Guinea

2011

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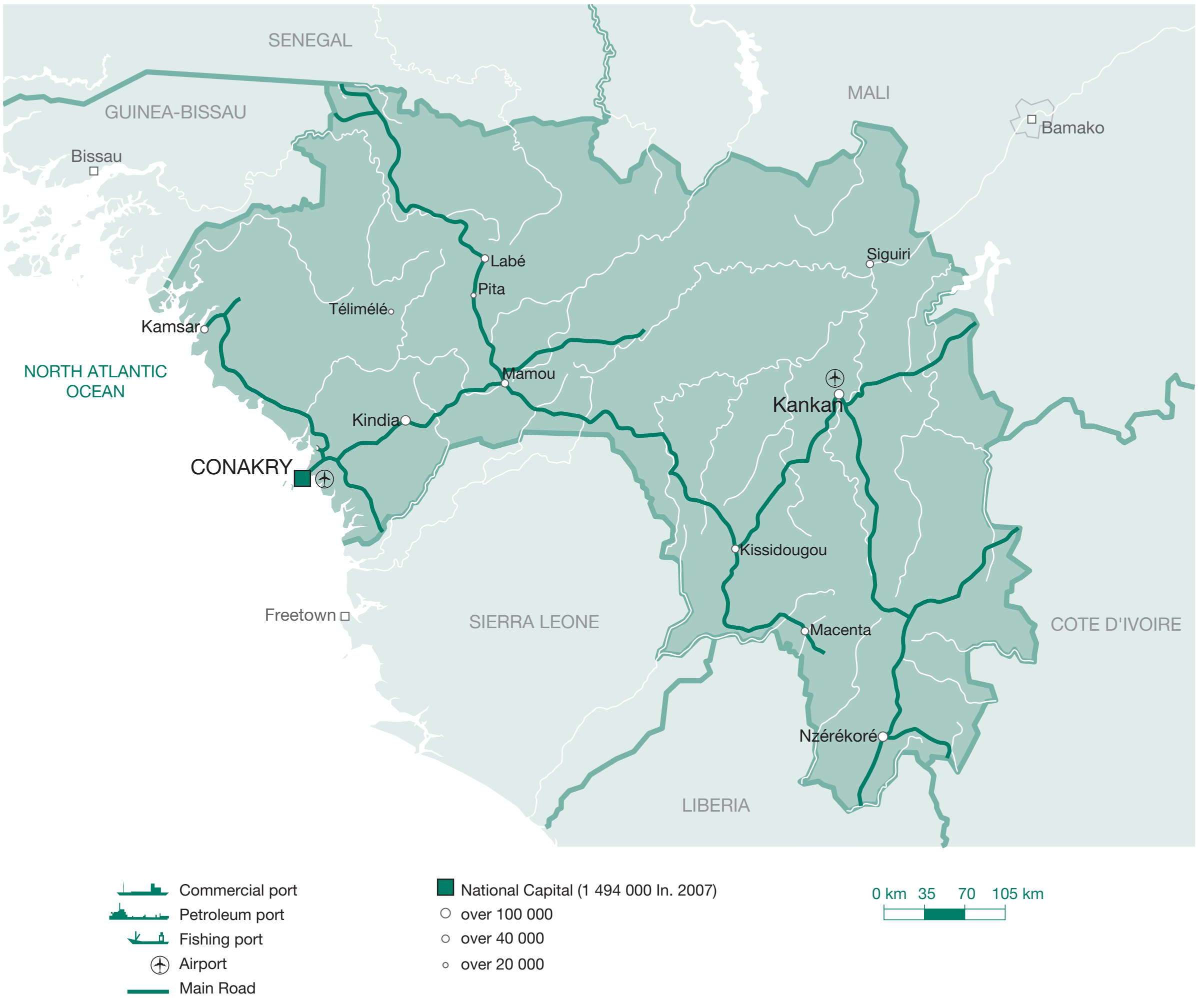

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Guinea

Overview

Guinea is a poor, fragile country, despite considerable unexploited economic potential. It has the world's largest reserves of bauxite (two-thirds of global reserves), as well as large deposits of iron ore, gold and diamonds. It also has the potential to develop other metals, oil and gas. Persistent structural and institutional weaknesses have prevented Guinea from developing a strategic vision and implementing the type of policies needed to reap the full benefit of its mineral wealth.

From 1985 to 2002, Guinea engaged in a process of economic liberalisation and transformation that drove real gross domestic product (GDP) growth to an average of 4% per year over the period (equal to a 0.8% increase in per capita income), while stabilising prices and the exchange rate. Problems in the implementation of reforms between 2003 and 2006 resulted in a 0.6% fall in per capita income, and the economic slump subsequently worsened in 2007 as a result of the global crisis. In response to these difficulties, since 2007 Guinea has been conducting reforms under its second poverty reduction strategy (PRSP2), which is supported by the International Monetary Fund's (IMF) Poverty Reduction and Growth Facility (PRGF) and by other technical and financial partners. The reforms bore fruit in 2008, despite the difficult international context, as growth accelerated from 1.8% in 2007 to 4.9% in 2008. From 2009, however, the economic situation was marked by the combined effects of the economic and financial crisis and the socio-political crisis, resulting in a 0.3% fall in GDP.

