DRAFT

Volume 1

GUINEA

INTEGRATED FRAMEWORK DIAGNOSTIC TRADE INTEGRATION STUDY

August 22, 2003

ACRONYMS

3AE	Agence Autonome d'Assistance intégrée aux Entreprises (Business assistance agency)
ACP	Africa Caribbean Pacific
AEA	All Except Arms
AFD	French Development Agency
AGOA	African Growth and Opportunity Act
APEI	Temporary authorization of import removal from customs
APEX	Temporary authorization of export removal from customs
ASS	Sub-Saharan Africa
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of the West African States)
BCRG	Central Bank of the Republic of Guinea
BNT	Non-Tariff Barriers
BOT	Build, Operate, Transfer
CAFEX	Centre d'Appui aux Formalités d'Exportation (Export assistance center)
CCIAG	Guinea Chamber of Commerce, Industry and Handicrafts
CET	Common External Tariff
CGC	Compagnie Guinéenne du Coton (Cotton c=Company)
CI	Integrated Framework
CIEG	European Investors Centre in Guinea
CIEPEX	Centre International d'Echanges et de Promotion des Exportations (International export promotion center)
CNPG	Centre National du Patronat Guinéen (Guinea's national employers association)
COMTRADE	United Nations International Trade Statistics Division
CPI	Consumer Price Index
DDE	Demande Descriptive d'Exportation (Export Permit application)
DDI	Demande Descriptive d'Importation (Import Permit application)
DEP	Declaration of temporary release
DFE	Entry Duty
DFI	Import Duty and Taxes
DOPM	Directorate for Sea Fisheries
ECA	Economic Community for Africa
ECOWAS	Economic Community for West African States
EDI	Electronic Data Interchange
EFE	Duty Free Export Enterprise
FAO	Food and Agriculture Organization
FDA	Food and Drug Administration
FIAS	Foreign Investment Advisory Service

FMI	International Monetary Fund
GATS	General Agreement on Trade Services
HDI	Human Development Index
HWS	Harmonized World System
IDE	Direct Foreign Investment
INMM	National Standards and Metrological Institute
IPE	Pre-Shipping Inspection
ISO	International Standards Organization
LPDH	Human Development Policy Statement
MGNFS	Imports of Goods and Non-Factor Services
MRU	Mano River Union
MRL	Maximum Residue Limit
NPF	Most Favored Nation
OHADA	Organization pour l'harmonization en Afrique du droit des affaires
OPIP	Office de Promotion des Investments Privés
PAC	Conakry Port Authority
PCM	Framework Monetary Cooperation Program
PCPEA	Framework Agriculture Exports Promotion Program
PCSDSP	Private Sector Support program
PIB	Gross National Product
PMA	Least Developed Countries
PNA	Program National d'Action
PNDH	National Human Development Program
PPTE	Highly Indebted Poor Countries
PREF	Economic and Financial Reform Program
PRSP	Poverty Reduction Strategy Paper
QUAD	Designates a group of four countries - Canada, United States, Japan and the EU
REPA	Regional Economic Partnership Agreement
RTL	Processing and Payment Duties
SGS	Société Générale de Surveillance
SME	Small and Medium-sized Enterprises
SNCQN	Service National du Control de la Qualité et des Normes
SPI	Service de la Protection Industrielle (Industrial Protection Service)
SPS (standards)	Sanitary and Phytosanitary Standards
TCER	Real effective Rate of Exchange
TCI	Taxe conjoncturelle à l'importation (Import activity tax)
TDP	Taxe dégressive de protection (Regressive protection tax)
UEMOA	Union Economique et Monétaire des Etats de l'Afrique de l'Ouest
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organisation
OPDA	Office de la Promotion et de Development de l'Artisanat

VAT	Value Added Tax
EU	European Union
WCO	World Customs Organization
ONFPP	Office National de Formation et de Perfectionnement Professionnel
WTO	World Trade Organization
XGNFS	Exports of Goods and Non Factor Services
ZMAO	Zone Monétaire d'Afrique de l'Ouest (West African Monetary Zone)

TABLE OF CONTENTS

<<NB: this has not been updated, pending approval of changes>>

LIST OF TABLES

LIST OF FIGURES

PREFACE[1]

The Integrated Framework program originated from the WTO Inter-Ministerial Conference, held in Singapore (December 1996), which mandated a high-level meeting to facilitate better integration of the Least Developed Countries (LDCs) in international trade. The participating agencies are: the IMF; International Trade Centre; UNCTAD; UNDP; the World Bank; and the WTO. After an initial phase in the implementation of the Integrated Framework initiative, the heads of those six institutions met to redefine the modalities for the Integrated Framework in order to integrate that initiative in the national development strategies. In 2002, a Trust Fund was created to enhance the impact of the initiative in favor of the least developed countries. The Fund's contributors are: Canada; Belgium; Denmark; Finland; France; the United Kingdom; Ireland; Japan; Norway; the Netherlands; Sweden; Switzerland; the United States of America; UNDP; the European Union; and the World Bank. Pilot studies were undertaken for Cambodia, Madagascar and Mauritania; subsequent diagnostic studies have been undertaken for a growing number of LDCs, including Burundi, Lesotho, Malawi, Nepal and Yemen.

The Government of Guinea applied to participate in the Integrated Framework program in 2002. To accelerate economic growth and reduce the incidence of poverty, Guinea has embarked on a Poverty Reduction Strategy. One of the pillars of the strategy is high and sustained growth, notably through the promotion of non-mining exports. This pillar thus requires the identification of policies and technical assistance that would allow Guinea to stimulate exports and growth. This study identifies the key impediments to trade diversification and expansion, and proposes a prioritized action and Technical Assistance (TA) plan that will enable trade to become a major instrument of the Government's growth and poverty reduction agenda.

Guinea has already benefited from the support of the international community in implementing trade-related. The many initiatives include the Agricultural Exports Promotion Project (PCPEA) initiated in August 1992 with the support of the World Bank, as well as the Private Sector Support Framework Program (PCSDSP) supported by UNDP. Analyses carried out through these projects

[1] The mission, composed of Gérard Chambas (consultant, mission chief) and Ahmed Ould Boilil, Catherine Araujo-Bonjean, Olivier Cadot, Facoly Coulibaly, Micheal Langstaff, Lancei Traore, Joseph Tomatis (consultants), and Ndiame Diop (Economist, Banque mondiale), expresses its gratitude to the Guinean authorities for the effective and cordial welcome extended to it during its stay in Guinea (December 9-20, 2002). It is particularly obliged to the Ministry of Commerce and Trade, notably the National Directorate for Trade and the National Follow-up Committee for the Integrated Framework. The various partners in development also facilitated its work May we express our thanks to everyone on behalf of the members of the mission.

(such as the Agricultural Competitiveness Study and the Agricultural Trade Facilitation Analysis under PCPEA) constituted substantial inputs for the present study. All the analysis pertaining to the Integrated Framework was carried out in close collaboration with the National Follow-up Committee, comprising representatives of various Ministries, the private sector and the civil society. Under the chairmanship of Mr. Fofana, National Director of Commerce, the Committee met several times and formulated observations on the guidelines for the work of the Integrated Framework. Overall guidance and support were provided by Messrs. Ezzeddine Larbi and Jan Weetjens throughout the completion of the report. Mr. Larbi additionally provided excellent inputs for the Chapters 1 and 2.

The present document is intended to assist the Government in detailing trade policy action in support of the growth and poverty agenda as laid out in its Poverty Reduction Strategy Paper (PRSP). The report also highlights technical assistance that could assist the Government of Guinea and the private sector in implementing the objective of better integrating into the world economy. Some of the proposed TA is in support of ongoing activities (for instance programs in the agricultural sector), and might need only slight modifications or benefit from greater political will. Other proposed TA activities differ significantly from present policies, such as the development of the fisheries sector.

