Sahel and West Africa Club/OECD &

Economic Community of West African States

THE PRIVATE SECTOR IN GUINEA BISSAU'S POST-CONFLICT RECONSTRUCTION

Dr. Ousmane Biram SANE
International Consultant
FCPC Guinea Bissau

Regional Workshop on Post-conflict and Development

(for the development of a regional post-conflict reconstruction policy)

Golf Hotel
Abidjan, Côte d'Ivoire
3 - 5 June 2008

The Republic of Guinea Bissau is facing a difficult socio-economic situation. Over the last years, the country has experienced weak economic growth and limited development of the private sector. The 2007 HDI placed Guinea Bissau 175th out of 177 indicating the gigantic challenges ahead. Furthermore, *Doing Business* ranked Guinea Bissau 44th out of the 46 Sub-Saharan African countries and 46th in the ability to launch a business.

The Guinea Bissau's private sector has truly begun to benefit from the USAID support programme, *Trade and Investment Promotion Support* (TIPS), launched at the beginning of the 1990s. During this same time, the World Bank supported an economic management programme to go along with the private sector development strategy. This programme, at the end of twenty years of economic planning, had two major objectives: i) encourage private domestic and foreign investment through privatisation, business infrastructure reforms and the renovation of viable production infrastructure; and ii) improve the investment climate by reforming the legal framework and business environment.

Despite this effort, the Guinean private sector still remains under-developed with few foreign-owned "formal" private businesses. Informal taxably undeclared businesses continue to increase ranging from small business to merchants in international business of which sales figures are more than hundreds of thousands of US dollars.

However, within this far from pretty picture, during this same period an industrial zone was emerging in the Bra region. The industrial zone of the same name contained approximately twenty industrial businesses and was referred to as the industrial driver of Guinea Bissau with business evolving in various domains such as cashew nut processing, industrial gas and oxygen production, paint manufacturing, metallurgy, mechanics, electricity, poultry farming, etc. Benefiting from the 1990s wave of liberalism, the Bra industrial zone experienced a veritable boom with much hope unfortunately dashed by the armed conflict at the end of the same decade.

The war of June 1998 affected the country's entire economy as well as Bissau's economic driver, the emerging industrial zone of Bra. Unexpectedly, the war took a heavy toll on this young country's nascent private sector, a war with which it was not at all concerned. All private investment suddenly ceased. Statistics indicate that the loss in private capital following the destruction, requisition, confiscation and pillaging of private property as well as the complete loss of business opportunities reached 90 million US dollars. The private sector, left without capital, was severely weakened spreading to the banking system, its natural financial resource.

The damage was not simply in terms of loss and profits. Hence, the ruination of the private sector, even though it is perceived as the collateral effects of war, reveals a dimension that can unexaggeratedly be compared to an "economic crime." In effect, without categorising armed conflicts in Africa, we can however wonder how they are financed. In the case of Guinea Bissau, the private sector found itself forcedly financing the war effort. Under these conditions and to find a happy medium, the private sector must be taken into account within the post-conflict reconstruction issue. The Guinean private sector, in particular that in the Bra industrial zone, has understood and raised State and development partners' awareness on the issues regarding reconstruction of the country's industrial fabric.

Years following the politico-military conflict of June 1998, the private sector's participation in economic activities is still limited and inefficient due to financial precariousness, loss of assets during the armed conflict and lack of investment consequently leading to a weak economic growth. However, in its poverty reduction programme, Guinea Bissau places the revival of the private sector at the core of its strategy, adopting the theory that a well-structured and dynamic private sector will lead to the creation of wealth and reduce poverty. Unfortunately this conviction is negated otherwise impeded in countries which have experienced armed conflict like Guinea Bissau. In this country, the private sector has trouble getting back on its feet after the devastation of June 1998. Hence there is much questioning with regard to its future.

How to revive the private sector post-conflict? Who is going to foot the bill? How to establish sound economic foundations for entrepreneurs to once again take up activities? In Africa, where already the lack of capital is explained by a low savings rate which is a serious handicap, it is essential to include the re-launching of private investment in post-conflict reconstruction strategies.

In Guinea Bissau, the demand for private sector support originates with those directly concerned and supported by the State. In effect, the site of the Bra industrial zone was once an important military base well before the armed conflict. During the conflict, this economic zone became a base for the military junta which explains the physical destruction of the twenty-or-so businesses located there as well as the requisition of equipment and pillaging. This led to the loss of physical and financial capital. Hence, capital is greatly needed certainly for the country's reconstruction but also for its affected private sector.