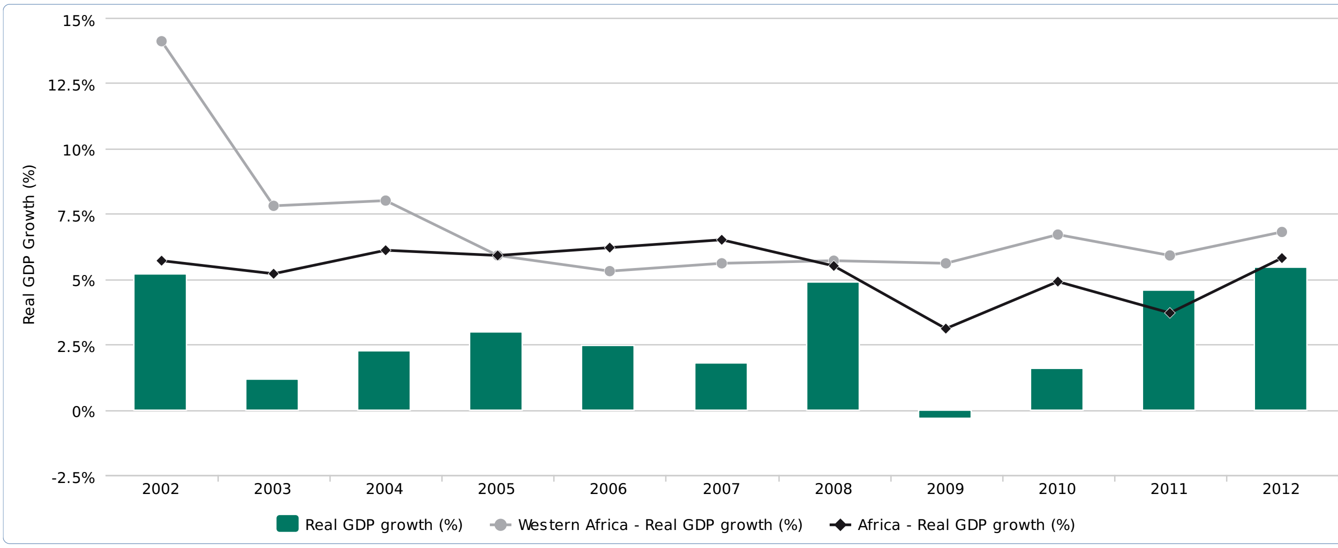
The economic situation remains difficult, as reflected in the 2010 indicators. The rate of economic growth is 1.6%, too low to reduce poverty. The high rate of inflation (15.8%) continues to undermine the population's purchasing power. The poverty rate, which stood at 49% in 2002, reached 55% in 2010. Foreign exchange reserves have dwindled to only 1.9 months of imports. Domestic and foreign arrears have rocketed, making it difficult to improve the macroeconomic situation. Added to all this is a substantial reduction in official development assistance (ODA), both bilateral and multilateral, and increased prices for the main imported products, such as food and oil. If these trends are not reversed soon, it will be difficult for Guinea to reach the completion point of the Heavily Indebted Poor Countries (HIPC) Initiative, even though it had nearly attained this important milestone at the end of 2008.

Over the last decade, Guinea has experienced recurring socio-political instability marked by state violence against the civilian population. This socio-political environment is not conducive to private sector development.

The first free elections in Guinea's history were held on 27 June 2010. These elections should lead to a new constitutional order, the return of the army and security forces to barracks and their transformation into a national force for peace, democracy and development.

The stabilisation of the socio-political situation, following the presidential elections in 2010, and the global economic recovery should lead to a pick-up in growth beginning in 2011.

Figure 1: Real GDP growth (W)



Source: National authorities' data; estimates and predictions based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	-0.3	1.6	4.6	5.5
CPI inflation	4.7	15.8	13.5	8.2
Budget balance % GDP	-8.4	-12	-10.8	-9.3
Current account % GDP	-9.2	-8.3	-5.6	-3.6

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2010
Agriculture, forestry, fishing & hunting	24.2	23.8
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	18.8	23.8
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	6.6	6.2
of which hydrocarbon	-	-
Electricity, gas and water	0.5	0.4
Electricity, water and sewerage	-	-
Construction	8.9	9.5
Wholesale and retail trade, hotels and restaurants	18.9	15.9
of which hotels and restaurants	-	-
Transport, storage and communication	6.6	5.6
Transport and storage, information and communication	-	-
Finance, real estate and business services	-	-
Financial intermediation, real estate services, business and other service activities	-	-
General government services	12.8	12
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	2.8	2.7
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department; DNP.

Figures for 2010 are estimates; for 2011 and later are projections.

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The gloomy outlook in 2010 detracted from the dynamism of economic activity. Growth in 2010 is estimated at

1.6%, a significant drop in real per capita income of 1.5%. On the supply side, the weak growth rate was due largely to the low value added of the secondary (32.6% of GDP) and tertiary (37.8% of GDP) sectors, which recorded growth rates of 2.1% and 2.4% respectively. The primary sector (21.8% of GDP) grew by 3.2% thanks to the "agriculture and hunting" and "livestock" sub-sectors.

The agricultural sector recorded growth of 3.6%, meeting the target for 2010. Agriculture and livestock benefited from government emphasis, supported by development partners, on reform, agricultural techniques and inputs. In addition, they were helped by ample rainfall throughout the country, leading to good harvests. The reforms planned by the authorities should raise growth in the primary sector to 3.9% in 2011 and 5.3% in 2012.

In the secondary sector, mining grew by 1.1% (compared with a 5% fall in production in 2009). The recovery of this sector in 2010 was slowed by problems encountered by state mining firms: the demurrage charged to *Compagnie de bauxite de Guinée* (CBG), two accidents on the railway of *Société de bauxite de Kindia* (SBK), and technical difficulties related to production by *Société minière de Dinguiraye* (SMD). Growth in construction accelerated from 1% in 2009 to 4.7% in 2010. However, this was below the target of 6.5% growth, thus contributing to the poor growth performance of the secondary sector. Manufacturing also performed below expectations (a growth rate of 1.1% as against the target of 2.1%), largely owing to a major drop of 36% in flour production.