Part 1 of the report (prepared by Gérard Chambas), which is a summary of analyses[2] in Part 2, has four components:

- An analytical summary including a Table 1 summarizing ten priority recommendations and six thematic matrices summarizing recommendations derived from the detailed analyses in Part 2. Those matrices indicate the needs in technical assistance entailed by those recommendations.
- Chapter 1 reviews Guinea's economy and particularly its macroeconomic[3] evolution and integration into the world economy.
- Chapter 2 analyzes the factors underlying the competitiveness of Guinean exports.
- Lastly, Chapter 3 summarizes the sector analyses (agriculture, fisheries, tourism, mining, and non-mining industrial crafts).

Part 2 includes nine chapters:

Chapter 1: External trade (Olivier Cadot)

Chapter 2: Customs and trade facilitation (Ahmed Mamoud Ould Boilil)

[2] An in-depth analysis may be found in Volume 2.
[3] That chapter includes the IMF contribution.

Chapter 3: Institutional arrangements to support the private sector and export promotion (Michael Fromageot Langstaff)

Chapter 4: International trade and poverty (Ndiame Diop, Stephen Miller)

Chapter 5: The agricultural sector (Catherine Araujo-Bonjean)

Chapter 6: Fisheries (Ahmed Mamoud Ould Boilil, François Henry)

Chapter 7: Tourism (Joseph Tomatis)

Chapter 8: Mining handicrafts (Lancéi Traoré)

Chapter 9: Non-mining handicrafts (Facoly Coulibaly)

EXECUTIVE SUMMARY

In its recent PRSP, the Government set as a goal to have the economy grow by 10 percent annually by 2010. Given the limited size of the domestic market, such a growth rate can only be reached through a dramatic expansion of exports. Export growth of such magnitude is potentially feasible due to the Guinean economy's abundance of natural resources and labor. This gives it a comparative advantage in a number of sectors, including agriculture and mining, which dominate the economy.

In achieving its growth and poverty reduction objectives through expansion of exports, Guinea can leverage the progress made since the beginning of the 1990s on liberalizing its economy. International and domestic trade have been to a significant extent liberalized. As a result, domestic prices are now freely determined in domestic markets while quantitative restrictions on imports, as well as capital controls, have been largely eliminated. The weighted average duty stands now at 18.5 percent and with a few exceptions, duties on imports are all *ad valorem*. Guinea benefits from membership in a number of trade organizations, notably the WTO and ECOWAS. In order to promote regional integration, Guinea, along with other non-WAEMU member countries of ECOWAS, decided in December 2000 to begin applying (starting on January 1 2005 for Guinea) the Common Exterior Tariff already adopted by the WAEMU countries.

In addition, the "Everything but Arms" (EBA) initiative, that increases LDC access to the EU, and the "Africa Growth Opportunity Act " (AGOA), that increases access to the US for Sub-Saharan African countries, provide Guinea with potentially greater market access. These two unilateral preferential initiatives will eliminate the total effect of tariff barriers and quantitative restrictions that hurt exports from eligible countries, with the exception of sugar, rice and bananas, which are protected in Europe. The Guinean economy, which already benefited from preferential access in Europe, due to the EU-ACP (Cotonou Agreement), is eligible for these two initiatives. These opportunities to export to a larger market, in spite of their drawbacks (including rules of origin and exceptions for politically sensitive products) provide some incentive to increase Guinean exports through foreign direct investment in agriculture and in light industries (garments). In the short run, they equally offer to the government a great incentive and a roadmap to modernize the economy.

Guinea has however a long way to go. Its competitive position in the global market is hampered by cumbersome customs procedures, dysfunctional foreign exchange and capital markets, and by poor infrastructure. Political instability during the last two decades- armed conflicts in the neighboring countries of Liberia, Sierra Leone, and recently Cote D'Ivoire-- has further limited the scope for regional trade. As a result, Guinea's exports structure shows an extreme lack of diversification. Mining products accounts for 93 percent of total goods exports in 2001. Bauxite, along with aluminium, represent 60 percent of total goods exports. Coffee, fish and other agricultural exports, including pineapples, mangoes, and bananas make up the bulk of the remaining 7 percent of exports—although in the years following independence, agricultural exports dominated. This excessive dependency on its mining sector leaves its economy overly influenced by unfavorable world prices for bauxite and uncertain prospects for its mining sector hampered by increasing production costs. At the same time, it has provided little opportunity to reduce rural poverty, as most employment is still based in the agricultural sector. Therefore, despite two decades of trade and other market liberalizations, poverty has remained stubbornly at around 40 percent of the total population.

The aim in this report is to propose a progressive and pragmatic action plan to overcome these barriers to trade, and to develop and sustain trade that takes advantage of Guinea comparative advantages, while providing real opportunities for income generation for its poor. This plan includes (i) reforms to improve the competitiveness and performance of the economy that will send positive signals to domestic and foreign investors, otherwise called horizontal or cross-cutting reforms; and (ii) sector-specific reforms that will stimulate the production of goods, for which Guinea is already known to have a competitive advantage.

Horizontal Reforms

First and foremost, efforts to improve the **macroeconomic environment** should continue. While the Government has undertaken prudent macroeconomic policies during most of the 1990s, the recent record is quite poor. Inflation (consumer prices) increased from 3.0 percent in 1996 to 6.8 percent in 2000 before falling back down to 4percent in 2001. Due to an expansive monetary policy deemed necessary to finance the budget deficit, inflation climbed back up to 6.1 percent in 2002. The relatively high inflation is due to the rise in costs of petroleum products, to the continued depreciation of the Guinean franc, and to statutory over-taking of advances from the Central Bank to the state. Avoiding macroeconomic instability simultaneously facilitates export promotion and poverty reduction. Difficulties in mobilizing public resources—due to a narrow tax base and to weaknesses in the administration of taxes—have caused recurring difficulties in managing public finances. This problem can be addressed by controlling public expenditures, while continuing to improve tax revenue collection.

Trade facilitation is another important priority to consider. This means reducing barriers to free trade of goods both domestically and abroad. First, customs reform should be undertaken to increase cross-border flows of goods. Second, trade can be facilitated by eliminating the practice of road security checkpoints, which will improve regional market integration and reduce obstacles to internal trade. This is part of governance problem and is largely a matter of political will.

The adoption of a timetable to adopt the **Common External Tariff (CET)** of the WAEMU is an urgent step to simplify customs clearance procedures and avoid trade diversion and marginalization within the sub-region. This move means that Guinean customs officials must internalize and actively prepare to meet this objective. The adoption of the CET must coincide with a reduction in the number of exemptions and a clarification as to when they are granted in order to reap the benefits of this agreement without eroding the revenue base. In short, this reform will lead to better public sector transparency and "legibility" of the trade regulatory process.

The rigorous pursuit of measures to **liberalize trade in conjunction with ECOWAS** is another essential element to improving trade and investment climate in Guinea. Experience suggests there are dangers associated with falling back on reforms. The absence of reciprocity is typically given as the reason for moves away from trade liberalization on the continent. In Guinea, there should be unilateral efforts to engage in trade liberalization throughout the region, since these markets are crucial for local exports. Regional markets already provide, and should continue to provide greater outlet for products from Guinea.

In terms of taxation, the system of VAT exemptions and reimbursements should be improved and its administration should be streamlined. In reality, reimbursements are so arbitrary that people often prefer not to ask for them, which effectively eliminates the otherwise efficient nature of the VAT.

Although the market for **exchange rate** is liberalized, it is still dysfunctional. This causes buyers to resort to other "opportunistic" means to export their products, while avoiding these excessive transaction costs. Such activity is frowned upon and gives a bad image to "regular" export activities. A modernized foreign exchange market, as well as a return to officially recognized trading activity are important objectives for the public sector.