There is a tremendous time lag between the end of the conflict and the reconstitution of business capacities enabling banks to fully play their financial intermediation role therefore impeding entrepreneurs' efforts. Thus, **without support measures post-conflict economies will have difficulty dealing with these constraints to private investment**. In effect, responses provided often fall short of what is needed. Taking into account the unsatisfactory response of the banking market and as it is a high-risk country, **exceptional efforts** must be undertaken to revive post-conflict economies.

How to attract even re-elicit private investment in a post-conflict context? The response to this question indicated that this issue required in-depth and strategic thinking on the understanding of the issue as well as how to turn this thinking into concrete actions. In the case of Guinea Bissau, clarification was important as the responses provided were at the stage of experiment.

In the form of support provided to re-launch private investment, there is a slight subtlety because by analysing the pilot experience underway, the creators of the Post-conflict Co-participation Fund[1] (FCPC) in Guinea Bissau (presented at the Praia workshop) talks of **stimulating the response** to the financial demand for private investment. The philosophy behind this mechanism is understood. Unconditional direct aid was never a question nor less compensation but rather **a lever** (for those who make an effort to take action). It is clear that it will not be easy to restore what was prior to the conflict but rather to **select economically productive projects**, needing additional investment with a view to significantly contributing to short-and medium-term growth. This also involves **supporting feasible businesses which attract additional private investment as well as viable public business which would eventually be privatised or liquidated**, with the understanding that State-controlled businesses are not financed. Finally, **the selection of non-economic targets as well as moral risks should be avoided** where there is a question of this Fund's good governance.

Several alternatives were considered in setting up this type of programme to support the Bissau Guinean private sector affected by conflict such as i) direct partial compensation for war damages to the private sector; ii) participating in the form of shareholders equity to targeted businesses with the mobilisation of private financing sources; and iii) **direct subsidies** to strengthen an equity financing facility.

Why is this formula preferred over the others? Because direct compensation of war damages may not inevitably generate new investment and could lead to problems in identifying said damages. Direct

[1] Fonds de Coparticipation Post-Conflit

participation in the form of shareholders equity through private sources like venture capital was not viable due to lack of investment funds and an unfavourable investment climate in Guinea Bissau. Subsidies for strengthening equity financing which relies on a cost-sharing basis was selected under the following conditions: *(i) subsidising only to supplement private investment on a 50/50 basis; (ii) seeking a subsidy disbursement mechanism which would prevent these subsidies being used for any other use other for which they were originally intended; (iii) beneficiaries produce and disburse first the totality of their compensation before using the subsidy; (iv) only pre-war existing or privatised businesses are eligible; (v) the project presented by the business should be economically and financially viable.*

The governance of such a programme inevitably presents issues so that a consensual plan must be sought which is capable of assuring **transparency, equity, and independence** of such funds. Thus strategic governance is assured by a Subsidy Committee comprised of 5 members from the State, the private sector, civil society, the coordinator of the programme and the Manager of the Post-conflict Co-participation Fund. Operational governance is assured by the manager of the Fund and an international independent expert.

What assessment can be made from the Bissau Guinean Post-conflict Co-participation Fund pilot experience? The FCPC is a 3 million US dollar pilot experience which makes sense in such a small country. It helped launch 10 private businesses with an objective of 10 to 15. The process has been long, coming up on four years of which the objective was less than two years illustrating the importance of the capacity to absorb financing. Several activity sectors were affected such as fisheries, import-substituting industries, poultry farming, BPW, hydrocarbons, etc.

The experience has proven that the self-financing of businesses, victims of the 1998 armed conflict, remains difficult to resolve and that, in this area, the Fund as a stimulator or catalyser is not inevitably enough to convince the credit market, meaning the banks, to follow the philosophy of post-conflict reconstruction. However one of the Fund's impacts was to make war-bankrupted entrepreneurs "bankable" firstly for those who had the willingness to launch their business and then they could mobilise a subsidy limited to 100 million CFA F per project. Does the bank's commercial rationale remain the same, armed conflict or not? In their defence, the banks themselves have not survived this tragedy and as private businesses they are subject to the same constraints as non-financial businesses. Certainly the revival of the private sector and the banking system differs from one country to another. Is there a need for post-conflict reconstruction banks?

In conclusion, despite the modesty of its means, the Bissau Guinean post-conflict private sector reconstruction programme has been an overall positive experience in its context. The perspective of such an experience and the lessons learned should be capitalised on and fed into strategic thinking in order to develop a regional post-conflict reconstruction policy giving priority to the entrepreneurs because **war kills business, it does not kill the enterprising spirit!**

****