The tertiary sector expanded by 2.4%, up from 0.8% in 2009. This acceleration was mainly due to the government services, transport and trade sub-sectors, the performances of which are correlated with the evolution of the other sub-sectors. The tertiary growth rate could reach 3.8% in 2011 and average 4.6% over the 2012-14 period, thanks to a general recovery of economic activity in all the service sub-sectors, which will be underpinned by improvement in economic infrastructure (water, electricity and telecommunications) and in the business environment.

On the demand side, total final consumption fell by 6.5% in 2010. The drop in household incomes reduced demand, leading to an 8.5% fall in private consumption. Public consumption, however, increased by a substantial 9.7%, because of civil service hiring, which increased the wage bill by 53.8%, and the rise in consumption of goods and services, which more than doubled during 2010.

The investment situation improved in 2010. Total gross fixed capital formation (GFCF) grew by 20.9%, compared with a 14.8% fall in 2009. This large rise occurred mainly in the mining sector, driving a 25% increase in private GFCF, compared with 11.8% in 2009. Public investment grew less strongly (12%) and failed to boost growth or substantially reduce poverty, because it was oriented towards non-productive sectors such as security and defence. Furthermore, since foreign aid was suspended, public investment was largely financed out of the national development budget, thus widening the budget deficit.

The residual growth in GDP is accounted for by the external balance, which saw accelerated growth in imports (+24.3%) and exports (+34.9%) of goods and services. These changes were due mainly to the increase in export prices and the strong depreciation of the Guinean franc (GNF) against major currencies.

Boosted by external demand and the international situation, growth should increase with the help of internal drivers: the emergence of domestic demand, the maintenance of a healthy macroeconomic framework supported by the promotion of good governance, continued public finance reforms and increased public resource mobilisation. A calmer social climate reinforced by a policy to combat poverty through decentralisation and microfinance will definitely affect growth, especially in the food production, livestock, traditional fishing and gold prospecting sectors.

Growth is projected to increase from 1.6% in 2010 to 4.6% in 2011, stabilising at 5.5% in 2011.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	**2009**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Gross capital formation	19.2	17.3	20.9	7.7	10.3	6.1	2.7	3.7
Public	4.4	5.5	12	-10	2.1	1.1	-1	0.2
Private	14.8	11.8	25	15	13	5	3.7	3.5
Consumption	85.2	94.6	-6.5	3.9	-0.1	-5.4	3	-0.1
Public	8	9	9.7	-7.9	-6	0.9	-0.8	-0.5
Private	77.1	85.6	-8.5	5.6	0.6	-6.3	3.8	0.4
External sector	-4.3	-12	-	-	-	0.9	-1.1	1.9
Exports	27.5	25.6	3.1	13.2	9.5	0.7	3.1	2.4
Imports	-31.8	-37.6	-0.6	11.8	1.3	0.2	-4.2	-0.5
Real GDP growth rate	-	-	-	-	-	1.6	4.6	5.5

Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Macroeconomic Policy

Macroeconomic objectives for 2011-12 include: *i)* economic growth of 4.6% in 2011 and 5.5% in 2012, raising per capita income by 1.5% and 2.4% respectively, driven by a high investment rate (28% of GDP); *ii)* single-digit inflation (down to 13.5% in 2011 and 8.2% in 2012) and a 3% variation in the exchange rate against the US dollar (USD) through a reduction in the exchange rate premium; *iii)* convergence between growth of the money supply and nominal GDP growth at around 15% per year, with credit to the private sector limited to the real rate of GDP growth.

These targets are constrained by the primary deficit, projected at 9.4% of GDP in 2011 and 8.0% in 2012, and the low level of foreign exchange reserves (2.5 months of imports). Other projections are along the same lines as these core objectives, the achievement of which depends on the economic policies over the 2011-12 period, in particular: *i)* the maintenance of a healthy macroeconomic framework; *ii)* the implementation of an effective monetary policy and the strengthening of the financial system with prudent fiscal policies; *iii)* taking account of regional economic and financial integration; and *iv)* the pursuit of structural reforms regarding budgetary transparency, the securing of public resources, effective debt management and improvement in the business climate.

Fiscal Policy

Despite the freeze on external budget support, domestic revenue collection efforts have led to encouraging, though insufficient, results. The government's priorities focus on increased mobilisation of domestic resources based on tax efficiency, through the control and strengthening of tax administration in the light of weak growth, and, failing that, a short-term increase in the tax base; and lower government spending and rational use of public resources, with transparency in the execution of budgetary procedures.

The sharp rise in current expenditure in 2010 widened both the overall budget deficit excluding grants and interest (12% of GDP) and the primary deficit (10.2% of GDP). Revenue excluding grants (15.3% of GDP) was 30% higher than in 2009, as a result of the 24.7% rise in mining revenue (3.4% of GDP) and 31% rise in non-mining revenue (13.1% of GDP). Total expenditure, however, increased by 44.9% over 2009, with current expenditure (19.7% of GDP) rising by 43% and capital expenditure (8.9% of GDP) by 49.6%. The latter includes a 61.5% increase in investment financed from domestic resources (46.4% of tax revenue), while investment financed by foreign resources shrank by 3.5%. Public expenditure is rising, with a particular emphasis on social spending, spending on infrastructure (water, electricity and renovating barracks) and interest payments, which, despite their relatively low level, represented 20% of capital expenditure in 2010. Expenditure is increasing faster than revenue because of the countercyclical policy followed during a period of weak growth.

As a result of the expenditures executed in 2010, the state is in debt to the banking system, the treasury is in debt to the central bank, and arrears have accumulated on the payment of foreign debt. Nevertheless, the level of public spending is 3 to 5 percentage points lower than that of fragile African states and West African Economic and Monetary Union (WAEMU) countries.