The existing **institutional devices to promote the development of the private sector and exports** are complex and ineffective. The objectives of these institutions need to be clarified and their means of providing assistance should be improved. There is an urgent need to reinforce and improve the institutional framework, including the Ministry of Commerce, the Ministry of Industry and ***PME***. Particular attention should be paid to defining a national policy to promote improvements in quality, as a prerequisite to increasing exports abroad. The private sector should be actively engaged in this process as well.

Finally, the Guinean economy suffers from a lack of **infrastructure**, especially in terms of transportation networks and electricity. The national road system is only now being revitalized, while agriculture produce transporters are faced with high maintenance costs in bringing goods to market. The rail system has all but vanished, the only remaining lines being those operated by the mining companies. The inadequacies of transportation networks, combined with the extensive obstacles to trade, prevents domestic markets from being integrated. In the electricity sector, an important step towards resolving the current crisis is to devise a management contract with a strategic partner, in order to improve the management of the sector. Major investments should follow to increase the supply capacity, which stands today at one-sixth of demand.

Sectoral Reforms

Agriculture. Guinea has a natural comparative advantage in agricultural activities due to the significant variation in climates, high soil fertility, plentiful nature of water resources, etc. To reestablish Guinean presence in the world marketplace, there will be significant benefits from improving not only agricultural productivity, but also the environment in which agricultural activity is practiced. There is a pressing need to (i) reduce the costs of production associated with bringing goods to the world market, which raises input costs and undermines the competitiveness of Guinean products; (ii) provide better access to credit for producers, which will signal to domestic and foreign investors that there are opportunities to be exploited; (iii) reform research and extension services and to promote quality.

Fishing. Fishing is another sector with tremendous potential, including tremendous opportunities for aquaculture activities in fish and shellfish. Priorities include: (i) Restructuring the sector and improve political and strategic decision-making, and fishing research and promotion activities (ii) Engaging legal procedures for a recognition of fishing right in all parts of Guinea's the exclusive economic zone. (iii) Reinforcing national capacities in evaluating the resource potential and supervising fishing activities to ensure sustainability of the fishing sector.

Tourism. Tourism is underdeveloped in Guinea. Nevertheless, Guinea has a natural advantage in this sector, and as in the case for Senegal, can provide an important source of employment and mobilization of resources. A four stage strategy could be adopted: (i) Start with seaside tourist resorts in a unique, easy to develop site (Bel Air); (ii) Develop niches: cultural circuits for a “pioneer” clientele; (iii) In the medium to long-term, promote the Loos Islands: sub-regional clientele and big-game fishing; (iv) Development of National Parks should be ultimately envisaged in Niokolo-Badiar and Niger.

Artisan mining and traditional handicrafts sectors. In the mining sector, handicrafts are already on the international markets but they could still be further developed upon reduction of specific obstacles to the sector. Modernizing the traditional Handicraft sector would require a greater visibility and transparence of the sector (through publication of relevant texts related to tax and credit incentives, and so on). This sector would also greatly benefit from tourism development.

Next Steps

The next steps in the Guinean IF process are expected to be as follows : (i) Dissemination of the findings of this study and organization of a national validation workshop in Guinea. The private sector, the government and other national stakeholders will participate; (ii) Endorsement of the Action Plan matrix by the Guinean authorities as appropriate and; (iii) Presentation of the Action Plan matrix to donors’ for support and technical assistance. A meeting will be organized in Guinea for that purpose.

SUMMARY OF PRIORITY ACTIONS

Areas of intervention	Proposed priority actions
Trade policy	• Adopt the CET of the West African Economic and Monetary Union (UEMOA) within the time limit and publish the tariffs
Institutional support for export development	• Capacity building of the National Service for Quality and Standards Control (SNQN) and the Export Formalities Support Center (CAFEX): material (laboratory, computer science), qualified staff, formation.
Customs and trade facilitation	• Set up a Committee and implement a customs reform plan in partnership with the private sector and with a precise timetable. • Jointly with the economic operators, devise a specific charter and a set of concrete "implementation" measures concerning port security and control procedures
Infrastructure	• Revitalize the management of the «rural roads» component of the sector transport strategy for a proper execution of that component as specified in the action plan • Design a management contract with a strategic private partner to improve management of the electricity sector and gradually involve the private sector
Agriculture	• Reinforce the information system on price and marketing of agricultural products (SIPAG) and broaden its scope of intervention to livestock trade.
Fisheries	• Restructure the institutional framework of the fisheries by design a Diagram and a Master Plan with a reinforcement of policy and strategic functions, as well as research, and fisheries products promotion

ACTION PLAN TO ENHANCE COMPETITIVENESS OF GUINEA'S ECONOMY AND ITS INTEGRATION INTO THE WORLD ECONOMY, DETAILS PER AREA OF INTERVENTION

MATRIX 1 TRADE POLICY AND REGIONAL INTEGRATION

Objectives	Government measures		Technical assistance
	Short term	Medium and long term	
1. Define and promote trade initiatives	• Adopt the CET of the UEMOA within the timeframe and in accordance with the recommendations of the IMF mission of October 2002 • Eliminate discretionary exemptions • Examine the opportunity of creating an export processing zone.	• Make available to the public a database on taxes imposed on external trade • Ensure effective application of economic systems and the provisions of the investment code, particularly for agricultural export products • Ensure application of taxation on agricultural products complying with good international practices	• TA for capacity building in the National Directorate of Commerce • Feasibility study on the creation of an export processing zone (statute, location, infrastructure, etc.)
2. Promote regional integration	• Resume dialogue on the implementation of the timetable for trade liberalization within ECOWAS • Ensure application of tariff preferences granted to ECOWAS member countries	• Accelerate harmonization of procurements procedures with other ECOWAS member countries, in accordance with the terms of the agreement.	

MATRIX 2 COMPETITIVENESS AND INSTITUTIONAL FRAMEWORK

Objectives	Government measures		Technical assistance
	Short term	Medium and long term	
1. Promote an institutional framework and governance favorable to exports	• Finalize harmonization of the national legislation on business law with the OHADA Treaty • Rationalize the institutional arrangements for support to investments and exports • Reinforce consultation between the State and the private sector in the framework of the existing bodies	• Finalize the decree to create the CNPTD (by clarifying notably the role of the private sector) • Putting in place of the CNNCI effectively • Disseminating trade information on the conditions for access to foreign markets, develop business contacts and seek for partnerships.	• Training of the legal professions in the application of the commercial law deriving from the OHADA Treaty • Renforcement of support to export promotion structures (*Conseil Supérieur des Exportations*, *Cellule de promotion des exports with* CCIAG). Survey on the priority assistance needs to export companies • Improvement of means for the Competition Directorate of the Ministry of Trade and training programs for its senior staff (privatization, agreements, cartels and abuse of a position of superiority) • Improvement of the computer resources of OPIP including access by satellite to Internet, creation and maintenance of a website making available all the useful information to an investor.
2. Reinforcement of direct foreign investment support institutions	• Re-establish a single window for all direct foreign investment operations and creation of enterprise • Firm commitment to ensure legal safeguards for real estate and contracts.	• Creation of a legal statute for free enterprise • Simplification and rationalization of exemptions granted under the Mining Code	• Training of staff of the Administrations concerned in the creation and management of a free trade zone • Training of the legal professions and the personnel of the Intellectual Property Service (Ministry of Trade) in the application of intellectual property rights under the Bangui Accord
3. Implement a national policy for promotion of quality to improve the performance of the export sectors	• Active promotion of the «Guinea» label, notably for agricultural products and fisheries		• Provide SNCQN and CAFEX with means needed to perform their mission efficiently: material (laboratory, computers), qualified personnel, training • Raise producers awareness of international SPS standards, notably for the EU (ochratoxine content, aflatoxine, etc.)

