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AGENCY FOR INTERNATIONAL DEVELOPMENT
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PROJECT PAPER

GUINEA: PRIVATE AGRIBUSINESS PREPARATION PROJECT

(675-0212)

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I. Project Description and Analysis:

A. Background:

In June 1982, President Ahmed Sekou Toure of the People's Revolutionary Republic of Guinea visited the U.S. with two purposes: to meet with President Ronald Reagan and to participate in a seminar organized by Chase Manhattan Bank on investment opportunities in Guinea. During his conversation with President Reagan, President Toure stressed his desire to improve the conditions of the smallholder farmer in Guinea; President Reagan suggested the possibility of providing a private sector agricultural task force to Guinea to consider how the U.S. private sector might help Guinea to meet its objective.

This initiative generated the concept of a private agri-business task force to look at investment opportunities related to specific agricultural products, and, in so doing to pinpoint constraints on investment and on the growth of agribusiness systems in Guinea. The task force visit was delayed until Feb. of 1983 so as to take advantage of the major Guinea-World Bank agriculture survey mission which took place in Nov.-Dec. 1982.

The Guinean Government made an extraordinary effort to welcome the task force, involving the President, the Prime Minister and key Ministers. The task force considered six products: pineapples, coffee, marine fishing, sugar, cereals and vegetables, production of N'dama (sleeping sickness resistant)cattle for export of breeding stock and additionally specialty crops (medicinal plants, spices, nuts and other exotic species which have high value per unit of land area and call for labor and management intensive cultivation). The visit produced effective collaboration between task force members and Government leaders and formulation of a concept for approaching U.S. private investment and private services (technical, management and marketing) to help Guinea meet food needs and promote exports.

The recommendations of the task force have been reviewed by AID/W; the decision was taken to treat the task force report as the equivalent of a project identification document and to proceed with a project paper for a mini-project to prepare a private agri-business program in Guinea. In addition, there has been continuing collaboration between AID and the World Bank, beginning with AID participation in the Bank's agricultural survey mission. The report recognizes the need for a focal point for Government coordination of assistance to the private sector. The World Bank and AID have held discussions about collaborating on providing technical assistance for this purpose. This and the preparation of specific opportunities identified by the task force constitute the components of the mini-project.

B. Country Situation:

Guinea is a potentially rich country -- minerals/energy and agricultural resources -- whose history reflects economic stagnation as the byproduct of a continuing socialist experiment under the leadership of a single individual. In recent years, there has been very important shift in attitude: recognition that Guinea's economic interests are closely alligned with western nations; appreciation that the capital intensive socialist farming schemes are a dismal failure and more importantly that it is now essential to consider support to smallholder farmers; successful demonstration of the value to the economy of private investment techniques introduced through mixed enterprises, primarily in the mining sector; and recognition of the need to come to grips with debt and monetary reform, even if there has been no tangible movement toward a solution.

The Guinean economy suffers from four principal types of constraints: (1) overvalued local currency which produces severe economic distortion and results in an official and a parallel market (exchange ratio: 8 to 1); (2) disorganization of the production systems and critical shortages of supplies, parts and any items requiring foreign exchange; (3) artificial restriction on marketing internally, being liberalized, and externally, suppressing production incentives; and (4) weak administrative capacity of the Government. Within the past eighteen months there has been marked liberalization of trade within the economy. The Government has not only made progress on human rights considerations but is encouraging voluntary exiles to return. However, in areas of investment, trade and human rights individuals have been slow to respond, reflecting a deeply felt skepticism within and external to Guinea about whether the rhetoric will find reality and whether the Government will respect its engagements.

The World Bank Agricultural Survey Mission (Dec. 1982) concluded that the Bank's emphasis should be on continued liberalization of internal and external trade, notwithstanding the dominance of the currency access and conversion issue. The Agribusiness Task Force reinforced this approach, suggesting, too, that Guinea give priority to putting in place a few private and quasi-private operations which would demonstrate the potential contribution of and the cost to the economy from suppression of individual intitiative. The strategy proposed calls for concerted effort by AID, with the IMF, The World Bank and others, to assist Guinea in finding solutions to fundamental monetary, economic policy and administrative problems, complemented by four types of private agribusiness activities:

1. stimulating private investment -- which for the present will be limited to self-contained enterprises (marine fishing and specialty crops);

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2. developing quasi-private investments (private business ventures encouraged through soft financing) around the mining complexes where there is linkage through import substitution to foreign exchange (initially for rice and subsequently for vegetable oil);

3. preparing select ventures dependent upon soft financing which may be run through private or mixed enterprises drawing upon management service contracts and which have a critical contribution to make to the internal economy (marine fishing for internal markets, coffee, pineapples); and

4. providing technical, management and marketing services for carefully targeted opportunities (specialty crops, export of N'dama breeding cattle, food processing, etc.).

The lines distinguishing 3 and 4 are difficult to draw.

C. Agribusiness Opportunities:

Historically, the most important crops in Guinea were rice, wood products, bananas, coffee, vegetables, citrus, specialty crops (quinine, essences, etc.) and more recently pineapples; a special place exists for N'dama cattle, too, since Guinea is the unique substantial reservoir of high quality, sleeping sickness resistant cattle in humid tropical Africa. Today, banana production has declined to being a negligible contributor to the economy (in part caused by plant disease), forest resources have been depleted through inefficient exploitation, the quality of vegetables has declined to being suitable for internal consumption only and citrus and specialty crops have been practically abandoned as export crops. Rice continues to be the main staple, but Guinea has shifted from a large net exporter to a level of importation which is a serious drain on strained foreign exchange resources. Other crops offer potential: recently Kenaf and other fibers are being introduced in the vicinity of Kouroussa and cotton is being planted in Upper Guinea; there is considerable potential for improvement of production of other cereals, legumes, manioc, etc.; grafted mangoes have been extensively planted with success, but have not been able to penetrate export markets. Given the variety of soils and climatic conditions in Guinea, there is potential for many products. The Agribusiness Task Force explored six (plus specialty crops) as the basis for understanding the business mode in the country and for outlining a conceptual approach to introduction of agribusiness activities.

There is virtually no private agribusiness investment in Guinea today apart from smallholder agriculture, agricultural exploitations by civil servants and cattle herding. There is no foreign private participation in the agricultural sector. Because the only model which has a proven track record is that of the mixed, self-contained

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enterprise used for the mining sector, firms thinking of entering Guinea will be uncomfortable about operating outside of a completely contained system and will be breaking new ground if they seek to operate as wholly private entities (with Guinean partners). Guinean private investors are likely to have little access to foreign exchange and will probably not possess substantial holdings in land or goods which they may contribute to the capital structure of a joint venture enterprise. Recognizing the unsuitability of the country is economic environment to traditional norms for investment appraisal, the Task Force has outlined a strategy for addressing opportunities for the products considered -- and other products, too--which is summarized below and shown in Figure 1:

1. There are limited, present opportunities for private investment where the preconditions which will be sought by the external investor may be met. Most notable among these are fishing for export species (lobster/shrimp, tuna, shark, etc.) and specialty crops. For the future there are a variety of other potential crops, for example N'dama breeding cattle, fruits and vegetables;

2. There are a number of products which may be developed with soft financing to the point of contributing to national exports or import substitution, providing income for the producers and becoming self-sustaining. These would include coffee production, fishing primarily for the internal market but to include some export sales (both artisanal and commercial), rice, pineapples and specialty crops;

3. There is need to provide technical, management and marketing services for other crops, but where, for the present, pulbic sector approaches are expected to predominate. Sugar heads the list, complemented by processing facilities for food products and the mainstream of efforts to increase food production;

4. There is need to institute research, training and an effort to transfer production improvements to smallholder farmers; this may be accomplished through refining the smallholder productivity program which is the main thrust of AID's assistance to agriculture; a step being accomplished through the Guinea Smallholder Production Preparation Project in parallel with this effort

5. There is an important strategic opportunity to take advantage of the development potential concentrated around the major mining complexes in Guinea. The complexes themselves offer a dollar import substitution market, a high quality basic infrastructure and the ability to provide services and skills at reasonable costs; their communities, growing at very rapid rates, offer entrepreneurial and artisanal skills, rapidly expanding markets, sources of labor and easy access to the liberalized internal trade.

