalization to a venture capital firm, and should not provide the majority of the long-term capital.

In the case of Guinea, it is the opinion of this team that the donor investment groups represent the only investor pool at the present time. In short, none of the above-mentioned traditional investors can be induced to invest in a venture capital fund.

In addition, a venture capital fund with a high proportion of donor capital would be perceived as an invitation for abuse due to the Guinean attitude towards publicly funded financial institutions. This attitude has developed over the course of 26 years of a centrally planned economy based on the Eastern European model.

D. IDENTIFIABLE MANAGEMENT GROUPS AND REQUISITE MANAGEMENT SERVICES AVAILABLE LOCALLY

The AVCP have typically worked with locally based commercial or merchant banks to develop a venture capital management group. Overhead expenses are shared with the banking operation. This option is not of interest to any of the commercial banks in Conakry at present. Meridien Bank, through its acquisition of BIAO/BIAG, may be inclined to conduct limited equity investment business in Guinea. However, it is too early to speculate on Meridien's Guinea strategy.

In the cases where AVCP has looked to donor investor groups to supply initial management expertise, the expense of the expatriate venture capitalist is significant. It is important to recall that 90% of a local commercial bank's overhead is made up of expatriate staff salaries and expenses, an indication of the elevated expense of creating a de novo venture capital management group.

AVCP has entertained proposals in which operating expense grants, relative to total capitalization, was approximately 10%. In Guinea, this ratio may well need to be higher because of the cost of doing business in Guinea. However, a project where the ratio approaches or surpasses 100%, should receive careful scrutiny prior to the Mission obligating resources.

Finally, AVCP's experience and recommendations to other Missions is to design the management structure of a venture capital company to conform to the reality of the capital market in the country. Given Guinea's relatively unsophisticated capital markets, it is advisable to consider only the simplest and least complicated venture capital funds.

E. EXIT

Venture capitalists always look for a means of selling their interest in a portfolio or investee company. This "exit" usually comes after five to seven years of investment. The venture capitalist is not in the investment/holding company business. Rather, a venture capitalist looks to invest equity capital with the objective of taking its profit and reinvesting it in a second and third investment cycle. The more difficult it is for a venture capitalist to realize his/her return, repatriate capital gains and dividends, and hedge its foreign exchange risk, the less likely it is that there will be venture capital creation.

The absence of a stockmarket, while not an insurmountable

obstacle to successfully raising venture capital in Guinea, certainly limits exit options. In addition, a very small percentage of the population, even by African standards, is willing to hold paper securities, limiting investment interest in the few private placements that have taken place.

The legal repatriation of capital gains and dividends is technically not a problem in the Second Republic. However, since the major companies, such as CBG, have never paid a dividend, the actual praxis or precedent in Guinean courts has not been established.

Finally, the foreign exchange risk is a serious deterrent to most foreign investors because there is no way of hedging an administratively determined exchange rate such as the Guinean Franc. This creates serious uncertainties for the potential foreign investor whether a donor or private investor.

## THE FINANCIAL SYSTEM OF GUINEA

### IV. THE BANKING SYSTEM

The banking system of Guinea consists of (1) a central bank, the Banque Centrale de la Republique de Guinee (BCRG), which may be considered to have certain commercial banking and development banking aspects in addition to its more traditional central banking activities; (2) five commercial banks: three affiliated with the "Big Three" French banks; the fourth, recently acquired by a Zambia-based bank and formerly owned by a French bank which conducts limited business in France and serves Francophone Africa and Nigeria; the fifth, a bank affiliated with an Islamic banking group headquartered in Switzerland and; (3) several very small, little more than pilot projects, local credit cooperatives, similar to Raffeisen or Desjardin units.