The budget problems were managed without an increase in the tax burden, but in the medium term, by revising mining and oil taxes and broadening the tax base, the government intends to raise the tax burden slightly from 15.2% in 2010 to 18.8% in 2012, before consolidating it at close to 20% by 2013. Improving tax governance will remain a major concern, with greater tax administration capacity, simplification of the tax system, and an increase in the rate of value added tax, particularly in the modern and corporate sectors.

Guinea's fiscal system is that of an economy in the middle of the process of monetisation and restructuring. In 2010, the most important tax and duty categories are taxes on goods and services (33% of tax revenue), on foreign trade transactions (24.5%) and on income and business profits (16.3%).

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	15	15.8	16.3	16.7	16.7	15.3	13.9
Tax revenue	11.9	13.6	14.8	15.8	14.7	13.8	12.6
Oil revenue	-	-	-	-	-	-	-
Grants	1.9	1.4	0.5	0.4	1.4	1	0.7
Other revenues	-	-	-	-	-	-	-
Total expenditure and net lending (a)	19.9	15.3	17.5	25.1	28.7	26.1	23.2
Current expenditure	13.4	11.3	13.4	17.5	19.7	17.9	15.5
Excluding interest	11.6	8.9	10.8	15.3	17.9	16.5	14.2
Wages and salaries	4.1	3.5	4.1	5.3	5.1	5.5	6
Goods and services	3.6	3.2	4.8	6.5	9	7.9	5.8
Interest	1.8	2.4	2.6	2.2	1.8	1.4	1.3
Capital expenditure	6.3	3.9	4	7.5	8.9	8.2	7.7
Primary balance	-3	2.9	1.4	-6.2	-10.2	-9.4	-8
Overall balance	-4.8	0.5	-1.2	-8.4	-12	-10.8	-9.3

a. Only major items are reported.
Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

Monetary policy is designed and conducted by the central bank (BCRG) in close collaboration with the finance minister and aided by the oversight committees for prices, foreign exchange, banks and microfinance. The BCRG, which enjoys only relative autonomy, has played a decisive role in the entire reform process and the economic and financial transformation of the country.

In the monetary sector, the average economic liquidity rate (expressed by monetary volume as a percentage of GDP) was 28.5% in 2010, compared with 26.8% in 2009. This illiquidity restricts the effectiveness of monetary policy in the battle against inflation and currency depreciation. It also prevents appropriate financing of the economy.

The money supply increased by 29.6% in 2010, as against 25.3% a year earlier. As all external budget support has stopped, the BCRG has no choice but to finance budgetary operations by printing banknotes. This has caused an explosion in monetary aggregates: in 2010, net claims on the government increased by 124.7% over 2009, which limits the effectiveness of monetary policy.

In 2010, the Guinean franc depreciated by an estimated 28.5% against the US dollar and an estimated 13.8% against the euro (EUR), as a result of less stringent management of currency reserves and measures aimed at strict control of the parallel market. The increase in the money supply is thus correlated with the depreciation in the exchange rate of the Guinean franc against major currencies.

The inflation rate for 2010 was 15.8%, up from 4.7% in 2009. This rise was due to the wait-and-see attitude of economic agents during the electoral period, the strong depreciation of the Guinean franc against the currencies of its main trading partners, and the implementation of expansionist monetary and budget policies. The ongoing reforms of monetary policy and strict management of public finances, as was the case in 2009, should enable the country to curb the unstable rise in market prices over the next two years. Inflation should fall to 13.5% in 2011 and to 8.2% in 2012.

Gross external assets have increased from USD 163.50 million in 2009 to USD 279.2 million in 2010, estimated to be the equivalent of 1.9 months of imports of goods and services in 2010, up from 1.4 months in 2009. Factors influencing the level of reserves include the lack of foreign aid, strong demand for foreign exchange to finance goods imports and the fact that much export revenue is not repatriated.

The main objective of monetary policy is to control inflation. With this in mind, the BCRG should continue to direct its efforts towards better management of liquid assets. The state, meanwhile, is expected to issue Treasury bills to finance its deficit. On 29 June 2010, the BCRG reached an agreement with the finance minister with a view to reducing the public debt. This agreement was accompanied by a payment schedule. The public debt amounted to 85.5% of money creation as of 31 December 2009. Furthermore, to enable more effective management of bank liquidity, the autonomous liquidity factors team created in December 2009 should make it possible to evaluate the level of the BCRG's intervention on the money market and to anticipate the short-term evolution of its liquid assets. The BCRG is thinking of reviving the inter-bank exchange market for the Guinean franc with a view to obtaining optimal allocation of liquidity within the banking system. This would allow the BCRG fully to play its role as lender of last resort thanks to an appreciable reduction in the pressure on the currency resulting from the demand of commercial banks.

The BCRG is stepping up its support to the banking system in a bid to reduce credit risks, focusing its efforts on improving the credit bureau (*Centrale des risques*) and setting up a default risk system (*Centrale des incidents de paiements*). Furthermore, the BCRG envisages introducing new measures to: *i)* increase the country's foreign exchange reserves; *ii)* improve the functioning of foreign exchange markets; *iii)* limit the financing of the budget deficit through Treasury bills to a maximum of 5% of the average tax revenue over the previous three fiscal years for a period not exceeding 92 days, in accordance with the BCRG's charter; *iv)* strengthen the existing financial intermediation institutions and open new branches in the country; and *v)* create new financial intermediation institutions to densify and diversify financial services.