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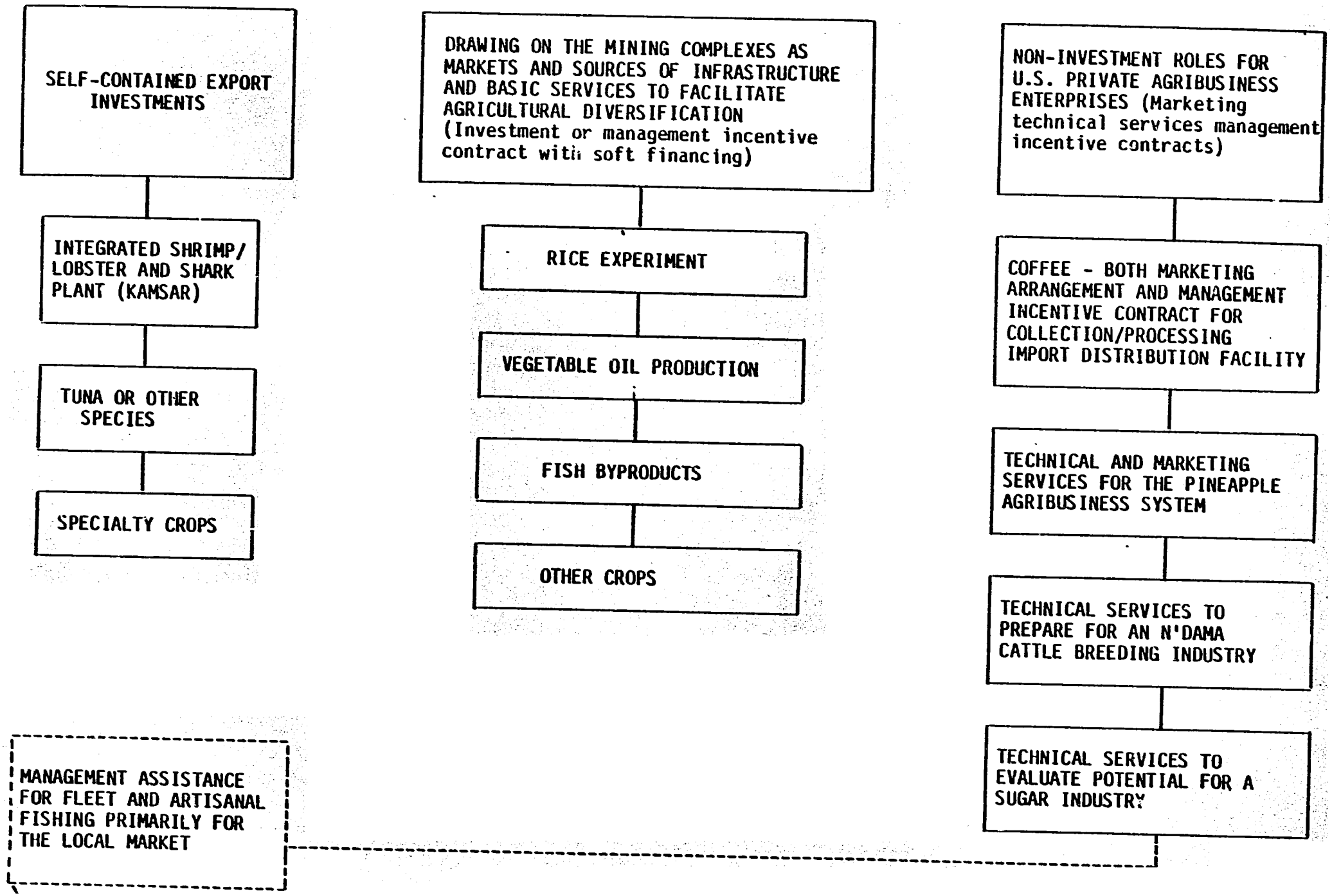
EXHIBIT I

POTENTIAL ROLE FOR U.S. PRIVATE AGRIBUSINESS ENTERPRISE IN GUINEA



In summary, the strategy is to promote those few independent investments which will be self-sustaining; to begin at the Compagnie de Bauxite de Guine (CBG) mining complex at Kamsar, developing, with soft financing where required, production opportunities and even complementary economic activities centered around the import substitution and growing local markets; to seize upon the few outstanding individual opportunities identified for quasi-private, soft financed initiatives and to provide technical, management and marketing services, first to a Government core agribusiness unit, then for specific product development. This framework permits an active role, not only for the private investor and private service organization which is a potential future investor, but for private voluntary organizations and the Peace Corps.

D. Project Description:

The proposed project will provide technical services to prepare specific activities recommended by the Agribusiness Task Force which are commensurate with the strategy outlined above. It is complemented by possible feasibility study assistance which has been requested from the Trade and Development Program for integrated lobster/shrimp and shark fishing and processing at Kamsar. These activities would include:

-- technical support to an agribusiness unit in the Government; this would be short term services planned to complement support provided by the World Bank;

-- conduct of feasibility studies to evaluate whether and how to initiate a nucleus farm and rice mill in the Kamsar/Boke region to produce and to organize and support smallholder rice production; and

-- to provide a resident presence and short term technical services for further analyses and for design of a program to carry out the Task Force recommendations with priorities established between the Government and the Task Force Leader following review of the ATF Report in late July 1983.

-- Among the opportunities identified by the ATF, the project would give priority to the following:

1. the nucleus rice farm in the Kamsar area;

2. other opportunities to diversify agricultural production in the Kamsar area (including indirectly through transport and basic services);

3. conversion of Soguipeche into a mixed enterprise with modern equipment to fish primarily for the internal market;

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4. upgrading of smallholder coffee production;

5. continuing technical services to organize the preparations and support for N'dama cattle breeding for export;

6. technical and managerial services for rationalization of the pineapple industry (the activity might more appropriately fall to IBRD who is financing the Daboya pineapple plantation); and

7. exploration of the possibilities, markets for and ways to introduce speciality crops into Guinea.

II Implementation

A. Project Implementation

The project will be executed primarily through a technical services contract with a U.S. agribusiness firm or group of firms. The firm will have four basic tasks:

1. to provide short term technical services to the agribusiness unit in the Government;

2. to provide a resident advisor to work with the Government of Guinea, the U.S. Embassy/AID, the World Bank and other donors in organizing the sequence of tasks to be included;

3. to review with the Government and AID priority tasks and to reach agreement on which ones require potential investor participation and special technical skills (eg., the nucleus rice farm, the mixed enterprise for marine fishing for the internal market), then to seek out potential investors or service organizations or to call forth the requested services, as appropriate; and

4. to conduct preparatory and feasibility studies and to design, in consultation with AID, a private Agribusiness program in Guinea.

Separate contracts are contemplated for a feasibility study for the nucleus rice farm by a firm susceptable of becoming a potential investor, the internal fishing investment, and possibly such areas as coffee marketing and N'dama cattle exporting. For each of these, there is need to delimit and sequence the tasks, to estimate costs, identify potential participants for approval of the Government and AID, etc.

Through separate financial assistance (the U.S. Trade and Development Program) a feasibility study may be made of an integrated lobster/shrimp and shark fishing and processing venture at Kamsar.

Because of the size of the investment, the risk and the soft financing required for the nucleus farm, the feasibility study will be conducted in two stages so that it will be clear that there is agreement on the basic parameters before making a heavy investment in detailed planning. For the other activities, the scope of services for each will be proposed by the project contractor and approved by the Government and AID.

B. Calendar of Execution

Project Authorized	July 1983
Grant Agreement Executed	Aug. 1983
Project Contractor Selected and Contract Negotiated	Nov. 1983
Mobilization of Technical Services	Jan. 1983
Resident Advisor in Place	Jan. 1983
Rice Feasibility Study (conceptual phase)	Mar. 1983
Fishing Feasibility Study (Soguipeche); Coffee Study	Apr. 1983
Begin Rice Feasibility Study (detailed phase)	June 1983
Project Design Prepared for Agribusiness Program	July 1983
Completion of Rice Feasibility Study	Oct. 1983
Departure of Resident Advisor (12 mos)	Feb. 1984
Completion of Project Technical Services	Mar. 1984

C. Project Budget

1)	Funding of a resident advisor for a period of 12 p/m	
	(salary, benefits, travel, etc.)	120,000
	lodging, utilities	40,000
	furniture, generator, appliances	30,000
	vehicle	20,000
	POL and per diem	25,000
		225,000
2)	support to private enterprise office (equipment and supplies)	15,000
	technical services	60,000
3)	short-term consultancies for research on various private investment and management/marketing target opportunities (rice development, food processing, etc.)	80,000
4)	contract with firm(s) to design rice and coffee projects	120,000

III. Issues:

A. Why is it timely to attempt a private agribusiness program in the face of unresolved access to and rate of converion for foreign exchange, unrealistic official price policies and weak public administrative performance?

Change is occurring through liberalization of internal trade. Leadership is a long way from a response to monetary economic policy and civil service issues and must concretize the resolve to do so. There is need to demonstrate that there are substantial returns through bringing private management skills to agricultural production. Also, there is willingness to stimulate production by individual farmers. For certain products, this objective and the Government's desire to share in economic benefits through import substitution or meeting an overriding internal food requirement are manageable.