MATRIX 3 CUSTOMS AND TRADE FACILITATION

Objectives	Government measures		Technical assistance
	Short term	**Medium and long term**	
1.Modernization of computer services and systems	• Create a Customs Reform Committee comprising all the partners, including the private sector; define a modernization program • Create a Value Division • Eliminate lump sum taxation per container • Draw up a protocol agreement with the Customs brokers and adopt a code of ethics for the profession	• Adopt the transactional value • Computerize operations at all border posts. • Improve communication between border posts and systematic follow-up of the application of preferential agreements • Draw up a mater plan for migration to ASYCUDA ++ • Audit the performance of the PSRD	• Assist the reform Committee in defining the Customs modernization program, in particular to implement the transactional value (classification, rules of origin, organization of data processing) • Training of staff of the Customs Administration in management of trade flows in a free trade zone, and in management of rules of origin (change of tariff line, local content, cumulation, etc.) as part of the new preferential systems (AGOA and TSA)
2. Simplification of procedures and controls	• Jointly with the economic operators, devise a specific charter and a set of concrete "implementation" measures concerning port security and control procedures • Study measures to reduce delays in clearance and port dues	• Reduce the delays by introducing facilitation rules and using electronic data exchange protocols • Apply a selective control system for physical inspection of goods and documentary control before and after clearance, using the risk analysis tool	
3. Improvement of follow-up and control systems	• Creation, with the help of the SGS, a website giving access to updated information on imports and exports (taxes, exemptions, regulations, official forms, etc.) • Auditing VAT reimbursement procedures for exported products.	• Reinforce the special admission system control • Reinforce controls to manifests auditing • Evaluate the opportunity of the $3000 threshold for control before shipping and implement the findings of the evaluation	• Training of staff of the Customs and the National Statistics Directorate in data collection and exploitation.

4. Close, effective co-ordination between Customs and the SGS	• Reinforce data exchange and systematically reconcile value data	• Define a timetable for transfer of competences from the control company before shipment to the Customs Administration and the application of that program.	

MATRIX 4 INFRASTRUCTURES

Objectives	Government measures		Technical assistance
	Short term	**Medium and long term**	
1. Facilitate the domestic flow of goods and persons at lower cost	• Implement the 1999 transport sector strategy, notably its "rural roads" component currently inactive • In association with les operators, devise a specific charter for Port security and control procedures • Create a Road facilitation Committee with representatives of the Ministry of Transport, Police, Army and paramilitary and transport professionals, to examine security regulations (prohibition of night traffic, roadblocks, etc.). The terms of reference of the Committee should cover farm-to-market roads • Pursue recently engaged efforts to reduce and rationalize the use of roadblocks: adopt a timetable for complete elimination • Create a single Port security office and a Committee composed of the Ports Administration, Customs Administration and professionals	• Eliminate superfluous controls by the police, Army and paramilitary present in the Port	
2. Increase supply and quality of electricity	• Design a management contract with a strategic private partner to improve management of the sector and gradually involve the private sector		• TA to examine different options of management contracts.

MATRIX 5 AGRICULTURE

<table>
<tr><th rowspan="2">Objectives</th><th colspan="2">Government measures</th><th rowspan="2">Technical assistance</th></tr>
<tr><th>Short term</th><th>Medium and long term</th></tr>
<tr><td>1. Enhance profitability and competitiveness of export products</td><td>• Reinforce the information system on the production and marketing of agricultural products (SIPAG) and broaden its scope to cover livestock breeding
• Rationalize taxation on agriculture (neutrality of VAT, enhanced control of public and para-public taxation on exports)
• Facilitate the application of the Investment Code privileges system and the agricultural inputs and equipment specific exemptions systems</td><td>• Define a plan of action to establish collective infrastructure to market agricultural products (markets of national and regional interest, slaughterhouses, etc.)
• Define with inter-professional associations quality charters per sector
• Participate in harmonizing the sectors with export standards and require exporters to comply with the standards and regulations</td><td>• TA to define a quality charter and a research strategy jointly with inter-professionals and development partners
• Examine the expediency of creating a new specific system modeled on «free points» and simplification of the exemptions systems
• Market surveys for products with high export potential (mangrove rice, animals on hoof)</td></tr>
<tr><td>2. Increase productivity</td><td>• Legislate on the legal status of producer organisations
• Assist farmer organizations by imporoved access to certified seeds, agricultural inputs, credits, extension services, etc.
• Reinforce public research and extension services (certified seeds, development of vegetable material and technical processes, training of farmers in new technologies)</td><td>• Define a plan of action to develop women' s production and processing activities. In particular, to guarantee equal access to land, education, etc.</td><td></td></tr>
<tr><td>3. Pursue sector reform</td><td>• Cotton sector: comply with the commitments made in establishing convention (financing of support services, support in case of falling prices, transparency in management, meeting obligations to peasants)
• Rubber sector: stabilize the financial situation of the sector Coffee sector: define a quality control policy with inter-professionals and harmonize the sector with export standards</td><td></td><td>• TA to modernize land law. TA to professional organizations to improve support infrastructure for agricultural exports: refrigerated warehousing, packaging centers, equipment, etc.
• TA to develop basic collective infrastructure for marketing (markets, slaughterhouses, etc.)
• TA to reinforce and broaden the scope of SIPAG</td></tr>
</table>

MATRIX 6 FISHERIES

Objectives	Government measures		Technical assistance
	Short term	Medium and long term	
1. Reinforcing management and promotion of the Fisheries sector	• Restructure The Institutional Framework Of The Fisheries By Design A Diagram And A Master Plan With A Reinforcement Of Policy And Strategic Functions, As Well As Research, And Fisheries Products Promotion • Rehabilitation Of The EEZ • Liberalize The Traditional Fishing Input Market • Production Quality Program By Introducing The Use Of Coolers On Board • Specify And Apply The Regulations For The Fishing Of Mullets • Improve The Technical, Logistic And Sanitary Capacity Of The Fresh Exports Products Units • Conduct A Study On Port Space Optimization For Fishing Boats And Well As Land Space And Infrastructure. Evaluate The Incidence On The Initial Sale Price Of The Fish	• Extend the role of the *Conseil National Supérieur de la Pêche* to cover rescue operations and safety at sea • Evaluate water resources and the fishing effort • Develop a new sector for conch exportation	• Design of the diagram for Fisheries and a Master Plan for Fisheries Identification of profitable structures for action, IOVs, and performance obligations. Identification of a monitoring and evaluation cell • Analyze interventions on the development of landing areas; evaluate the interest of a reinforced traditional fishing pole in Kamsar • Evaluate the needs in traditional fishing materials, marketing structures and economic interest for potential suppliers • In situ training for a group of Customs agents in the gauging of fishing boats • Pilot Project in conch fishing • Define and organize traditional fishing strategies. Give support to exports to Asia and the sub-region • Study on the optimization of port space