For 2011, the aims of monetary policy remain, first, to maintain the PRGF framework and pursue the PRGF measures with a view to greater stability of prices, the currency and the financial system; and second, to create an environment that fosters the reconstitution of foreign exchange reserves and the development of instruments to finance the private sector, particularly through reform of the microfinance sector. The BCRG will thus control liquidity with a view to achieving the intermediate goals, namely, *i)* to rebuild foreign exchange reserves to one month and subsequently three to four months of imports, and *ii)* to keep growth in the money supply at the rate of nominal GDP growth (15% on average), to reduce inflation rates to single digits, and to keep exchange rate fluctuations within a snake of 15%. In this way, monetary policy will be constrained by the performance criteria of the PRGF and the convergence criteria of the West African Monetary Zone (WAMZ).

External Position

Guinea's balance of goods and services is structurally in deficit because of a fairly large deficit in the balance of services, which is only partly offset by the trade balance, which often shows a surplus.

The structure of external trade in goods is dominated by mining exports (14.5% of GDP in 2010), made up mainly of bauxite, which accounted in 2010 for 34% of total revenue from goods exports. Guinea's main customers are India, Spain, Russia, Germany, Ireland, the United States and France. Imports in 2010 were composed of intermediate and capital goods (46.8%), food products and other consumer items (35.3%) and petroleum products (25.9%) from China, the Netherlands, France and the United Kingdom. Services exports (4.6% of total goods and services exports) are the third greatest source of export revenue, ahead of agricultural products, and services imports (26% of total goods and services imports) are the main import item. Since 2009, with the collapse of aluminium prices by more than 40%, gold has taken over to become the main source of export revenue (more than 57%).

In total, exports of goods increased by 34% in value (f.o.b.) in 2010, up from 26% in 2009. This raised the GDP share of exports by 6.8 percentage points to 30.8%. Imports increased from 24.2% of GDP to 27.5%. The trade balance improved by 3.5 percentage points, owing to the rise in gold and diamond prices and the increase (relative to the downward trend in 2009) in those for bauxite and alumina. Consequently, the coverage rate increased by 130.9% in 2009 and 142.1% in 2010.

Nevertheless, the deficit in the balance of goods and services increased slightly to 6.2% of GDP from 5.8% in 2009, because of the recovery in economic activity and mining exports. This deficit reflects the fact that total local demand greatly exceeds local production of goods and services, because of low productivity and inappropriate specialisation.

The persistent current account deficit, which fell from 9.2% of GDP in 2009 to 8.3% in 2010, is a result of the

Guinean economy's lack of competitiveness, which contributes to the depreciation of the national currency.

The absence of external aid due to the financial and political crises has contributed to the rise in the balance of payments deficit and the low level of gross foreign exchange reserves, which represented 1.9 months of imports in 2010, compared to 1.4 months in 2009.

In 2010, foreign direct investment (FDI) amounted to an estimated USD 140.85 million, only 12.5% of the 2009 level, because of the wait-and-see attitude of economic agents, which in turn was due to delays in the presidential elections. The Guinean authorities plan to revive the economic forum on private investment in Guinea, while taking to heart the lessons of World Bank studies on the ease of doing business and restructuring of the mining sector. FDI flows should reach USD 540.30 million in 2011 and USD 567.32 million in 2012.

Reaching the completion point under the HIPC Initiative, for which the country has been eligible since 2000, should provide a substantial boost. Achievement of this objective has been delayed since 2008. The country is facing a heavy burden in external debt, the level of which (both payments due and arrears) is estimated at EUR 3.02 billion (67.1% of GDP) for 2010, compared with EUR 3.09 billion (66.7% of GDP) in 2009. The debt is mainly public and multilateral (65%). The accumulated arrears represented around 1.1% of the debt stock in 2010. The cost of servicing external debt is estimated at USD 174.7 million, 11.8% of the export value of goods and services (and 32.0% of tax revenue), which is a rise of 1 percentage point compared with 2009. With this level of debt, the government has little margin for financing its poverty reduction programmes out of the budget. In a context of declining public investment, the government has no choice but to accumulate arrears to maintain certain items of public expenditure. Debt reduction will enable Guinea to adopt a budget oriented towards innovative development programmes.

The debt situation could be stabilised over the next two years to prevent the accumulation of arrears. The presidential elections on 27 June 2010 offer good prospects for restoring mutual trust and for the resumption of dialogue with technical and financial partners in the international community, with a view to the implementation of the PRSP and continued reforms under the extension of the PRGF to 2011 and 2012.

In terms of regional co-operation, Guinea should also meet its obligations under its membership of the Economic Community of West African States (ECOWAS), the Mano River Union (MRU) and the WAMZ. ECOWAS supports member countries in negotiating Economic Partnership Agreements (EPAs) with the European Union (EU).

Integration projects for implementation in 2010-14 are being identified and jointly prepared with development partners in the irrigated agriculture and infrastructure sectors, especially transport and energy, focusing on improvement, integration, and food and energy security.

In terms of macroeconomic and financial stability, Guinea should improve on its weak convergence performance. In 2010, the country did not meet any of the four first-order criteria and satisfied only one of the six second-order criteria, namely, that domestic financing out of the national development budget should be equal to 46% of domestic revenue.

Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	3.8	-0.3	-0.5	-0.2	3.3	3.6	5.3
Exports of goods (f.o.b.)	24.4	29.1	29.8	24	30.8	30.5	31.1
Imports of goods (f.o.b.)	20.6	29.4	30.4	24.2	27.5	26.9	25.8
Services	-8.1	-6	-7.5	-5.9	-9.4	-7	-6.9
Factor income	-1.5	-1.5	-1.8	-3.8	-1.9	-1.9	-1.7
Current transfers	1	-3.2	0.4	0.8	-0.3	-0.3	-0.2
Current account balance	-4.9	-11	-9.4	-9.2	-8.3	-5.6	-3.6

Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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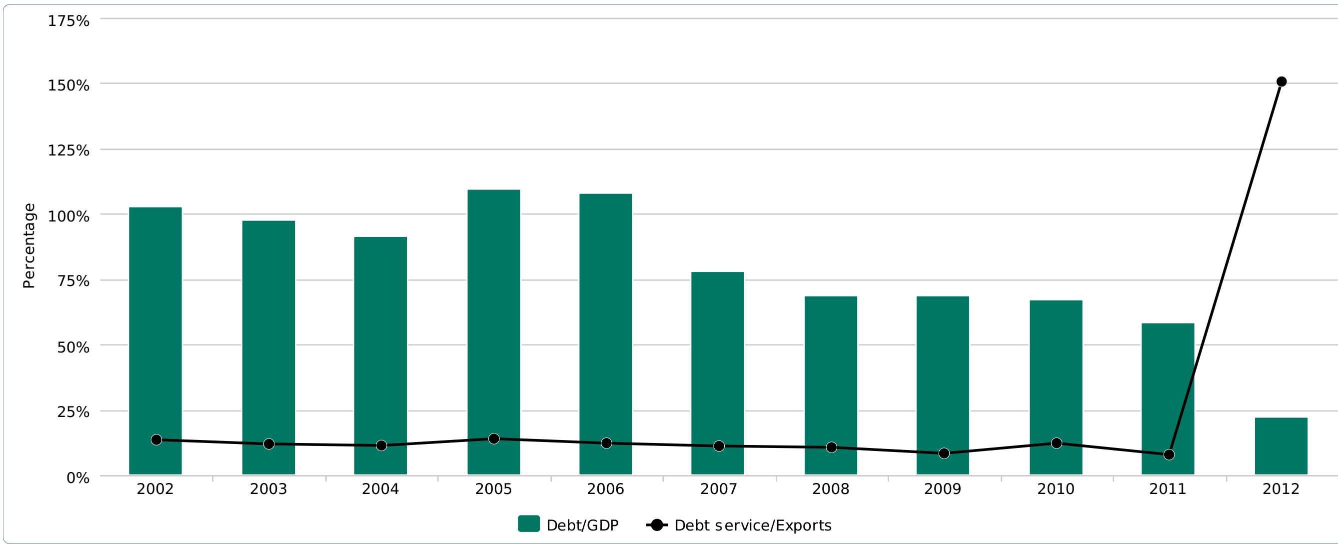
Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: National authorities' data; estimates and predictions based on authors' calculations.

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Structural Issues

Private Sector Development

The Guinean economy is regarded as fragile and vulnerable to the vicissitudes of the international economic climate. It has a narrow investment and production base dominated by a mainly primary mining sector, which co-exists with a relatively large informal sector. The economy has only a limited ability to implement the institutional and structural reforms that are nevertheless necessary to increase growth and reduce poverty.

Measures to promote private sector development aim to: *i)* formulate a policy to promote the private sector; *ii)* improve the investment climate; *iii)* step up financial and non-financial support to the private sector; *iv)* lay on basic services for industrial zones and create industrial free zones; *v)* strengthen the managerial capacities of Guinean business developers; and *vi)* facilitate market access through regional integration.

This will involve amending the Investment Code, which dates from 1995 and needs updating to make investment more attractive. With this in mind, the government plans to draw up a private sector policy paper in partnership with the United Nations Development Programme (UNDP).

Together, these actions should lead to the creation of an institutional framework consisting of the ministries responsible for promoting the private sector, agencies for private sector promotion and support, business organisations, chambers of commerce, banking systems and any other support mechanism (education and support funds, guarantee funds, holding funds) initiated by the government and development partners.

The government envisages creating a new agency to promote private investment (APIP) to replace the *Office de promotion des investissements en Guinée* (OPIP). The remit of the new body would be broader, and would include: *i)* creating a one-stop shop to facilitate and improve the follow-up of the formalities for starting, modifying and closing companies and businesses; *ii)* making the small and medium enterprise and industry (SME-SMI) Investment Code consistent with sectoral codes; and *iii)* pursuing harmonisation with other ECOWAS agencies.

The privatisations that took place after 2000 are being supported by measures aimed at improving the business climate, but the results have not been satisfactory. In the World Bank's *Doing Business* reports, Guinea's ranking fell from 179th in 2009 to 183rd in 2010.

Despite the measures taken in the good governance action plan (2007-10), implemented by the national anti-corruption agency (ANLC), the results in terms of reducing corruption have been poor because of, among other factors, institutional instability and poor macroeconomic management. Given the impunity and poor management that have plagued the Guinean economy over the past three years, the objective of reducing the corruption index from 36% in 2003 to 10% in 2010 has not been achieved.

Guinea moved up from 173rd place in 2008 to 168th place in 2009 and 164th place in 2010 in Transparency International's Corruption Perceptions Index.

Prospects are good for 2011 and especially 2012, thanks to a return to a new constitutional order, the rebuilding of trust with development partners and improved stability in the sub-region. These developments will help to improve the business climate and the attractiveness of investing in Guinea. A decisive signal would come from a revival in OECD countries, economic recovery in developing countries, especially in Asia, and an easing of conditions on mining markets.

Aluminium prices and especially gold prices will gradually increase. The revival in the mining sector will boost related sectors (construction, services and indirect taxes) and FDI in the agricultural, infrastructure and utility (communication and energy) sectors.

Other Recent Developments

As a member of the WAMZ, Guinea has enjoyed the support of partners such as the African Development Bank Group in modernising international means of payment. The project is at an advanced stage.