B. Will the proposed activities come off or are they likely to encourage exaggerated expectations by the Government and mislead investers?

The ATF report forthrightly explains the unusual situation surrounding different components of the program and outlines the risks.

There is also no calendar for realizing specific actions; they will come to fruition when the preconditions in the eyes of the potential investor have been put in place. There will be over expectations by the Government; there may be naive investors For the moment, there is a quality synopsis of the business environment and of the types of opportunities; a good basis to begin a dialogue with carefully selected parties. Some investments offer big risks in the sense that they depend upon actions which it has been difficult for the Government to take (rice production, fish for the internal market, coffee marketing) and in the sense that to date, the Government has not established credibility outside the mining sector about adhering to its engagements. For these investments, the context is explained and there are overriding considerations which may bring the Government to act. Any program which addresses food production will be concerned, about what the Government will do when there is a food shortage in Conakry.

C. Does the program really have the potential of assisting the emergence of an indigenous private sector.?

Yes, in some ways: the development of poles of spontaneous local opportunity around the mining complexes; the private nature of the nucleus rice farm and its supporting link to smallholder production, the development of a viable private livestock industry; improvement of the conditions of smallholder coffee producers, the possibility that private entrepreneurs could enter production of speciality crops, and vegetables or become involved in trade of fish products, etc. At this stage, however, this objective remains secondary to stimulating continued liberalization of trade and hence lessening of the restraining influence the Government has held on private economic activity in Guinea.

D. What is the link between an agribusiness program in Guinea and smallholder agriculture, especially for food crops?

The project is being prepared in parallel with the smallholder production preparation project. While penetration into the Guinean economy by agribusiness firms will be severely hampered by present economic distortions, there are some important areas for testing the application of private management techniques to smallholder farmers, most notably for rice, coffee, pineapples and even for N'dama cattle.

In parallel, the Smallholder Production Preparation Project will focus upon research, training and extension directed to smallholder farmers. At present, there is no public extension service in Guinea for individual farmers. There will be an opportunity to test a variety of private approaches. The agribusiness program will bring forth vehicles to do so. There is advantage in close cooperation between the two projects; their parallel preparation will permit the cooperation to become real.

E. Does the project commit AID to future financial support (mortgage) inconsistent with probable forward planning?

No. It is conceived to provide modest continuing technical support, to offer some technical management and marketing services and to prepare a number of quasi-investment opportunities. It is the latter, requiring soft financing, which are the risk. There are numerous other institutions who may finance them or share their cost. The Guineans will have expectations beyond AID's budget targets. The importance of stimulating other donor interest is recognized in the FY 1985 ABS review.

Similarly, accent is given to concentrating limited program resources in Guinea to smallholder production and to the agribusiness program - both as regards funding and manpower. There are important local currency resources in Guinea, available through PL 480 generations, present and prospective.

IV. Conclusions

There is an important but uncertain opportunity introduced by the very high good will generated from and the timeliness of the ATF visits. AID should move forward decisively but cautiously and at the pace which will be dictated by the local environment.

This is a preparatory project. As such the analyses of risks and return are absent. A private sector program, if well received, will benefit Guinea. Ample assessment of the meaning of the changing environment has been made by the IMF, the World Bank, The European Community and the State Department.

AID has the resources to undertake this kind of program within Guinea without distortion of assistance levels. There is both U.S. and Guinean Government owned local currency available. Counterpart funds from future PL 480 generations may be committed to the program (and to smallholder production) and there is much that can be done with modest annual dollar assistance levels. Some things cannot (eg., the investments for the nucleus rice farm or the Soguipeche fishing fleet), they may be obtained through other soft financing or considered by AID on a case by case basis. Above all, the U.S. has a unique private busines base to offer and the opportunity to encourage others to join in this program.

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TRANSLATION

REVOLUTIONARY PEOPLE'S REPUBLIC OF GUINEA

N 008/PRG

WORK--JUSTICE--SOLIDARITY
PRESIDENCY OF THE REPUBLIC
SECRETARIAT GENERAL OF THE GOVERNMENT

DECREE

THE PRESIDENT OF THE REPUBLIC,

IN CONSIDERATION OF Constitutional Law No. 4/AN of 10 November 1958 promulgated by Ordinance No. 15 of 12 November 1958;

IN CONSIDERATION OF Law No. 001/AL/75 of 7 January 1975 marking the election of the President of the Republic;

IN CONSIDERATION OF Decree No. 215/PRG of 1 June 1979 nominating the Members of the Cabinet of the President of the Republic;

DECREES

ARTICLE 1 - Law No. 05/APN/80 of 20 February 1980 instituting an Investment Code in the Republic of Guinea is promulgated.

ARTICLE 2 - This Decree will be registered and published in the Official Gazette of the Republic.

Conakry, 6 March 1980

AHMED SEKOU TOURE

TRANSLATION

REVOLUTIONARY PEOPLE'S REPUBLIC OF GUINEA
WORK-JUSTICE-SOLIDARITY

NATIONAL POPULAR ASSEMBLY

Law No. 005/APN/80 INSTITUTING AN INVESTMENT CODE IN THE REVOLUTIONARY PEOPLE'S REPUBLIC OF GUINEA

THE NATIONAL POPULAR ASSEMBLY

IN CONSIDERATION OF Articles 7, 9, 14, and 15 of the Constitution;
AFTER deliberation;
ADOPTS the Law the terms of which follow:

TITLE I: SCOPE OF APPLICATION

ARTICLE 1: Those investments may benefit from the advantages of this Code which are considered priority investments carrying out one or more priorities of the Economic and Social Development Plan or those whose objective is to promote a special interest for the development of Guinean Economy.

ARTICLE 2: Existing enterprises may also benefit from the advantages of this Code upon extension or significant modification of their activity, but only in the proportion of the new investments.

ARTICLE 3: The following categories may be accepted as constituting priority undertakings:

a) Mining industries which engage in the extraction, beneficiation, or transformation of mineral substances;

b) Industrial enterprises for preparation and mechanical or chemical transformation;

c) Industries which manufacture and assemble articles and objects for general consumption;

d) Agricultural and agricultural-engineering enterprises; and

e) Apartment or hotel enterprises.

TITLE II: CONDITIONS OF ACCEPTANCE

ARTICLE 4: Those businesses which submit an investment program containing at least the following six provisional documents may be granted benefits under the provisions of this Code:

a) An investment plan and a financing plan in foreign currency and in Guinean currency;

b) A production plan indicating volume and value over a total period and over an annual period;

c) An import and export plan indicating volume and value over a total period and over an annual period;

d) An employment plan with specifics on the program of professional training and social action and an Africanization plan related to the training program;

e) A plan of restoration of sites to their natural state in the cases of extractive or forest industries; and

f) A program of environmental protection and notably a plan for recovery of factory wastes.

ARTICLE 5: Any enterprise having for its objective the exploitation of a natural resource should preferably be set up as a Mixed Economy Company governed by a special Agreement.

ARTICLE 6: The enterprises mentioned in Article 5 above may benefit from acceptance only if they commit themselves to pass, within a time span to be fixed by an accord, from the phase of transformation of natural resources to a further processed product.

TITLE III: APPLICATION FOR ACCEPTANCE

ARTICLE 7:

a) Any enterprise soliciting the granting of acceptance must make such a request before the Minister of Planning;

b) All requests must be accompanied by a file containing the documents described in Article 4 above;

c) The decision of acceptance must occur within three (3) months from the date of the presentation of the complete file;

d) In case of rejection of the application, the applicant will be notified by the Minister of Planning within the same time span.

ARTICLE 8: After examination and study, the Minister of Planning will submit the file, with his recommendation, for processing in accordance with the current approval procedure.

TITLE IV: SPECIAL ADVANTAGES GRANTED TO INVESTMENTS

ARTICLE 9: All investments accepted under this Code will benefit from exoneration and fiscal relief measures. This regime of privilege is however weighted according to the desirability and the size of said investments, as regards the economic development of the country.

The duration and scope of the privilege will be specified in the text of acceptance.

ARTICLE 10: CONSTRUCTION OR INSTALLATION PHASE: All equipment, materials, and raw materials necessary to the design and infrastructure, constructure, and to the setting-up as well as in the extension and modernization of existing units will be, upon importation, exempted from customs, duties, and other normally levied taxes.

Equipment, tools, materials, and raw materials which may be furnished by Guinean industry at a price not to exceed 10% above the price (of imports) with equal conditions of quality and delivery time, will however, be excluded from this benefit of exemption.