MATRIX 7 TOURISM, NON-MINING AND MINING CRAFTS

Objectives	Government measures		Technical assistance
	Short term	**Medium and long term**	
1. Promotion of international tourism activities	• Decide on the guidelines proposed by the study on the Integrated Framework • Fine tune the Government Tourism development Plan to sharpen it and make it less ambitious	• Conduct a feasibility study on the development of Bel Air by a team made out of experts on tourism, civil engineers and «land planner» • Evaluate the needs for strengthening tourism structures • Targeted training in connection with the guidelines proposed by this study.	• Capacity building in the Ministry of Tourism • TA to develop expertise in project formulation. Training of two technicians: Assistance Mission to Conakry and guidance by a specialized consulting firm; training at the Ministry of Tourism in Morocco
2.Institutional reinforcement, and regulations for promotion of non-mining handicrafts	• Evaluate the existing arrangement (OPDA) for the institutional guidance of handicrafts • Assess the institutional implications of complementarities between tourist activities and handicrafts • Disseminate the handicrafts code • Disseminate tax regulations, texts relating to associations, credits, etc.	• Organize training on management, entrepreneurship, marketing. • Disseminate the training in simplified management guides • Publish and disseminate illustrated technical training guides • Foster trade with other countries, at the technical, content and training procedures level • Organize training for groupings • Provide training in financial management • Teach foremen to produce reports on their activities • Inform craftsmen about existing funding programs	• TA to define a guidance structures support program ; • Collection of statistics on the non-mining handicraft sector • AT to design and implement a training course for supervisors and craftsmen by as far as possible targeting the poor and young graduates

3. Promote sustainable development of the **artisan mining sector** as a complementary activity to the industrial mining sector	• Examine the expediency and role of the supervisory Cell for Traditional Handicrafts and the support Office for the mining handicraft sector • Examine the expediency of creating a Precious stone and Jewelry House, a Refining Workshop, and specialized purchase centers • Envisage a census and registration of craftsmen	• Undertake a survey of the artisan mining sector to better evaluate its contribution to the economy • Promote the withdrawal of the BCRG from the mining sector • Make the soil conservation Fund operational in order to prevent environmental degradation • Examine the obstacles to the setting up of specialized banking services for mining crafts and establish a program to remove them as they are an impediment to the smooth running of market mechanisms • Reinforce basic services • Reinforce and diversify the MED • Select zones conducive to handicrafts exploitation • Support artisans in their negotiations for retrocession of the mining zones held by Mining Companies	• Study on regional and international competitiveness of the mining handicraft sub-sector • TA to design and set up a training mechanism for supervisors of mining artisans by as far as practicable targeting the poor and young graduates and encouraging optimal exploitation of mining resources • TA to improve the conditions for the exploitation of mines from the security point of view.

CHAPTER 1
THE GUINEAN ECONOMY AND ITS INTEGRATION IN THE WORLD ECONOMY[4]

1.1 ECONOMIC OVERVIEW

Guinea gained independence from France in 1958, at which time it sought and received assistance from eastern bloc countries. For most of the next thirty years , the state played the dominant role in the economy, which exhibited many of the characteristics associated with command economies—including inefficiency. Since the death of Ahmed Sékou Touré in 1984, the Guinean economy has undergone dramatic changes. In 1986, through an Economic and Financial Reform Program (PREF) supported by the World Bank and the IMF[5], Guinea embarked on an economic opening policy and returned to the mechanisms of the market. The central objective of these reforms was to reduce the strongly overvalued Guinean currency and also to reform a trade policy based on price control, consumption subsidies, and the application of a national importation and exportation program. Some successes in these areas translated into a partial debt restructuring in 1986. However, subsequent efforts at reform—including the signing of an enhanced structural adjustment facility with the IMF in 1991—proved to be more difficult.

Since the end of 1996, the authorities have been using a strategy that largely appeals to the private sector and that seeks to improve living conditions for the most poverty-stricken. (*Guinea, Vision 2010*, December 1996). In 2002, a Poverty Reduction Strategy Paper (PRSP) was signed, laying out a strategy for reducing the poverty rate from 40.3 percent in 1994 to 30 percent in 2010. This strategy is built on: a sustainable growth and the creation of revenues from the rural sector; access to basic services; and an improvement in government and institutional capacities. To complement the PRSP's strategy, the National Action Program (PNA) is focusing its plan of action on the current decade. The Guinean Government hopes to reinforce the PRSP with the results from the Integrated Framework project.

The Guinean economy has undergone dramatic changes over the last two decades. With an annual average rate of inflation of 4 percent and a slowly depreciating exchange rate, the macroeconomic environment has been relatively stable during the 1990s. In spite of this, the 4 percent average real growth rate during the 1990s has not

[4] This chapter relies on the contribution furnished by the IMF and on the conceptual document first furnished to the main mission.

[5] Guinea has set up various agreements with the IMF: a stabilization agreement, two agreements on Structural Adjustment Facilitation, two other agreements on Increased Structural Adjustment Facilitation, and finally an agreement on Poverty Reduction and Economic Growth Facilitation (2001-2004).

been sufficient to reduce poverty, which has stayed stubbornly at around at 40% of the population.

With a GDP per capita of $394 in 2001, Guinea falls under the category of the Least Developed Countries (PMA). Despite a relatively high economic growth in the 1990's, the incidence of poverty appears to have changed. little over the decade[6] The incidence of poverty is twice as high in rural zones (53 percent) as in urban zones (25 percent). Eighty-eight percent of the poor live in rural zones. Extreme poverty claims 18 percent of the rural population versus 3 percent for Conakry and 5.6 percent for other urban centers. Certain zones are particularly affected: the poverty rate varies from 62 percent in High Guinea, 51 percent in Middle Guinea, 42 percent in Low Guinea, 33 percent in Forested Guinea.

Even with only slight progress in the last few years, the social development indicators are more favorable than the already low average of other sub-Saharan African countries (for 1999, the life expectancy was 54 years, the infant mortality rate was 98 out of 1000, the illiteracy rate was 64 percent, the rate of elementary school completion was 56 percent, etc.). Despite a noticeable improvement in transport, the infrastructure as a whole (roads, electricity, telecommunications, etc.) remains weak.

GDP per capita fell by 32 percent in 2001 relative to 1996, following the depreciation of the Guinean franc during this period—although in terms of buying power (Purchasing Power Parity), the GDP per capita increased by 17 percent during this period. Three external factors combined to hamper Guinea's development: a) insecurity in neighboring countries causing a large influx of refugees, b) decline in world prices for bauxite and aluminum, and c) increase in prices of petroleum products.

TABLE 1.1 MAIN ECONOMIC INDICATORS

	1996	1997	1998	1999	2000	2001
GDP growth rate	5,2	5,2	4,6	4,5	2,1	3,6
GDP per cap. Growth rate	2,0	2,0	1,5	1,4	- 0,9	0,5
Implicit GDP Deflator	0.9	1.4	2.4	3.5	8.9	5.3
Consumer prices changes	3,0	1,9	5,1	4.6	6.8	5.4
Gross Fixed Investment Of which Public GFCF	17.9 5.1	16.3 5.8	14.4 4.0	16.1 4.9	15.5 4.9	14.2 4.9
Exports (FOB) as a capacity to Import (CIF) %	92.4	92.0	75.8	74.1	75.9	86.3
Balance of payments : Current account / GDP	-4,9	-2,3	-5,0	-5,1	-5,6	-1,6
External assets in months of imports	4,0	3.0	3.6	2.6	2.0	2.8
Exchange rate / US$	1008.4	1099.9	1232.8	1387.4	1797.15	1949.86
Public revenue (excl. grants) / GDP	10.3	11.5	11.0	10.8	11.1	11.5

[6] The last Budget-Consumption survey for households dates from 1994-95. A new survey is underway.