#### BANQUE CENTRALE DE LA REPUBLIQUE DE GUINEE

##### Central Bank's Central Banking Role

- (1) Its central banking functions include:
  - (1) currency issue, where it has the exclusive note issue privilege;
  - (2) lender-of-last resort to the commercial banks;
  - (3) banker to GOG, in particular, the Ministry of Finance which does not maintain TTL accounts with the commercial banks;
  - (4) custodian of GOG's FX reserves, kept on deposit with a network of foreign correspondents, including both central and commercial banks;
  - (5) bank supervision through analysis of monthly statements received from the commercial banks, and occasional spot checks, not yet real examinations of the following:
    - (a) the loan portfolios, including credit files;
    - (b) the FX operations for compliance with regulations in force, particularly balances in accounts abroad, both the bank's own funds and the re-deposit of customer foreign currency deposit accounts, which may be opened for non-residents and;

- (c) the ratio of administrative expenses to net income from banking operations, i.e., net interest income plus fees and commissions including FX.
- (6) the usual statistical monitoring of key economic indicators such as the money supply, and the volume and distribution of credit by sectors. It is interesting that the money supply is estimated at only about 6% of the GDP.

Although the organization chart does not indicate it, as noted above, the BCRG also performs certain commercial banking and development banking functions.

## (2) Commercial Banking Role of the Central Bank

Among its commercial banking functions, it continues to act as commercial bank for the remaining non-privatized parastatals, providing the usual run of current account, letter of credit, documentary collection draft, paying & receiving, money transfer, foreign remittance and other similar services. The most important activity is the financing of the importation of POL (petroleum, oil and lubricants) which accounts for between 25 and 30% of all imports. The mineral exports (bauxite, alumina, gold and diamonds), which account for 90% of all exports, are effectuated by the enclave mining companies themselves.

## (3) Development Bank Role of the Central Bank

For many years, the IMF and the World Bank encouraged LDCs to organize development banks, chiefly to vet projects so that they might be received in uniform format, and hence be more easily reviewed, but also to serve as financial intermediaries between the international donor community and the projects once they were approved. The World Bank studied such an institution for Guinea, but finally decided against it, perhaps because of unfavorable experiences elsewhere. A variety of donor programs have been realized through development bank-type operations carried on by the BCRG where donors have deposited funds or opened lines of credit with the BCRG. The BCRG then on-lends the funds directly or through the commercial banks, usually the Banque Internationale pour le Commerce et l'Industrie en Guinee (BICIGUI). For example, the BARAF program was designed to assist terminated civil servants in becoming small businesspersons.

## THE COMMERCIAL BANKS

### (1) Banque International pour le Commerce et l'Industrie en Guinee (BICIGUI)

BICIGUI is the largest commercial bank in Guinea, accounting for perhaps 40% of the commercial banking market. Fifty percent of BICIGUI is owned by GOG, and it is the only commercial bank in which GOG is a shareholder. Apart from some private Guineans, the balance is owned by Banque Nationale de Paris (BNP), a French state-owned bank. At present, the only business it conducts is financing imports of rice and other foodstuffs, and some consumer goods. Credit experience for this business has been "acceptable." Given the GOG's shareholding interest, BICIGUI acts as the lender under a variety of donor and GOG programs, usually with some form of guarantee. The borrowers are described as the "private sector" but in practice have been restricted to small, start-up businesses in the Conakry area. The results have been disastrous; with a 100% default rate, most borrowers appear to have adopted a "loans from the state need not be repaid" attitude. The bank is the only commercial bank with a network of branches outside Conakry. Local operations are said to be profitable. In addition, BNP earns a certain amount on interest-free balances maintained by BICIGUI with Paris.

### (2) Banque Internationale pour L'Afrique en Guinee (BIAG)

In 1856, the French Government chartered a privately owned bank, the Banque de L'Afrique Occidentale (BIAO), giving it the role of banker to the governments of the French territories in West Africa, including the bank-note issue privilege (a function normally reserved for central banks). For many years, it was the only commercial bank in the region, and even after losing the note issue privilege, it continued to be banker to the several governments. A job with BIAO conferred considerable status in the community, and a number of finance ministers, businessmen and prominent personalities started their careers with the bank. In 1990, the French Government compelled all French banks to write-down their LDC debts to market value. Since practically 100% of BIAO's loans were in Africa, it having only limited business in France, this wiped out the bank's capital. The shareholders were unwilling to put up new money, and the bank was scheduled for liquidation until April 19, 1991 Zambia-based Meridien Bank agreed to purchase the bank at the last minute. In Guinea, BIAG has limited itself mostly to international trade transactions, and accounts for about 30% of the market. Losses in 1990 are said to be FG 600 million or \$900,000 reflecting a substantial loss.