Unless a waiver is granted by the Minister of Finance after notification from the Minister of Planning, equipment, tools, material and raw materials which have benefited from the regime instituted by this Code may not, for a period of 5 years, be utilized for purposes other than those for which they were imported.

Such a change of purpose will cancel the advantages granted by the acceptance Decree unless they benefit through another accepted undertaking.

ARTICLE 11: BEGINNING PHASE: For a period not to exceed 5 years from the date of the first production operation and in keeping with the size of the investment and the nature of its activities, the approved enterprise will be granted a total or partial exemption from import duties placed on raw materials, spare parts, motors, and quarry vehicles used in production.

Identical advantages may be granted in the area of export duties applicable to products manufactured by the enterprise.

ARTICLE 12: EXPLOITATION PHASE: During the period of full operation, raw materials which enter directly into the process of fabrication, machines and spare parts, parts of machines entering diectly or indirectly into production, motors, quarry vehicles and locomotives will be subject to normal duties.

The list of these articles will be established by agreement before construction and specified after start-up.

ARTICLE 13: Articles produced by accepted enterprises will benefit from customs protection throughout the Guinean market.

ARTICLE 14: Accepted enterprises belong to two special regimes, called Regime A and Regime B; the enteprises not included in these two categories are governed by common law.

ARTICLE 15: The enterprises belonging to Regime A are small and medium-sized enterprises requiring for their acceptance an investment of at least 25 million sylis, effected over a maximum period of 3 years.

ARTICLE 16: Fiscal advantages are granted to enterprises belonging to Regime A for a period not longer than 7 years, considering the place of establishment and the nature of their activities.

ARTICLE 17: The advantages mentioned in Article 16 above will include, depending on the circumstances:

a) Total or partial exemption from the tax on industrial and commercial profits and the technical training tax, beginning in the fiscal year in which the first sale (inside or outside Guinea) is made;

b) Total or partial exemption from the property tax on buildings, the license tax, and the housing tax;

c) Total or partial exemption from the tax on income from movable assets (bonds, etc.);

d) Total exemption from the turnover tax and the stamp tax on the portion of the product exported.

This exemption may be total or partial for that portion of the product consumed in Guinea.

e) Total or partial exemption from the registration fees; and,

f) Total or partial exemption from the employers' lump sum contribution payment.

ARTICLE 18: Firms belonging to Regime B are those whose activities are determined to constitute priority activities for the social and economic development of Guinea.

These enterprises, in consideration of the unusual size of their investments, of the long development period before attaining the normal rhythm of exploitation and the necessity of adopting exceptional measures which their establishment requires, may request their acceptance with a view to concluding with the Guinean Government an Establishing Agreement providing for exemption from certain taxes and duties and the granting of long-term fiscal plan, not to exceed 25 years.

ARTICLE 19: For the entire period of effectiveness of the long-term fiscal plan, no taxes and duties applicable to firms benefiting from an Establishing Agreement may undergo modification either in their basis of assessment or their rates, except as concerns their method of collection. Their terms remain fixed as of the date of the Establishment Agreements.

ARTICLE 20: For the period of application of the fixed fiscal regime, any legislative or regulatory provision which would be inconsistent with the provisions of the preceding article will not be applicable to firms benefiting from this Code.

ARTICLE 21: In case of modification of the common law fiscal regime in a more favorable direction, an enterprise possessing a fixed fiscal regime may request the benefit of such modifications.

ARTCILE 22: The ways and means of applications of the provisions foreseen in Articles 18 to 21 will be specified in the Agreement.

TITLE V: AMORTIZATION PROVISIONS AND RULES OF TRANSFER

ARTICLE 23: The right of transfer of capital and earnings is guaranteed to foreign natural or artificial persons who have proceeded with or participated in the financing of an investment.

The exchange rates of transfer will be established in the Establishment Agreements or in the decree of consent.

ARTICLE 24: Transfers will be carried out through the Central Bank of the Republic of Guinea.

TITLE VI: OTHER GUARANTEES

ARTICLE 25: An Establishment Agreement fixing and guaranteeing the conditions of creation and operation of the accepted enterprise may be concluded and may contain general guarantees in matters of recruitment and movement of the work force, freedom in employment within the framework of work legislation of the Republic of Guinea, and the renewing of certain authorizations such as the exploitation permit.

ARTICLE 26: Foreign capital invested in Guinea will enjoy the necessary protection and security within the framework of and with respect for the Laws and regulations, so that natural and artificial persons making invstments are guaranteed against all despoliation.

TITLE VII: SANCTIONS

ARTICLE 27:

a) If the benefiting enterprise does not respect the basic elements of the program which it has furnished in order to justify its application for acceptance, the Government, upon proposition of the National Committee on Investments, will by Decree withdraw the consent.

b) The decision to withdraw may not take place until after formal notice by the responsible minister, not followed by corrective action within a span of 60 days and after due verification of serious breaches.

TITLE VIII: SETTLEMENT OF DISPUTES

ARTICLE 29: All prior provisions contrary to this Code are abrogated.

ARTICLE 30: This Law will be registered and published in the Official Gazette of the Popular Revolutionary Republic of Guinea.

Hereby deliberated and adopted in public session,

Conakry, 20 February 1980

THE PRESIDENT OF THE NATIONAL POPULAR ASSEMBLY,

Damantang CAMARA

5. EVALUATION OF SPECIFIC AGRIBUSINESS INVESTMENT OPPORTUNITIES

The ATF reviewed six specific agribusiness investment opportunities. In addition to these (coffee, pineapple, N'dama breeding stock for export, sugar, marine fishing, and cereal and vegetable production), the ATF also considered the production of high unit-value specialty crops such as exotic spices, medicinal plants, and nuts.

5.1 COFFEE

Coffee is grown in the Forest Region around Kissidougou, Gueckedou, N'zerekore, and Macenta in Lower Guinea. Production is estimated at 14,000 metric tons but only a fraction of this is marketed through official channels. The coffee varieties grown in the Forest Region are robusta and liberica. The ATF visited coffee plantations in N'zerekore, Guecke, Tiecke, and Ganta.

5.1.1 Observations

Coffee is grown primarily on smallholder farms. While some of the areas observed were adequately maintained, most are neglected. The trees are old and need to be replaced or rehabilitated. Most of the trees need pruning. All the beans are harvested at one time irrespective of the degree of ripeness. No sorting or grading is done.

Production of coffee can be substantially increased on existing farms if proper husbandry techniques are applied. Some of these practices can be begun immediately, such as:

- Rehabilitating orchards
- Replacing old trees with seedlings
- Introducing regular use of fertilizer
- Eliminating weeds
- Harvesting only ripe beans
- Improving and maintaining consistent bean quality
- Grading and processing green coffee beans

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Guinea has an unfilled 15,000 ton quota under the International Coffee Agreement. Nevertheless, robusta coffee is in excess supply in the world market and many countries have difficulty selling their output. Given the number of producers and size of the excess capacity, world market prospects are not favorable for large-scale expansion of the Guinean coffee industry.

Most of the coffee grown in Guinea is exported illegally through Liberia and the Ivory Coast, especially from the frontier areas. While the official coffee price has risen substantially over the past few years, it is still less than can be earned through illegal export.

5.1.2 Strategy

Agro-industrial coffee production in Guinea does not appear to be an attractive investment opportunity at present. Priority should be given to improving production at existing farms and to redirecting export of what is produced. Given current and projected world market conditions, Guinea should concentrate on filling its quota under the International Coffee Agreement and in assisting smallholders to improve their production through price incentives, increased access to inputs and supplies, technical assistance in improved husbandry practices, and marketing services.

A smallholder coffee production improvement program would contain the following elements:

- Increase the price of coffee and assure availability of commodity (barter) goods which can be exchanged for coffee

- Insure availability of critical supplies and materials such as: fertilizer, seedlings, simple tools, etc. in the form of agricultural credit or barter goods for coffee

- Construct a simple processing facility in the Forest Region. Materials and equipment for the processing plant would cost approximately $200,000 plus local erection costs. This facility would serve as the collection point for coffee from different areas and

would sort, grade, wash, pulp, ferment, rewash, dry, hull, regrade, and bag the green bean for export

- Obtain technical services to organize collection of coffee and distribution of materials such as seedlings and fertilizer. These services should include extension to the smallholder on agricultural practices, which varieties to plant, etc.

- Arrange with an international marketing organization to purchase Guinean coffee

There will be need for a marketing arrangement with one or several coffee exporters and for management assistance in running the processing facility and in distribution and collection. The management service entity would enforce quality control and instill confidence about price and payment for coffee. Operation of the processing facility would be through a marketing cooperative or an association of producers, cooperatives and traders.