Share of mining in public revenue %	2.7	3.0	2.8	2.5	2.6	2.9
Overall Public Expenditure / GDP	16.5	17.7	14.6	16.1	16.7	18.8
Fiscal Deficit / GDP	-3.1	-3.0	-1.0	-3.0	-3.0	-4.0
Budget : Primary balance / GDP	1.3	2.9	2.7	2.4	2.6	1.0
M2 / GDP	9.0	9.9	9.8	9.9	11.0	11.5
Outstanding debt % GDP	83,3	82.8	90.6	97.5	115.9	118.9
GNP per cap. 1 / US $ US $ PPP	572.6 1845	546.7 1925	506.4 1996	477.4 2056	413 2092	394.2 2162
Population (thousands)	7058	7276	7502	7732	7968	8211

Note: 1 / IMF
Source: Ministry of Economy and Finance

Inflation (consumer prices) increased from 3.0 percent in 1996 to 6.8 percent in 2000 before falling back down to 4% in 2001. Due to an expansive monetary policy deemed necessary to finance the budget deficit, inflation climbed back up to 6.1 percent in 2002. The relatively high inflation is due to the rise in costs of petroleum products, to the continued depreciation of the Guinean franc, and to statutory over-taking of advances from the Central Bank to the state.

With regards to public finances, programs from 1997 to 2000 have resulted in a primary surplus of more than 2 percent of the GDP. This primary surplus was only 1.0% of the GDP in 2001 and was almost non-existent in 2002. The budget deficit excluding grants reached 7.5 percent of the GDP in 2001, then 8.2 percent of the GDP in 2002 (respectively 4 percent and 6 percent including grants). The level of public resources appears mediocre despite substantial revenues from taxation of mining exportations.[7] The rate of public levy in relation to the GDP reached a ceiling of less than 12 percent of the GDP during the observed period, versus 16.3 percent on average for 31 PMA sub-Saharan African countries during the period between 1996 and 1998. Difficulties in mobilizing public resources—due to a narrow tax base and to weaknesses in the administration of taxes—causes recurring difficulties in managing public finances. Unexpected growth in military spending has also contributed to increasing the budget deficits. It is possible for the public finance situation to improve if measures are put in place to enhance resources and to control expected spending. Public resources are strongly dependent on customs revenues which grew in 1999 to 55 percent of global public revenues; this ratio[8] was 42.5 percent in 2001.

[7] During the period between 1996 and 2001, the taxation of mining products brought about a quarter of all public revenues but this amount was smaller than in previous years due to the decline in international prices and also to insufficient mining investments. The contribution to public resources from the mining sector dropped from 82.4 percent in 1986 to 26 percent in 1996. It then stabilized at this level. The non-mining public levy increased from 2.1 percent of the GDP in 1986 to 7.7 percent of the GDP in 1996, to almost 10 percent in 2002; this rate continues to remain weak.
[8] The ratios mentioned include tariffs, the VAT, accise rights, and the Specialized Tax on Petroleum Products.

Compared to the average of other African countries, the budget contribution of tariff revenues in Guinea is high. The contribution of tariff revenues originating from economic protection to all budget revenues has risen to 30 percent. This ratio is 42.5 percent compared to public non-mining resources. According to the IMF mission's evaluations of 2002, the budget implications from aligning the Guinean tariff with the WAEMU TEC should be weak in the sense that the TEC should be fully applied and exemptions should be reduced to a minimum. Of course, the reduction in tariff taxation rates should imply a theoretical loss in revenues in the order of 18 billion FG, equivalent to 3 percent of all budget revenues (0.3 percent of the GDP). But, a reduction in exemptions and a favorable effect on imported quantities due to a reduction in tariffs could outweigh this loss

The current account deficit (including official transfers) from the balance of payments declined from -4.9 percent of the GDP in 1996 to -1.8 percent in 2001. Exports (FOB) as a capacity to imports (CIF), which were only 75 percent from 1998 to 2000 climbed to 86.3 percent in 2001. This improvement can be attributed to good export performance (gold and diamond in particular). Global sales deteriorated, falling from an average surplus of 1.6 percent of the GDP during 1997-2000 to 1.3 percent of the GDP during 2001-2002. Debt rescheduling and forgiveness in the HIPC initiative framework contributed to the deficit.

1.2 THE EVOLUTION OF TRADE

In its PRSP, the government set a goal to achieve an annual rate of economic growth of 10% by 2010. Such a growth rate can only be reached through a dramatic expansion of exports since—with a population of around 8 million, and an average annual population growth rate of 3 percent—the domestic market is too small to drive the economy at such a pace. Export growth of such magnitude is feasible due to the Guinean economy's abundance of natural resources and labor. This gives it a comparative advantage in a number of sectors, including agriculture, mining, fishing and tourism. Guinea is a country that benefits from many natural resources which are favorable to a diversified agriculture. It also has at its disposal exceptional mining resources (diamonds, iron ore, 30 percent of the world's known reserves of bauxite) as well as a considerable and largely unexploited hydroelectric potential.

However, mining products (bauxite, aluminum, diamond, and so on) currently dominate the external sector. In 2001, exports from the mining sector accounted for 93% of total goods exports. Guinea's excessive dependency on its mining sector leaves its economy overly influenced by unfavorable world prices for bauxite and uncertain prospects for its mining sector hampered by increasing production costs. Coffee, fish and other agricultural exports (including pineapples, mangoes, and bananas) are insignificant, making up less than 2% of total exports—although in the years following independence, they were significant export earners. Manufacturing exports are also weak.

1.2.1 Patterns of Trade Flows

Exports as a ratio of GDP has made significant progress between 1996 (18.9 percent) and 2001 (27.9 percent). A look at the composition of exports (Table 1.2) shows a strong and growing dependency on mining exports, which constitutes 77.3 percent of total exports in 2002, from 71.3 percent in 1996, leaving the Guinean economy at the mercy of changes in international prices for mining products.

An essentially capital intensive mining sector has led to a concentrated distribution of revenues, somewhat alleviated by an artisanal mining sub sector, employing approximately 100,000 people. The indirect effects on demand in the mining sector are relatively weak due to an important use of imports. Exports of diamonds, which follow specified trade routes, are recorded in a very unusual manner. Sales of Guinean diamonds in Antwerp are estimated at $150 to $200 million each year, of which less than $50 million transit through official channels.

Non-mining exports are weak compared to mining exports, constituting between 10 to 15 percent of total exports. Exports of manufactured goods have fallen with the disappearance of public enterprises. The private sector has not taken over the public enterprises of which a large number have been liquidated. Despite an important comparative advantage, exports of coffee, fish, and other diverse agricultural products (particularly pineapples and mangos) constituted less than 2 percent of all commodity exports in 2001.

TABLE 1.2 STRUCTURE OF EXPORTS OF GOODS AND SERVICES (1996-2001)

	1996	1997	1998	1999	2000	2001
Mining Exports	71,3	69,1	71,3	71,8	78,3	77,3
Non Mining Exports	11,7	15,9	14,1	13,1	12,4	10,4
Of which coffee	1,9	4,3	4,9	4,7	2,9	1,8
Of which fish	4,9	6,3	3,2	1,9	3,2	3,0
Services	17,0	15,0	14,5	15,1	9,3	12,3
Total goods and services exports % GDP	18,9	19,6	21,2	21,6	24,7	27,9

Source: Guinea's Government

Exports to member countries of the ECOWAS (Table 1.3) are marginal, essentially due to the composition of the exports dominated by mining products. Guinea's main client is the European Union. However, one should note that some export flows are difficult to measure, especially export flows to the countries in the region.

TABLE 1.3 EXPORTS BY DESTINATION, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
USA	22.0	30.9	23.2	20.7	20.7	12.8	17.0
EU-15	49.9	44.8	60.5	63.5	63.5	61.9	64.1
ECOWAS	0.2	0.8	1.3	2.2	2.2	0.5	2.5
RDM	27.9	23.6	15.0	13.6	13.6	24.9	16.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: COMTRADE

The relative importance of food imports, particularly imports on rice, has declined. In the past few years, Guinea has been depending more on imports from CDEAO countries, which tends to show progress in regional integration. Finally, Member states of the European Union, which are Guinea's most important customers, are also its main suppliers.