For the mining sector in particular, the government intends to strengthen transparency and monitoring in close collaboration with development partners and through its involvement in the Extractive Industries Transparency Initiative. With the support of the World Bank, the government envisages implementing the PACEM project to improve growth and mining-related employment with a view to creating lasting jobs in the mining sector.

Questions of political governance, especially security, worry most technical and financial partners. They are being addressed with the African Union (AU) and ECOWAS, and with United Nations agencies and bilateral partners. Reform of the judicial sector, a study of which was led by the EU, should be one of the priorities in the new government's road map.

The authorities face a major challenge in meeting the criteria necessary to reach the completion point in 2011, which is necessary if it is to benefit from the Multilateral Debt Relief Initiative. As of December 2010, of the ten indicators used as criteria for the completion point of the HIPC Initiative, six had been reached. These relate to improvement of the database on poverty, the implementation of a regulatory framework for microfinance institutions, publication of the annual report of the national good governance and anti-corruption agency (ANBGLC), improvement of the gross primary school enrolment rate, the recruitment of 1 500 teachers per year and improvement of the rate of DPT3 vaccination in the battle against the target diseases of the Expanded Vaccination Programme. The four indicators that were not achieved concerned satisfactory implementation of the PRSP, auditing of large procurement contracts, improvement of the rate of post-natal consultations and the PRGF, which was not finalised because of the *coup d'état* in December 2008. To achieve the four remaining indicators, all stakeholders will need to rally together to restore constitutional order, reform the army and security forces, and consolidate peace.

Emerging Economic Partnerships

Apart from its traditional partners, Guinea relies upon the aid and presence of emerging partners such as China, Russia, Saudi Arabia and Iran. The partnership with China was established soon after Guinea gained its independence. It was the first sub-Saharan African country to establish diplomatic relations with China, on 4 October 1959. In 2003, China became Guinea's second most important trade partner, after France. Their relationship involves trade, investment, aid and international affairs.

Emerging partners provided 18.1% of exports and 11.4% of imports in 2008, up from 5.3% and 7.2% respectively in 2000. Guinea exports only small quantities of a few products to China: logs or sawn wood, cork, fish, raw rubber, non-ferrous metals. Most of these products are not exported continually. Exports to China as a proportion of all Guinea's exports increased from 0.01% in 2000 to around 2% in 2008 as the country began to export new products, especially precious metals, which alone accounted for 92% of total exports from Guinea to China in 2002. Guinea's imports from China have grown considerably in value over the past few years, from USD 28.5 million (approximately 4.6% of Guinean imports) in 2000 to USD 128.2 million (approximately 6.7% of Guinean imports) in 2008. Most of these imports are textile yarns, fabrics and other manufactured articles; vehicles; and coffee, tea, cocoa, spices and manufactures thereof. Russia and India accounted for 15.6% and 0.4% respectively of total Guinean exports in 2008 and 0.8% and 2.6% of total imports in the same year.

The flow of FDI from emerging countries to Guinea is rising fast, but the volume remains relatively low. Inward FDI originates mainly from China (the main source) and Russia. In 2005, the stock of Chinese FDI in Guinea accounted for 6.4% of the total stock. In the medium term, China plans to finance the construction of a 750 megawatt hydroelectric dam in Guinea. In exchange, Guinea will guarantee China access to mining resources equivalent to 2 billion tonnes of bauxite. The Chinese private sector is involved in various areas of the Guinean economy: wholesale and retail trade, restaurants and hotels, textiles, communication and construction.

The importance of China as Guinea's main emerging partner is also apparent in the area of official development assistance. Most of the co-operative agreements between the two countries are in the form of interest-free loans, followed by economic and technical co–operation agreements and, lastly, commercial loans. In 2008, the Chinese ambassador to Guinea announced that in future Chinese aid to Guinea would focus on social projects. Projects that have recently been completed or are currently under way include the construction of a 50 000–seat stadium and technical assistance concerning the servicing and maintenance of the Guinean public broadcaster's equipment and the presidential palace.

Other non-traditional partners such as Iran, Saudi Arabia and Malaysia are also interested in Guinea. In addition to diplomatic relations, these countries are involved in mining and quarrying, transport and insurance.

Guinea could further develop its relations with its emerging partners by adopting a more active strategy and by focusing its efforts on developing relations with emerging countries, especially oil-producing countries.

Political Context

For over a decade, Guinea has faced many challenges, including poor governance, weak public institutions and non-separation of powers. These factors have degraded the business environment and limited opportunities for growth and poverty reduction. Following the 2010 presidential elections, the socio-political situation should improve, and the medium-term prospects are promising if the political class decides to reform the army and security forces and the legal and judiciary system, engage in more dialogue and consolidate peace. The situation will also improve if the country continues to enjoy effective support from African institutions (AU, ECOWAS and African mediation), from the EU and from the wider international community.

Since the economic reforms of the 1986-2002 period and the subsequent loss of direction in 2003-06, the political situation has been characterised by failure to enforce the rule of law and control corruption, as well as a lack of enlightened leadership on the central issues of the national and democratic consensus to deal with the major challenges of growth and combating poverty.

Over the past decade, indicators of institutional governance (political process, effectiveness of government and public service, rule of law and regulatory quality, perception of corruption) have been among the lowest in the sub-region. The Corruption Perceptions Index has ranked Guinea in the bottom fifth of countries for over ten years.

Poor management of the democratic political process (especially the elections of 1998, 2001-02 and those initially scheduled for 2009), added to the effects of the various political (2006-07 and 2009) and military crises in the sub-region, has worsened the political situation. These crises maintained periodic tensions between, on one hand, the political class dominated by the presidential majority, and on the other, an unorganised opposition (composed mainly of the social and trade union movements, and parts of the political class, with diverging interests). The opposition has been reduced to silence and regularly exposed to violence on the part of the state, especially between 2007 and 2009.