5.1.3 ATF Recommendations

- Arrange with a marketing organization for purchase and placement of Guinean coffee in export markets

- Liberalize internal coffee trade for sale to the marketing organization(s)

- Construct a processing facility using modest concessionary financing

- Make available seedlings, fertilizers, tools, etc. in the form of barter goods or agricultural credit

- Enter into a management contract with a company to run the processing facility which would be leased to producers' cooperatives or an association of cooperatives, merchants, and individual producers

5.2 PINEAPPLE

Fresh pineapple has been the third major agricultural export from Guinea in recent years but the volume marketed through official channels has declined steadily because of an oversupply in overseas markets and unfavorable producer prices. The volume exported through official channels in 1980 was 1,288 metric tons, down from 3,089 metric tons in 1976.

Pineapple is a luxury item, which during a period of world recession will decline in demand. There is currently an oversupply of pineapples on the world market and several large producing areas such as Thailand, Philippines, Ivory Coast, South Africa, and Hawaii are looking at alternatives to producing pineapple.

5.2.1 Observations

The ATF visited the pineapple plantation and smallholder pineapple operations in Daboya and the processing plant at Salguidia.

Guinean pineapples are of fine quality and are being produced with good husbandry practices. The varietal testing research being conducted is impressive and the two varieties produced are well-suited to local conditions and yield high quality fruit. Organization of planting and harvesting operations is good. Some improvements could be made in regard to spacing between plants and laying out rows. In some cases, irrigation appeared to be inadequate. The Guinean pineapple is an excellent product which could compete successfully on the basis of quality for placement as fresh fruit in the world market. Nevertheless, the possibility of developing a significant export market for Guinean pineapple at this time is not good.

The pineapple canning plant at Salguidia is a quality facility providing two lines for production of pineapple in cans or juice and a third line for processing other tropical fruits. The cannery is underutilized because of short supply of fruit. Several steps could be taken to improve efficiency and productivity in this operation, including:

- Improve grading and sorting so that pineapples going to the plant will be sized to be better utilized for slices, the highest value product

- Introduce additional sizes of cans so there would be utilization of the pineapples for high value products (slices or chunks), with less processing as by-product into juice

- Introduce other canned products, such as, chunks and crushed pineapple

- Increase the size of the plantation holdings around the cannery to insure adequacy of supply

5.2.2 Strategy

The quality of research and production methods currently used are generally good. The canning plant, though underutilized, is operating adequately. Major improvements are required in handling, sorting, packaging, and transport of fruit.

Some basic questions need to be answered before an evaluation of the pineapple industry in Guinea as an agribusiness investment can be made, including:

- What is the existing internal and export market for fresh fruit and canned products?
- Which canned products are in greatest demand?
- What is the potential export market for fresh and canned products?
- What price could make Guinean products more competitive?
- What are actual costs of production and marketing?
- What are potential competitive advantages of Guinean pineapples?
  - quality
  - proximity to markets in Europe
  - price

- What is an appropriate size for the Guinean pineapple industry, based on current and potential market size and costs of production?

It appears unlikely that the Guinean pineapple industry can attract private investors at present because of world market conditions. In the meantime, continuing support should be given to research and production efforts at Daboya. Improvements should be made in methods of packaging, handling, and transport for better preservation of fruit quality. Producers' prices should be improved so that Guinea will retain the market share it currently has through sustained supply.

The ATF was impressed by the Guinean technical talent working with pineapple and by the quality of the research and production operations in this young industry.

5.2.3 ATF Recommendations

- Make a coordinated effort over the next two years to prepare for competitive penetration of export markets, including:

  - establishment and implementation of procedures to determine production and marketing costs

  - evaluation of production, warehousing, transport, and marketing practices to establish an effective means of managing and controlling product costs from farm to market

  - arrangement for technical and management services needed to accomplish these steps

- Formulate a schedule of events and a management plan for implementing the recommended modifications to the agribusiness system, including the sequence of steps and the timing for integration of management responsibility

5.3 EXPORT OF N'DAMA BREEDING STOCK

Guinea has approximately 2.3 million head of cattle. The most important breed is the N'dama which is resistant to sleeping sickness. High-quality Guinean N'dama breeding stock could be exported to other humid, tropical West African nations to improve resistance in their herds.

5.3.1 Observations

The ATF visited the SAPAL livestock and farming enterprise in Faranah and the N'dama breeding project and small herders in the Boke area.

In determining whether export of N'dama cattle would be a viable agribusiness investment, consideration was given to how the traditional herding system operates. The cattle herd is not considered a business investment, but a form of savings or wealth. Most herders are also farmers. The herd is a source of working capital and bridge financing. Cattle are rarely slaughtered for family consumption, but part of the herd is used to provide milk for the family. The primary source of meat for the family is other animals.

The herder appreciates quality among his animals and prefers to keep the best animals for his own breeding program. There has been strong pressure to sell animals for slaughter because of shortage of meat in urban population centers. Nevertheless, the herder is not inclined to sell according to market demand, but holds his best cattle and chooses which animals to sell in accordance with pressing financial needs.

The traditional attitudes of the herder discourage a concept of cattle production as an industry stimulated by growth of value rather than numbers. A commercial, export-oriented ranching enterprise, dependent on herders for its animals, should consider what it will take to bring the entrepreneur herder to produce cattle with substantially altered sales practices as a potentially profitable venture.

5.3.2 Strategy

The form of agribusiness investment associated with the export of high-quality N'dama breeding stock is envisioned at present as a central cattle ranch where herders would supply cattle and West African coastal countries would be the major outlet for the export product. The functions of such a cattle ranch would be to:

- Collect and sort animals

- Conduct research and organize information

- Provide services to the herders to assist in improving production, such as:
  - artificial insemination
  - access to quality breeding stock
  - improved availability at the ranch and in the herder communities of forage and supplemental nutrients during the dry season
  - improved animal health diagnosis, treatment, and surveillance

- Serve as a production facility by furnishing a substantial portion of its own cattle supply and assuring a minimum capacity to meet export market demand

- Process cattle by overseeing production and lineage of animals so as to be able to provide the necessary certification as to the breeding characteristics and health of the animals

- Collect market information to be used in making decisions and in finding ways to cooperate with the traditional herders

Several questions regarding the scope and functions of the cattle ranch have deliberately been left unanswered, such as:

- Does the ranch need to be large enough to supply most of the export market for breeding cattle?

- Should the ranch develop other enterprise activities, such as production of cattle and other ruminants as work animals or for meat for urban markets?

Several major questions will need to be answered before this agribusiness investment opportunity can be evaluated. These are:

- What is the market? The market cannot be measured by isolated or spot transactions but by quantity and price levels that will be sustained over time.

- What is the potential for success? The inquiries of the ATF suggest that the current internal market value of a high-quality 2-3 year old heifer is about 10-12,000 sylis; of a 4-5 year old cow, 15,000 sylis. While there would be seasonal variations and distress sales, this price should probably be viewed as a minimum range within which the herders might be willing to sell their animals to the ranch. At the official exchange rate, however, this price would approach the final sales price of breeding cattle in regional export markets. This disparity means that, if there is to be real incentive for the herder to sell and the ranch to buy cattle, a barter arrangement would represent the best means for developing a mutually beneficial business relationship.

- What are the constraints to exporting live animals? If the major market is West Africa, there may be problems regarding health regulations, transport, customs and handling, and access to and conversion of foreign currency. In most countries, there is also a problem of financing, whether public or private, to purchase breeding stock.

- Will the traditional herder cooperate with the central cattle ranch by providing animals, reducing their seasonal movement, upgrading his herd, etc.? The investment opportunity presented herein is not compatible with existing traditional herding methods or marketing practices. Can the traditional herder be convinced to change his ways and interface with a modern, export-oriented N'dama cattle ranch?

In addition to changing the attitudes towards marketing cattle, the ATF has identified three fundamental adjustments to the traditional herding system which would be required. Adoption of these changes would serve to strengthen the relationship between the herder and the central cattle ranch.

- Animal Health Protection

  The herder must receive complete animal health protection. While some progress has been made in this area through institution of a national animal disease control program, a breeding stock industry would require complete coverage, constant monitoring, and rapid, quality treatment on a regular basis. This would require both public and private interaction. A program would have to cover a broad geographic area which may extend beyond the borders of Guinea.

- Sedentarization of the Breeding Herd

  Migratory herding is inconvenient to a modern system of cattle management which requires control and predictability. Consideration should be given as to what extent cattle could be sedentarized without diminishing production capabilities. While it may continue to be necessary for cattle to migrate to harvest efficiently overall forage resources and to adjust for climatic variation, feeding practices could be modified somewhat by negotiating with other herders and farmers to gain seasonal access to grazing lands. Herders should also take advantage of agricultural by-products as feed sources and should cultivate dry season forage.