TABLE 1.4 IMPORTS BY PRODUCTS, 1995-2001 (IN MILLIONS OF DOLLARS)

SITC1	Description	1995	1996	1997	1998	1999	2000	2001
0	Food products	215.0	118.3	113.4	104.6	135.6	110.0	110.9
0412	*Other flour*	2.2	1.0	4.6	4.2	5.5	7.5	10.4
0422	*Rice*	90.1	51.1	40.5	37.4	48.4	28.5	32.7
0460	*Wheat flour*	18.8	9.2	14.8	13.6	17.7	7.4	10.2
0612	*Sugar*	14.8	4.7	10.0	9.2	12.0	13.5	16.8
0980	*Processed food*	16.8	12.1	10.7	9.8	12.8	11.4	11.3
1	Bever. $ Tobacco	25.8	14.7	23.3	21.5	27.8	26.3	22.1
1222	*Cigarettes*	7.5	3.9	13.6	12.6	16.3	23.0	18.7
2	Crude mat. Ex fuels.	9.3	7.2	8.9	8.2	10.7	9.6	7.8
3	Fuel	156.0	171.9	63.9	59.0	76.5	1.2	0.9
4	Oils & lubricants	13.3	12.3	10.2	9.4	12.2	11.7	8.2
5	Chemicals	51.5	38.7	43.6	40.2	52.2	51.6	65.7
5417	*Pharmaceuticals.*	15.1	12.9	14.0	13.0	16.8	21.6	14.2
5225	*In. chemicals.*	4.5	2.5	4.6	4.3	5.5	4.1	17.2
6	Processed products	121.3	96.8	100.3	92.6	120.1	81.5	83.4
6612	*Cement*	15.1	11.8	13.5	12.5	16.2	12.7	19.2
7	Mach & transp. Eq.	170.7	153.3	219.6	202.6	262.7	116.2	149.7
7449	*Mach spares*	8.9	10.6	13.6	12.5	16.2	7.4	14.4
7810	*Vehicles spares.*	54.5	20.6	29.2	26.9	34.9	26.3	36.6
8	Misc. Manuf. Prod..	49.4	33.3	35.6	32.9	42.6	51.0	39.2

9	Others	6.3	1.2	0.9	0.8	1.1	1.7	1.8
	Total	**818.5**	**647.7**	**619.7**	**571.8**	**741.5**	**460.8**	**489.6**

Source: COMTRADE

TABLE 1.5 IMPORTS BY ORIGIN, 1995-2001 (IN PERCENTAGES)

	1995	1996	1997	1998	1999	2000	2001
USA	6.9	7.2	7.6	7.6	7.6	7.9	7.1
EU-15	43.7	42.7	54.5	54.5	54.5	41.1	49.0
ECOWAS	13.1	21.5	9.6	9.6	9.6	23.1	14.9
RDM	36.3	28.5	28.4	28.4	28.4	27.9	29.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1.2.2 International Environment: An Unfavorable Evolution of Prices

The evolution of trade terms was unfavorable to Guinea throughout the last decade. The unit values of bauxite exported to the US have been in decline since the beginning of the 1990's (Table 1.6). Since 1982, the year that marked a return to trends in bauxite prices, these values lost an average 0.8 percent per year in the North American market. With regards to agricultural products, cocoa prices have rebounded nominally since the drastic fall in prices in the second part of the 1980's. Coffee prices, on the other hand, continued to decline until a stabilization period between 2000 and 2002 at a level representing 63 percent (in nominal terms) of those in 1995 and 33 percent of those in 1985. As for cotton prices, they returned to their 1985 level, half of their peak level in the middle of the 1990's. Industrial countries subsidies to their cotton producers contributed to keeping the prices down.

TABLE 1.6 WORLD PRICES ON SOME CRUDE PRODUCTS

	Cocoa	Coffee	Cotton	Bauxite[a]
1970	29.48	44.38	30.66	4.75
1975	59.84	83.25	58.81	12.83
1980	95.70	121.21	99.16	33.07
1985	107.93	196.77	48.19	36.26
1990	58.83	89.89	83.86	40.69
1995	62.64	103.99	88.43	28.96
2000	40.50	64.50	65.86	29.09
2002	71.13	65.78	41.38	n.a.

Note: a) Unit values of Bauxite shipped to the USA, in current US$ per ton.
Source: IMF, International Financial Statistics

1.3 Trade and Poverty

Since 1984, Guinea has gradually deregulated its domestic markets (inputs, outputs and exchange rates) and has reduced its tariff and non-tariff barriers considerably, increasingly aligning itself with the global economy. The Guinean economy is now relatively open to foreign trade, with a rate of openness (measured by the ratio of exports to GDP) of 24 percent in 2001 (compared with 15 -18 percent in Senegal, for example), while the openness index calculated by the IMF ranks Guinea among the "liberal" countries. However, although growth reached an annual rate of 4 percent during the 1990's despite a business climate not very favorable to private investment, poverty has remained widespread. The national poverty rate stood at 40 percent, and peaked at 62% in Upper Guinea, according to the complete household survey in 1994-95, and many observers in Guinea say the situation has not improved.

Situations similar to those in Guinea have generated great interest in analyzing the links between trade liberalization and poverty from both a theoretical and an empirical standpoint (Winters 2000, Ravallion 2001, McCulloch, Winters and Cirera 2001, Dollar and Kraay 2001, Berg and Krueger 2003). One of the major lessons learned from these studies is that greater integration on the global market creates opportunities for some segments of the population and leads to adjustment costs for others. As with other groups in society, the short-term impact of an open market on the poor depends in large part on how the price changes induced by openness affect consumption and income among the poor. Over the longer term, openness is expected to give the country greater access to technologies and innovations, thus boosting growth and reducing poverty.

One assumption implicit in this theory is that the price changes resulting from opening up markets are adequately passed on to producers and poor consumers (Baulch 1997, Barrett and Li 2002). This is generally true, as demonstrated in the literature on market integration. However, for a country like Guinea, where large segments of the population are isolated from export and import outlets, this theory should be tested. In other words, in a static context (with constant resources and technologies), to what extent do changes in trade policy and opportunities on the world market affect the poor in Guinea? What are the principal obstacles to integrating markets if a large number of these markets are segmented?

1.3.1 Negligible Impact of Open Trade on Poverty

Guinea's current position as a global trading partner, which is highly dependent on mining activities, has not led to genuine poverty reduction. This is primarily due to the fairly capital-intensive nature of the mining sector, its weak ties to the rest of the economy and to the weakness of the State tax base, which leave little room to use government revenues from the mining sector in poverty reduction programs.

If Guinea's role in the global economy is to benefit the poor, then a sharp increase in non-mining exports, particularly the agricultural sector, will be necessary. The vast majority of the poor live in rural areas, and agriculture and traditional crafts are their main activities. The agricultural sector employs seventy percent of the workforce and provides sixty-eight percent of income, while the craft sector employs twenty percent of the workforce and accounts for twenty-two percent of household income. The expansion of agricultural exports could be a powerful engine to generate income in rural areas and in the economy of Guinea as a whole.

1.3.2 Market Integration and the Effect of Open Trade on Poverty

Efforts to expand exports and reduce poverty are hampered considerably by the relative segmentation of the markets in the poorest regions of the country (Upper Guinea and Central Guinea). The region that integrated within the global market is in fact confined to the capital, to coastal Guinea (Boffa and Boké in particular), the extreme southern part of Upper Guinea (Faranah), and part of the Guinean forest region (Nzérékoré). Producers and consumers in Central Guinea and most of those in Upper Guinea, regions in which seventy percent of the country's poor live, are economically isolated. Trade policy and trade opportunities (preferential access, multilateral deregulation, etc.) affect them only to a very limited degree. Indeed, transaction costs are so high that incentives received by the households in those regions are not geared to a supply-and-demand reaction.