### (3) Societe Generale de Banques en Guinee (SGBG)

SGBG, established five years ago, is the local presence of

Societe Generale, the second largest bank in France. It runs a poor third behind BICIGUI and BIAG due, it believes, to the privileged position of the former rising out of the GOG shareholding including the donor financed loan programs ("the loans may be bad, but the commissions are good"), and the traditional market prestige of the latter. Strictly trade financing, almost entirely imports. SGBG's operations are profitable but with an air of it being almost more trouble than it's worth; perhaps 15% of the market.

(4) Union des Banques Internationales en Guinee (UBIG)

The last of the "Big Three" French banks to establish itself in Guinea, the Credit Lyonnais, is still getting underway. The bank handles only trade transactions. It is doubtful if profits from operations have yet covered pre-opening and opening expenses, perhaps 5-10% of the market.

(5) Banque Islamique en Guinee (BIG)

Established under the First Republic to conduct banking in accordance with Sharia Law, notably the prohibition against Riba which in practice means no interest can be paid on deposits or received on loans. An Islamic bank functions as a partner of its customer by sharing in the business risks of the transaction financed. BIG has never become very active in the commercial banking market, and is a negligible factor.

(6) Banque Populaire, a Moroccan bank is due to open soon.

## V. OTHER FINANCIAL INSTITUTIONS

### THE INSURANCE COMPANIES

There are two, but they are not factors in whatever financial markets there may be, since they do not invest funds coming from unearned premiums in Guinea, but reinsure practically all policies written with their affiliated groups in France.

(1) Union Guinee d'Assurance et de Reassurance (UGAR)

Controls 80% of the market; affiliated with Union d'Assurance de Paris, Paris, France.

(2) Societe Nouvelle d'Assurances et de Reassurance (SONAR)

Controls 20% of the market; reinsures. It has several groups in France.

## PRIVATE INVESTMENT COMPANIES

There are several private investment groups, organized by Guineans living in exile in France, Senegal and Cote d'Ivoire during the First Republic.

Societe de Finance du Golfe, (SOFIG) is an investment company that serves as a vehicle to repatriate funds to Guinea for investments in (1) privatized parastatals, (2) expanded existing enterprises, and (3) de-novo investments, sometimes with GOG or donor assistance. Results have been spotty.

Generally, the larger the enterprise (beer, soft drinks, cigarettes, matches, soap, granite), the less satisfactory the results, largely because of competition from undocumented cross-border imports, except for the brewery (devout traders dislike dealing in alcoholic beverages) and the quarry (granite is too heavy to carry).

SOFIG is associated with AMEX, a successful Washington D.C.-based trading and investment company. It is our opinion that if SOFIG has experienced problems with their investments, it is due to the business environment and not business acumen.

La Financiere de Guinee is an investment club created by exiled Guineans in Dakar in 1987. Upon returning to Guinea they expanded their membership to include other professional urban Guineans. They have only recently begun analyzing investment projects and anticipate making a number of small investments in near future.

### Chambre de Commerce de Guinee (CCG)

Despite the name, CCG is a government controlled institution. In addition, none of the following appear to exist at this time in Guinea:

Stock Exchange

Discount Houses

Government Bond Dealers

Stockbrokers

Installment Sales Finance Companies

Leasing Companies

Savings and Loan Associations

## Mortgage Banks, Bankers and Brokers

### VI. OTHER FINANCIAL SERVICES

#### Certified Public Accountants (CPAs)

There appear to be two groups of CPAs. A formal group, Ordre des Experts Comptables Agrees Commissaires aux Comptes Pres de la Cour d'Appel de Conakry, with about eight members, trained in France, and in some cases affiliated with the Big Five accounting firms. Parallel to this, a larger group, not formally organized, trained in the public sector, and producing exhibits accepted by GOG entities and the commercial banks.

#### Management Consultants

There is said to be a firm in the process of getting under way.