- Upgrading Herd

  The traditional herder must invest in future upgrading of his herd. Therefore, the N'dama breeding stock export industry will have to provide incentives which will induce the herder to do so and to sell his high-quality animals. Such incentives could consist of:

  - Use of desirable barter goods to purchase cattle
  - Weighted compensation based on quality of animals

It is the conclusion of the ATF that the disparity between the traditional herding system and the requirements of an export-oriented cattle ranch makes this an opportunity which will take time to prepare. Market research is needed. In many ranching proposals for West African projects, the focus tends to be on the facilities, with only token attention given to the social and economic environment in which the ranch would operate. The market must be defined and the project designed in accordance with identified constraints. Investors should not be overly optimistic about changing traditional patterns of herding but should find ways of encouraging positive adjustments.

5.3.3 ATF Recommendations

The ATF does not have sufficient information to specify the nature of N'dama cattle exporting business nor to indicate the basis on which a private investment could be recommended. There appears to be significant potential in the concept of exporting N'dama cattle to other West African countries but this potential needs to be developed through a continuing support relationship over some period of time. The ATF recommends the following:

- The agribusiness development program for N'dama cattle export should be based on the premise that the agribusiness system, including private investment participation, will be developed, in part, through substantial support from public-financed programs.

- Public-financed programs will also be needed to bring the breeders in other humid tropical countries to be effective receptors of N'dama breeding cattle.

- Discussions with several donor organizations should begin, looking towards both sequential preparation of public financial support and continuing technical assistance.

- Interested investors should be encouraged to contribute to the design of the agribusiness system. A private investor, working with interested donor organizations, may contribute to simplification and promptness in organizing a basis for investment.

There is an absence of reliable information on the marine resources of Guinea's continental shelf. The large surface of the continental shelf, the major mangrove areas, and the numerous river estuaries which feed that shelf, offer favorable ecological conditions for substantial, varied, and high-quality fishing resources.

There is considerable illegal fishing in Guinean waters. Guinea does not have the patrol equipment to protect against unauthorized harvest of marine resources. Whereas verified information is not available on the size and composition of the licensed catch, as well as that of poachers, the presence of fish resources of interesting size can be deduced from the activities of the fishing canoes and trawlers from Sierra Leone, Senegal, Korea, Italy, the Soviet Union, and elsewhere.

Lobster, shrimp, and shark are present, but the abundance of these species needs to be demonstrated. Other valuable species such as tuna and herring have been heavily fished and the extent of these resources needs to be ascertained. The large quantity of triggerfish in Guinea's waters, estimated at about 500,000 tons, or one-third of total biomass of the species in West African waters, probably indicates over-fishing of other species.

While there is need to get a clearer appreciation of the total marine resources, it would be costly and difficult. The ATF is not recommending major investments in further studies.

5.4.1 Observations

The ATF visited the fishing port in Kamsar, and saw the cargo infrastructure of the Compagnie des Bauxites de Guinee (CBG).

Guinea offers desirable conditions for a marine fishing venture at Kamsar because of the infrastructure associated with the mining operations, including the dock and pier facilities, deep sea port, housing, health care, electricity, commissary, shipping, and transport. The mining company at Kamsar currently imports all of the food needed to support the mining community.

The Russians provide most of the fresh fish in Conakry. The government sells the fish at the official price of 20 sylis per kilo. Supplies are exhausted immediately upon arrival and reach only a small segment of the population. In contrast, smoked fish, caught and prepared by local fishermen, sells for about 150 sylis per kilo in Conakry and in the interior.

As is the case for other products, liberalization of internal markets presents difficulties, but possibilities for self-sustaining enterprise are more promising for fish than for other products. The protein deficit in Conakry and the interior may best be addressed in the foreseeable future through harvest of marine resources. The price differential between the official and the parallel market for fish is larger than for most other products. The relatively small quantity of fresh fish traded at the official price and the modest number of beneficiaries means that many would gain while few would be disadvantaged. There would also be employment benefits from both fishing and marketing of fish products.

5.4.2 Strategy

Marine fishing is a highly attractive foreign investment opportunity. At present, fishing also represents the most promising source for increasing protein in the local diet. Foreign investment for supplying the internal market is unlikely, however, because of the official foreign exchange rate and current marketing practices.

5.4.2.1 Marine Fishing for Export Markets

The ATF recommends that marine fishing for export markets receive priority attention. A potential foreign investor has been identified who is interested in exporting shrimp, lobster, and shark.

In assessing the attractiveness of such a venture, a foreign entrepreneur would first need to satisfy himself regarding the marine resources in Guinean waters. Such resources are found in several countries; therefore, the advantages of Guinean site would have to be determined by such complementary factors as:

- Terms for negotiating fishing rights
- Sharing of benefits
- Availability of infrastructure and support facilities
- Availability of a dependable, trainable labor force

Another factor important to the investor and also in the best interest of the Government is to upgrade patrol of Guinean waters, thereby reducing poaching and protecting the value of fisheries concessions. New patrol vessels and training of crew and officers are essential. Attention might be given to ways to draw upon U.S. expertise, public and private, for this type of training.

A potential investor should be encouraged to conduct a detailed feasibility study of a self-contained enterprise at Kamsar for export of shrimp, lobster, and shark. Such an operation would generate some quantities of other varieties of fish which could be sold locally. There is also the possibility of selling fish to the mining company at Kamsar.

The ATF believes that financing for the project at Kamsar can be organized if other conditions are in place, including:

- Adequate marine resources
- Reasonable arrangements for protecting fishing rights
- Quality technical and management services
- Autonomy in choice and utilization of local labor

Exploratory discussions have begun with the African Development Bank in Abidjan, the Development Fund of the Economic Community of West African States (Lome), the Islamic Investment Fund (DMI) in Geneva, and the International Finance Corporation (IFC) in Washington, D.C. These discussions have been encouraging. Local currency might be made available through PL480 counterpart funds.

5.4.2.2 Marine Fishing for the Internal Market

It would be difficult to attract investors interested in supplying fish to the internal markets. This is primarily due to the official currency exchange rate and price controls. The ATF feels that consideration should be given to eliminating the official price for fish.

An approach to consider would be the creation of a mixed enterprise with minimal foreign equity participation, but with expatriate management operating under a performance incentive contract. The enterprise could be created through reorganization of Soguipeche, the national fishery organization. The enterprise would operate autonomously and would make use of talent already present at Soguipeche. It would be desirable for the enterprise to sell for export as well as for the local market. Investment would need to be made in modern equipment and there must be assurance, through firm arrangements made by the Government, for minimum foreign exchange needs for fuel, parts, amortization of equipment, and management service costs.

The venture would require concessionary financing, which is expected to be available once marketing, management, and foreign exchange needs of the enterprise are in place.

Guinea could be outfitted with a modern fleet at a reasonable cost. Shrimp trawlers and other boats of high quality are available for purchase or lease on favorable terms in North America and elsewhere. Many of these boats are relatively new with low fuel consumption, but are currently underutilized as a consequence of the 200-mile limit for national marine resource exploitation. For a cost of about four million U.S. dollars, a fleet of perhaps ten ships could be delivered to Guinea, complemented by a basic supporting infrastructure (including a modest slipway, repair and support facilities, limited freezing and icemaking equipment, spare parts, etc.). This might also include the means for smoking fish. The fleet might be leased initially to reduce the level of investment required until the viability of the operation is demonstrated.

The ATF was impressed with the dedication and interest of senior officials of Soguipeche and of the Ministry of Livestock and Fisheries. The Guinean artisanal fishermen have proven to be adaptable even under difficult operating conditions. It is the opinion of the ATF that these segments could be restructured to respond effectively to the country's needs. The ATF understands that discussions are taking place with the African Development Bank to prepare a project directed to artisanal fishing. The ATF believes an effort to liberalize internal marketing should be attempted for fish products.

5.4.3 ATF Recommendations

Foreign exchange resources for investment in marine fishing for both export and internal markets may be obtained. For the internal market, this will be through concessionary financing when favorable marketing and operating conditions are put in place. The priority of this opportunity is such that the ATF recommends that necessary adjustments in Guinean resource allocations be made to assure its development. The ATF recommends that:

- Investors be encouraged to set-up one or more self-contained export enterprises, probably at Kamsar

- Government patrol of Guinean waters be upgraded to reduce illegal use and to protect the value of fisheries concessions

- Actions be taken to encourage more commercial and artisanal fishing for the internal markets, including:

  - liberalizaton of trade in fish within the Guinean economy

  - formation of an autonomous mixed enterprise through reorganization of Soguipeche, to supply fish to both export and internal markets (the export market would generate some of the foreign exchange needed for the company's operations)

  - preparation of the analyses required in seeking concessionary financing for the enterprise

- provision by the Government for the essential foreign exchange requirements of the mixed enterprise for fuel, parts, amortization of equipment, and management services

5.5 SMALLHOLDERS' VEGETABLE AND CEREAL PRODUCTION TO SUBSTITUTE FOR IMPORTS BY MINING ENTERPRISES

Guinea has four mining complexes with substantial populations. They are:

- Compagnie des Bauxites de Guinee (CBG), which exports approximately 9 million metric tons of bauxite annually and accounts for 75 to 80 percent of Guinea's foreign exchange earnings. Fifty-one percent of the equity of CBG is owned by a group of nine, predominately North American, multi-national investors with the remaining 49 percent owned by the Government of Guinea.