The democratic, multi-party presidential elections in 2010 mark the country's return to civilian rule almost two years after the National Council for Democracy and Development (CNDD) took power. The CNDD suspended the constitution and dissolved the National Assembly, plunging Guinea into a constitutional void that affected the running of the government. The new political context has sparked immense hope among Guineans and gives the country a new economic outlook. It should be noted that the elections were marked by tension and that a state of emergency was declared when the results were announced.

The new government has two major objectives: to lay the groundwork for a proper national reconciliation and to organise transparent parliamentary elections, which should help to establish democracy firmly in Guinea. The general and local elections are due to take place in 2011.

The establishment of strong, transparent institutions after the presidential elections will open the way for discussions with development partners concerning a programme based on the PRGF.

Regarding the improvement of political and democratic governance, the objectives are to strengthen the participation of political stakeholders and civil society in the democratic process through the holding of free, transparent parliamentary and local elections and to improve the quality of the work carried out by the institutions responsible for leading the democratic process.

Social Context and Human Resource Development

The population of Guinea was 9.9 million in 2008 and is projected to rise to 13.5 million by 2020, based on a growth rate of 3.1% per year and a fertility rate of 5.7 children per woman; the latter rate is falling, but is still well above the regional average of 4.6. The country faces a number of demographic challenges: the population is 28% urban, around 50% are under 20 years old, only 48% are active and more than 51% are female, of whom 47% are of reproductive age.

As infrastructure is weak and jobs uncertain, social demand and weak institutions constitute real challenges for the government and political class.

Guinea is quite poor despite its considerable economic potential. Real per capita income is falling steadily because of the country's strong inflation over the past few years. The poverty rate is around 55% (based on the national poverty line in 2010), compared with 49.2% in 2002 and 53% in 2007, while 70.1% of the population live on less than USD 1.25 per person per day, with huge inequalities in income.

The UNDP's Human Development Index is improving by 0.6% a year, and Guinea has moved up to 156th place out of 177 countries, standing at the West African average.

Intense migration takes place between Guinea and its neighbours, especially Senegal, Côte d'Ivoire, Sierra Leone and Liberia. Guinea has an emigration rate of 6.3%. Africa is the main destination, with 90.3% of emigrants moving to other African countries. Migrants account for 4.4% of the total population.

Indicators of well-being, education and health are fragile and often below the regional average. Basic social services are far from adequate and have not improved for ten years.

The level of poverty, together with the country's dilapidated infrastructure (housing, transport, energy, water and telecommunications), constitute a real challenge in the context of political, economic and monetary instability. Huge additional resources are needed to support faster growth. In education, Guinea has made efforts to improve primary schooling, gender parity, and parity between regions and between towns, but the objectives set in the PRSP2 have not been achieved for various reasons: *i)* the lack of funding for the sector (from 2000 to 2010, less than 12% of the national budget was allocated to education), including the suspension of some international funding; *ii)* the quality of expenditure, which has shown no notable improvement.

This situation has led to a regression in some of the key indicators for the achievement of the Millennium Development Goals. For instance, the overall gross enrolment rate fell from 79% in 2007/08 to 77% in 2008/09, still below the target of 83%. The rate for girls fell from 71% to 70% over the same period. The gender parity index rose from 0.81 in 2008 to 0.9 to in 2010.

The primary school completion rate declined from 60% in 2006 to 59% in 2009. Achieving a gross enrolment rate of 100% and gender parity by 2015 are realistic objectives that will be achieved. In the coming years, under of PRSP2, the authorities plan to focus on enhancing educational quality, coverage and access (building new infrastructure and improving the pupil/teacher ratio), on restoring infrastructure and on revising programmes in the other components of the education system (secondary, higher and technical education and vocational training) so as to improve employability – an important factor in growth and competitiveness.

Life expectancy in Guinea is 57.3 years, up by three years since 2004, while the probability of dying before the age of 40 is 23.7%. Overall performance in the health sector is mixed, however. Between 1999 and 2005, infant mortality fell by 7 points and child mortality by 14 points in urban areas, while in rural areas, the results are worrying: infant, child and maternal mortality rates are still high (91 per 1 000, 163 per 1 000 and 980 per 100 000 respectively). Approximately 40% of Guinean children aged under 5 suffer from chronic malnutrition.

The rate of vaccination is rising, although disparities persist depending on the region and place of residence, leading to the persistence and spread of certain endemic diseases.

The rate of HIV/AIDS prevalence, which was quite high in 1996-2001, declined from 2.8% in 2001 to 1.3% in 2009. Prevalence is much higher among women (1.9% of women aged 15–49) than among men (0.9% of men aged 15-49). The government has taken steps to improve epidemiological monitoring, voluntary testing and prevention of mother-child transmission, and to improve access to antiretroviral drugs, reducing the cost of treatment by a factor of 20.

The government is committed to free antiretroviral treatment, blood testing and treatment of opportunistic infections for those living with HIV/AIDS. It also intends to maintain its vigilance and determination to deal with endemic diseases such as malaria and tuberculosis, which continue to be public health problems and in some cases are spread by poor hygienic conditions: 21% of Guinean households do not have toilets and use poorly designed latrines or septic tanks. Only 7.7% of households are connected to the public drinking water supply. The use of wood and charcoal for cooking is very common in Guinea: wood is used by 78.2% of households, which is a major environmental concern.

Guinea is nicknamed "the water tower of West Africa", as it has many watercourses and the highest rainfall in the sub-region. Even so, much-desired structural and institutional reforms in the water and sanitation sector are proving hard to implement, and supply levels remain well below the regional average of 18.1% for electricity and 73.8% for drinking water.