### VII. AGRICULTURAL CREDIT

Mention was made above of several small, pilot-type, projects to establish viable credit-union type entities (credit rural, credit mutuel) sponsored by a variety of donors, under the auspices of GOG, most notably the Ministry of Agriculture and Animal Resources (MARA). While the scale to-date has been too small to include in a review of the banking and financial system of Guinea, the alternatives available to the 90% of the population living outside of Conakry and hence the formal financial sector, are so horrendous (interest rates up to an effective 500% per annum) as to make the further encouragement of these first steps most desirable.

#### Credit Rural

A French NGO has established a Credit Rural program in the agricultural interior which has demonstrated considerable success in providing credit to the medium- and small-sized cultivators. They have not been as successful in developing a deposit base or making the operation truly profitable.

ANNEX A

Banking System of Guinea  
Commercial Banks, Shareholders

	<u>GOG</u>	<u>Foreign Banks</u>	<u>Private</u> <u>Guineans</u>
BICIGUI	51.7%	BNP (France) 48.3%	0%
BIAG	0 %	Meridian Bank 55% (Zambia)	0%
		ADB, BOAD, IFC 45%	
SGBG	0 %	Societe Generale 35% (France)	45%
		Other EuroBanks 20%	
UIBG	0 %	Credit Lyonnais 51%	49%
Banque Islamique	0 %	Islamic Bank Group 100% (Switzerland)	0%

## ANNEX B

### AFRICAN VENTURE CAPITAL CHECK LIST

#### Country Conditions/Enabling Environment

- Economic Growth Rate
- Breadth of Economy
- World Bank/IMF Compliance
- Investment Code
  - Adherence and Precedents
- Political Stability/Business Confidence
- Legal System
  - Land Title system
  - Investment Code Tested in the Courts
  - Independence of the Courts
  - Commercial Code
  - Labor Code
  - Presence of Skilled Lawyers
  - Chattel Law
  - Minority Shareholders Rights
- Professional Services
  - Availability of Qualified Accountants
  - Regulating Body for Accountants
  - Land Title Registrar System
  - Freight Forwarders
  - Insurance Agents
  - Business Registry
  - Management Consultants
  - Lawyers
- Telecommunications
- Port/Transportation
  - Cold Storage
  - Security
  - Delays
  - Customs service
- General Infrastructure
- Education Level
  - Literacy Rate
  - High School Leavers
  - University Graduates
- Level of Governmental and Business Ethics
- Labor Laws
- Tax System
- Macroeconomic Issues
  - GNP Growth
  - Inflation
  - Balance of Payments/Foreign Currency Reserves/Indebtedness

## Financial Markets

- Banks

- Insurance Companies

- Pension Funds

- Non-Bank Financial Institutions

- Are there financial groups that are willing to manage a venture capital fund?

## Investors

- Donors Investment Companies

- Local Financial Institutions

  - Commercial Banks

  - Merchant Banks

  - Insurance Companies

  - Pension Funds

  - Tontines

  - Investment Groups

- Locals Living Abroad

- Local High Net Worth Individuals

- Foreign Investors

- Joint Venture Partners

- PL-480 Funds available for venture capital investment

- Blocked Funds available for investment

- Debt Conversion Funds

## Feasible Projects and Deals

- Are there groups that can put a project together business plans?

- Are there sufficient financiable deals in the economy to support the operating expenses of the venture capital fund?

## Exit

- How will the venture capital firm exit from the deals?

- Secondary markets

- Stock Exchange

  - Volume

  - Regulations

- Remittability of Profits

- Remittability of Capital Gains

  - OPIC/MIGA/COFAC

APPENDIX C

	Potentially Profitable	Possible Role of USAID/Conakry	Possible Role of AVCP
1. Financial Sector			
Non-Project			
Assistance NPA	No	Yes	No
2. Credit Rural	Yes	Yes	No
3. Peace Corps	Yes	Yes	No
4. Truck Leasing	Yes	Yes	No
4. Road Eq. Leasing	Yes	Yes	No
5. La Financiere Guinea	Yes	Yes	Yes
6. Agricultural Inst.	No	Yes	No
7. Enclave VCF	Yes	Yes	Yes
8. National VCF	No	No	No