- Office de Bauxites de Kindia (OBK), is a state company managed by the Soviets. The OBK produces approximately 2.5 million tons of bauxite annually, most of which is sent to the Soviet Union on a clearing account basis.

- Friguia, located in Fria, produces approximately 650,000 tons of alumina. The company is owned by a French-led consortium of western aluminum companies and by the Government of Guinea.

- Association Pour la Recherche Du Diamant et De L'Or (Aredor) located at Kissidougou, mines gold and diamonds.

The Mifergui-Nimba iron mine, of which U.S. Steel is the lead organization in a consortium of multi-nationals currently negotiating with the Government, may also be in operation by the late 1980s.

CBG, Friguia, and Aredor each support communities of about 40,000 people. All of these companies import large quantities of food for employees and their dependents. CBG food imports are valued at 10 million U.S. dollars annually. This amount includes import of 4,000 to 6,000 tons of rice with a market value on the order of 1.0 million U.S. dollars.

Much of the food currently being imported by the mining companies could be produced within Guinea. The opportunity for import substitution has been hampered by problems of organizing production, quality control, collection, post-harvest handling, the general shortage of food within Guinea, but above all by pricing.

5.5.1 Observations

The mining companies pay low prices for imported rice because they buy in large quantities by international tender and use negotiated charter shipping from Europe and North America. The landed cost for rice is approximately U.S. $0.22 per pound or 12 sylis per kilogram at the official rate of 24.7 sylis to one U.S. dollar. CBG allows its employees to purchase rice at cost plus 20 percent. The market price for locally produced rice in rural markets around Kamsar/Boke is 55 sylis per kilogram.

The CBG has indicated an interest in purchasing local food products as a substitute for imports if three basic requirements are met:

- Consistent quality
- Substantial quantity and reliable supply
- Competitive price

Rice and vegetable oil seem to be particularly appropriate for import substitution. Rice is a desirable commodity because it is central to the farm economy and there is a consumer preference for local rice.

5.5.2 Strategy

The ATF suggests an initial experiment or pilot project in the Kamsar area to provide rice for CBG. Other products could be tested, using the model developed, and the project could be replicated in other mining communities.

The pilot project would consist of a nucleus farm and rice mill. Most of the rice would be produced by smallholders with the nucleus farm providing about 40% of the mill's requirements. The nucleus farm would also conduct research and provide training, through demonstration, to affiliated farmers in improved methods of production.

Locally produced rice would be purchased by the nucleus farm which would then sell the processed rice to CBG under a requirements contract with payment in dollars or barter goods. The nucleus farm would be the conduit for bringing fertilizer, improved seeds, tools, and basic staples to the producers.

The major questions which need to be answered in order to determine whether such a project is viable are:

- Will production be at a cost which would be competitive with that of imports?

- Can there be an adequate margin or return for the intervening enterprise?

The ATF recommends that a feasibility study be undertaken to determine the design and cost of this pilot project and to estimate the cost of producing rice and the price the enterprise might expect to receive for its rice.

Trade within Guinea would be by barter. Private trade in cereals is not viable if foreign investors must conduct transactions at the official market price. Also use of barter will make available fertilizer, spare parts, tools, and staples which might otherwise be unobtainable.

The CBG does not wish to engage in agricultural production but would encourage an intervening enterprise to substitute for imports where possible. The intervening enterprise would be a private company with Guinean and U.S. investors. It would operate the nucleus farm and rice mill under a financing arrangement which will need to be clarified. Collaboration between the Company and the CBG offers two essential benefits:

- Importation on favorable terms of nitrates which the CBG uses in large quantities for its mining operations

- Ability to provide facilities and services on a cost-effective basis, possibly including transportation, which markedly reduces the investment and management problems for start-up

The pilot project should be of a scale which would keep investment in infrastructure and facilities minimal. The visit of the ATF to Kamsar was too brief to survey possible production sites, but areas visited gave the impression that land holdings of sufficient size might be organized for the nucleus farm and smallholder production. The initial activity would:

- Consist primarily of smallholder production but would also include a nucleus farm, the scale of which should be determined during the feasibility study

- Require local private participation to organize the producers and encourage them to follow recommended agricultural practices

- Rely on increase in yields through improved inputs on traditionally cultivated land areas with some minor improvements to permit second cropping in low-lying areas subjected to flooding during the rainy season

- Carefully schedule physical investments for farm equipment, handling and storage facilities, rice milling, limited irrigation facilities, etc. to balance risk, investment, and potential return

There is a fundamental problem of risk management as it relates to the scale of the project and its economic viability. If the project is begun on a modest scale with carefully controlled investments, it is not likely that the initial form will generate a cash flow which would permit recovery of the cost of expatriate management and technical services. On the other hand, given the low base price for rice and the necessity of putting in place a complicated barter system for which the operating cost will be difficult to predict, it is prudent to begin on

a modest scale. A U.S. private agribusiness firm is unlikely to invest in such a project until the organizational and economic framework is successfully demonstrated through a pilot project. It would be desirable to have a potential investor involved in design of the project and in provision of management services.

Possibilities of funding the pilot project should be explored during the feasibility study phase. This is a promising opportunity because of the importance of food production for internal consumption and because the rice will be sold for hard currency. The project would also serve to renumerate local labor; demonstrate that improved technical and management practices make a quantitative difference in agriculture; and, increase the flow of commodities (barter goods) into the local economy. This project is also important because it could be used as a model for other crops. If a way cannot be found to move to and beyond a pilot project for rice production, this will illustrate how critical the foreign exchange convertibility issue is to the development of agricultural production in a potentially rich agrarian economy.

The ATF recommends that a rice production and processing pilot project in Kamsar be given priority attention.

There are some areas for concern in using this model. Barter is a means of entry to the grey zone between the official and parallel market. There is a risk that purchasing rice using desirable barter goods will induce displacement of rice from internal deficit markets to CBG. This may be addressed through the substantial increase in production expected from use of modernizing inputs. However, farmers cannot be expected to substantially increase production unless they are able to realize an equitable return which covers their costs of production and allows for some margin.

It may not be possible to stimulate local production and support an enterprise in the face of a market price of U.S. $0.22 per pound of rice. Several nations in West Africa have faced the choice of higher internal production costs in lieu of imports. Where these countries have chosen to produce key commodities,

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governments have afforded protection or subsidy. In this case, the subsidy appears to fall first upon the industrial enterprise. The ground rules and attendant costs to all parties must be made clear at the outset, so as to avoid undermining this most promising area for stimulating internal food production.

5.5.3 ATF Recommendations

The ATF recommends that ways be found to encourage the development of enterprises which would produce food for the mining companies and thereby earn foreign currency. A pilot project must first be developed to test whether such an enterprise could be profitable for a foreign investor. The proposed pilot project is a nucleus farm with a rice mill which would rely primarily on smallholders for production. The processed rice would be sold to CBG for hard currency. The following steps are recommended:

- Obtain financing for a feasibility study

- Contract with an outside consultant to conduct a feasibility study; the study should detail project design and operation, financial requirements and projected revenues, and an implementation plan for the pilot project

- Encourage the participation of several potential investors in project design and analysis

- Establish ground rules for the initial experiment including the form of the enterprise which will manage the pilot project and conditions related to pricing, financing, internal trade, etc.

5.6 SUGARCANE PRODUCTION AND PROCESSING

Guinea imports approximately 4,000 metric tons of sugar per year through official channels. There is also considerable commerce through the parallel market. Sugar supplied through the official market cannot begin to meet demand but the country has been unable to import greater amount because of lack of foreign exchange.

Guinea has the climate and soil conditions which would allow successful production of cane sugar. Guinea's leaders are properly inquiring as to whether it would be appropriate to develop a domestic sugar industry. Many nations set a high priority on becoming self-sufficient in sugar, both to reduce the strain on foreign exchange and to insure an adequate supply of this basic staple. Sugar is particularly valuable as a concentrated source of carbohydrates and calories in countries where transport and storage of perishable foods is inadequate.

Several steps have been taken in Guinea in preparation for sugar production, in particular:

- A small processing plant and sugarcane fields were established at Koba. The plant, built with Chinese assistance, is not currently operating on a commercial basis

- A research station and seed farm is in place at Banian, primarily engaged in identification of cane varieties suitable for Guinea. Expansion of the facility has been suspended

- A feasibility study has been conducted for an agro-industrial sugar complex at Banian

5.6.1 Observations

The ATF visited the research station and seed farm in Banian. Research has identified several appropriate cane varieties and experimental results are generally favorable. The cane at Banian is currently only rainfed and the cane observed was dried out. Unless provision is made for supplemental irrigation during the dry season, cane growth will be poor. The feasibility study should be modified to include irrigaton during the dry season and to reflect the cost and increased yields in the economic evaluation.

The processing facility and sugarcane fields at Koba are not now operational. It is the opinion of the ATF that an investment in rehabilitation is not worthwhile.

5.6.2 Strategy

A sugar industry cannot be developed on a small scale through sequential investments. The installation of a modest-sized processing plant calls for a capacity which would require that Guinea produce for internal consumption and some export. Capital investment required to establish a small-scale cane sugar complex would be approximately 25-30 million U.S. dollars. Because the basic investment in a processing plant and farm equipment is large, there would be a need to divert significant foreign exchange from other projects to cover the cost of amortizing the investment, importing spare parts and supplies, and technical and managerial assistance. The selling price of sugar would have to be adequate so the company could repay its debts and cover ongoing capital and operating costs.

The free market price of sugar is currently extremely low. Therefore, the Government must decide to what extent becoming self-sufficient in sugar is an immediate priority. The first requirement is to have a realistic assessment of the cost and foreign exchange requirements of production and export in comparison with foreign exchange and costs for continued importation. During the first years of developing a cane sugar project, investment of capital and foreign exchange is intensive with payout heavily weighted towards later years. Central to the analysis of when it will be appropriate to consider development of a domestic industry is an appreciation of world market trends. When market conditions improve, investing organizations and suppliers would likely come forward and would be able to organize financing and provide management. Since the majority of consumption would be internal, Guinea would have to assure foreign exchange requirements for the enterprise.

5.6.3 ATF Recommendations

Development of a sugar industry for Guinea does not represent a foreign investment opportunity at present. It may, however, be appropriate at some future date for the Government to sponsor development of a sugar industry to satisfy internal demand. The ATF recommends that:

- Cost for installation of a basic sugar production industry be reevaluated, making provision for dry season irrigation

- A comparative analysis be undertaken of production and marketing costs and foreign exchange implications for domestic production versus continued importation, with particular emphasis on sensitivity to variations of the world market price

5.7 ADDITIONAL PRODUCT OPPORTUNITIES

5.7.1 Specialty Crops

Production of crops which have a high unit market value and can be produced on relatively small land areas should be considered. Such specialty crops require careful control of quality, treatment, and handling to the point of export sale. Examples of specialty crops which could be produced in Guinea include expanded areas of cinchona (raw material for quinine), medicinals, essences, spices, and nuts (cashews and macadamia nuts). Careful attention to market penetration, siting, and organization of production, handling, processing, and market systems is required for each product. Technical assistance will be desirable.

5.7.2 Importation and Testing of Seeds and Grafted Plants

Seed varieties and plant stock and production methods developed through research in other tropical countries should be tried in Guinea. The basic tasks are to:

- Obtain the modest financial resources needed for exchange with research centers and external producers and to import quality seeds and plant stock

- Identify who can manage the testing, seed multiplication, and nursery activities which will be required

- Establish a program which includes station and field testing in suitable locations throughout the country

- Train a modest number of agents and demonstration farmers in field trials, grafting techniques, seed multiplication, etc.

To be included are new varieties for:

- Staples--corn, rice, yams, etc.;
- Fruits--solo papaya, tomatoes, onions, etc.; and,
- Grafted plants--citrus, mango, and avocados.

This work may begin in a small, informal manner; it might be linked with the effort to test, and prepare to introduce, specialty crops.

5.7.3 Food Processing

Small- to medium-scale regional processing plants might be viable in Guinea to supply local population centers with food requirements. A processing complex should control or grow at least 40 to 60 percent of its raw materials and buy the balance from nearby farmers who could be supplied with seed, fertilizers, tools, technical assistance, etc. These operations would produce for the domestic market and consequently would not generate foreign exchange needed to attract private investment.

Joint venture agreements or management incentive contracts might be made with the Government contributing the capital, land, buildings, and machinery. Donor financing would be required with a foreign enterprise furnishing technical and managerial skills. This form of import substitution requires careful analysis of comparative costs and foreign exchange savings and assurance about continuing access to foreign exchange. The most evident prospects are: rice drying, sorting and milling; vegetable oil processing; preliminary treatment of coffee beans; and, a small, all purpose fruit and vegetable cannery.

Processing opportunities for export might include: a shrimp and fish freezing plant, a cashew nut processing plant and a fresh fruit and vegetable packing house.

6. PRIMARY CONSTRAINTS TO U.S. PRIVATE-SECTOR INVESTMENT IN AGRIBUSINESS IN GUINEA

Investment in Guinea is discouraged by unfavorable world market conditions for many tropical agricultural commodities and by constraints within the economy. Monetary, marketing, and administrative obstacles must be overcome. Information resources, research, and basic services must be developed. Public financing should complement foreign and local private investment in Guinea. The following points summarize the major constraints to U.S. private investment in Guinea.

Foreign exchange conversion rate. The official rate of exchange in Guinea is 24.7 sylis to 1 U.S. dollar. The parallel or street rate is 150 sylis to 1 U.S. dollar. Private foreign investors will not be willing to make substantial purchases of local good or services at the official market rate. Until the exchange rate is adjusted, barter will be the most acceptable way of dealing with the internal economy. However, trading by barter is complex and cumbersome and U.S. firms unused to the barter system will be hesitant to engage in this practice unless potential return on investment is significant.

Underdevelopment of infrastructure and services. The lack of basic infrastructure and services will retard potential investment where an enterprise's reliance on public infrastructure and services is critical to its success. The alternative is for the foreign enterprise to become self-contained by making its own provision for basic services. Again, this option is only open to industries which may expect significant return of its investment to allow for the massive expenditure required.

Of particular importance is the need for collaboration between public and private sources of investment and financing--communication and coordination between the Government and the investor are essential.

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Lack of sufficient information on Guinea. The U.S. business community in Guinea is small and the general businessman in the U.S. is not well-acquainted with local conditions, Government attitudes towards the U.S., or potential opportunities. An effort must be made to increase awareness in the U.S. business community of Guineans receptiveness to U.S. business investment and the potential opportunities for investment.

A strategy is needed for making Guinea known. One step is assisting potential investors within Guinea through providing a point of contact to which they may go for information, access to leaders, and follow-up for investment and administrative actions. Outside Guinea, efforts should be to identify opportunities and determine how to pursue selective businesses in specific markets. This procedure should be complemented by flow of factual information about the investment climate and investment performance. Drawing upon the Guinean Embassy to the U.S. and on U.S. agencies, public and private, the way will be clarified to consider other public relations measures.

Reliability of supply lines. A foreign enteprise operating in Guinea will be concerned about problems of maintaining lines of supply, obtaining spare parts, and ability to repair and replace equipment to assure timeliness in production and delivery schedules. These problems will cause the foreign enterprise to use forms of investment which will be protected from rather than stimulative of the internal economy.

Exposure of agribusiness enterprises to the internal economy. Unlike the mining and energy industries, agribusiness activities are most beneficial when they reach into the internal economy. For agribusiness investment to occur, there must be confidence in public services, access to Government agencies, and freedom from unanticipated constraints.

Shortage of experienced local technicians and managers. Modern agribusiness requires the contributions of many skilled employees. It will not be economical for the foreign enterprise to maintain large numbers of expatriate employees so it is important that there be a source of qualified skilled technicians, supervisory personnel, and managers upon which the enterprise can rely. Of particular concern to the agro-industrial enterprise are artisans, mechanics, equipment operators, agriculturists, supervisory personnel, chemists, accountants, and clerical staff.

Price control of commodities. Official prices of selected commodities which are below the costs of production will discourage foreign investors from participating in the internal economy.

Language. While not a major concern, some investors will be reluctant to do business in a country when English is not commonly used. Most U.S. businesses are most comfortable when language of contracts, negotiations, etc. is in English because of the misunderstandings which can result from translations. It is important that U.S. businesses recognize the importance of their local representatives speaking and understanding French. By the same token, it will benefit Guinea if priority is given to teaching English as a second language in its schools.