Furthermore, these vulnerable populations are not protected from local food shortages because they have rice shortages and are nearly cut off from the regions and zones with rice surpluses. Because the general lack of integration of the markets in Guinea, rural production is strongly focused on meeting local needs and not those of urban and international markets. The portion of household income used for home consumption in the regions of Upper Guinea and Central Guinea is in fact quite high. It is as much as seventy percent in Dinguiraye, fifty-nine percent in Dabola, fifty-two percent in Siguiri (Upper Guinea) and seventy percent in Labé (Central Guinea).

1.3.3 Key Recommendation derived from an Analysis of the Relationship between Trade and Poverty

Recommendation 1. Improve the integration of domestic markets so that opportunities can be passed on from local urban markets and the global market to the remote areas of Central and Upper Guinea and the forest region. This will require: (i) encourage a reduction in transportation costs by continuing to implement the action plan resulting from the transportation sector strategy designed in 1999. Special emphasis must be placed on revitalizing the rural road development and rehabilitation program, currently in limbo; (ii) Cut down on the number of road barriers and make them more efficient. It is important for the government to send a strong signal indicating its desire to make this an on-going effort.

Recommendation 2. Introduce a strong regional component in favor of Upper and Central Guinea in rural development and poverty reduction programs The producers of exportable goods in those regions (Malacca beans, mangoes, potatoes, cotton) need greater institutional support as these regions are incorporated into the mainstream.

CHAPTER II
COMPETITIVENESS FACTORS OF GUINEA'S EXPORTS

2.1 OVERVIEW OF TRADING CONDITIONS

The current global marketplace is a difficult environment in which primary-product exporting countries must compete. The price of products, such as bauxite, coffee, cocoa, and cotton have deteriorated remarkably. The general weakness of these commodity prices is due to several factors, including: a higher growth in productivity relative to worldwide demand; a general weakness in worldwide demand; and subsidies and other distortions levied by countries such as the US, EU, and China, for certain products including cotton, which effectively lower world prices. Nothing on the horizon suggests there will be any dramatic changes in these trends.[9]

In addition to the problems faced in the global marketplace, the West African region has suffered from tremendous political instability during the last two decades. Armed conflicts in the neighboring countries of Liberia, Sierra Leone, and recently Cote D'Ivoire, have limited the scope for regional trade. As a result, Guineans find themselves in a regional environment that is not, due to circumstances beyond their control, conducive to trade.

Beyond these regional and global factors, numerous domestic factors stand in the way of greater integration of Guinea to the world economy. Even though private enterprise expanded greatly with the liberalization of the economy, the legal and regulatory framework remains unstable and arbitrary. Otherwise, the private sector is largely constrained by the lack of public services, as well as the poor shape of the water, electricity and other infrastructure projects. The cost of road barriers, even more than transportation proper, is one of the major obstacles to market integration and competitiveness in Guinea. In fact, while the roadblock phenomenon is not unique to Guinea, available estimates show these costs to be particularly exorbitant in that country. The cost of the roadblocks, which often exceeds the cost of transportation, hinders transportation and creates a major handicap to the competitiveness of Guinean products.

The current crisis of the energy sector is another example of how limited and poor management of infrastructure can deter the country's competitiveness. When producers and exporters can afford it, buying generators and operating them is costly and affects competitiveness in both domestic and foreign markets. Furthermore, some goods which were traded at the margin before the electricity crisis are becoming non tradable because they are losing their competitiveness due to higher energy costs.

---

[9] This does not exclude more favorable changes particular to certain products, such as cocoa, which, due to the crisis in Cote d'Ivoire, have improved the terms of trade.

Small and medium scale industries have been particularly hard hit by direct (e.g. power outages) and indirect costs of the crisis (investment in generators, higher costs for inputs) and some are going out of business altogether.

The Guinea Customs Department still maintains its traditional image of an Administration with staff at the borders to control the entry of goods and collect customs duty and taxes. But the establishment of regional groupings, trade liberalization policies and growing economic globalization have profoundly changed the economic context in which a Customs Administration accomplishes its mission. Competition among countries is stiff and lack of trade facilitation reduces the competitiveness of an economy and may lead to diversion of trade flows or investments to other countries. The role of Customs Administrations as economic facilitators has become important and, considering its trade policy choices, it is in the interest of Guinea to ensure that the Customs Administration plays its economic facilitation role efficiently.

The Value Added Tax is in principle trade neutral. Unfortunately, in the case of Guinea, VAT credit on exports[10] is not regularly reimbursed. Therefore, it acts like an export tax. For the moment, the mining sector seems to be the one mainly affected by irregular VAT reimbursement. The benefits of an expansion of non-mining exports due to greater world market integration can only be secured if these domestic constraints are addressed.

In the midst of these unfavorable factors, however, three developments provide the Guinean economy with a real opportunity to benefit from greater world market integration.

First and foremost, during the last two decades the commercial environment in Guinea has been liberalized. As a result, quantitative restrictions on imports, as well as capital controls, have been largely eliminated. With a few exceptions, duties on imports are all *ad valorem*, and the IMF classifies the import regime as "liberal". Prices in domestic markets are freely determined by the interaction of supply and demand.

In addition, after decades of unfruitful effort, regional integration in West Africa has led to progress (albeit fragile) following the signing of the West African Economic and Monetary Union (WAEMU) in 1994, to which Guinea must adhere to avoid being excluded within the region. Changes within the ECOWAS framework are also underway. Beyond the shift in preferences toward commercial activity, these moves to increase regional integration improve the investment climate. The harmonization of regulations and constraints on government behavior effectively increase transparency,

[10] Only VAT export credit is refundable. It is an important bias to the detriment of investment in particular. This provision encourages additional exemption requests.

and reduce discretionary powers of those in authority. For example, Guinea’s signing of the OHADA treaty will result in improved commercial codes, once it is effectively implemented.

Finally, the “Everything but Arms“ (EBA) initiative, that increases LDC access to the EU, and the “Africa Growth Opportunity Act “ (AGOA), that increases access to the US for Sub-Saharan African countries, provide Guinea with potentially greater market access. These two unilateral preferential initiatives will eliminate the total effect of tariff barriers and quantitative restrictions that hurt exports from eligible countries, with the exception of sugar, rice and bananas, which are protected in Europe. The Guinean economy, which already benefited from preferential access in Europe, due to the EU-ACP (Cotonou Agreement), is eligible for these two initiatives. These opportunities to export to a larger market, in spite of their drawbacks (including rules of origin and exceptions for politically sensitive products) provide some incentive to increase Guinean exports through foreign direct investment in agriculture and in light industries (garments). However, these opportunities should be envisioned in the long run, once the pre-requisites for such investments to take place are taken care of. These include efficient trade facilitation institutions and procedures (efficient port, efficient customs clearance, etc.) and investments in good quality infrastructure (electricity and rural roads notably). In the short run, they offer to the government a great incentive and a roadmap to modernize the economy.

2.2 THE TRADE SYSTEM

2.2.1 Trade Agreements

Guinea joined the WTO on October 25, 1995. Since 1975, Guinea has been a member[11] of the Economic Community of West African Countries (ECOWAS). An amendment in 1993 to the ECOWAS treaty set up the liberal exchange of capital movement services for people in the ECOWAS zone. In order to promote regional integration, Guinea, along with other non WAEMU member countries of ECOWAS, decided in December 2000 to begin applying (starting on January 1 2005 for Guinea) the Common Exterior Tariff already adopted by the WAEMU countries. WAEMU TEC includes four rates: 0, 5, 10, and 20 percent. An essential advantage would be to belong to a system of incentives that is coherent, readable, and harmonized with member countries of the WAEMU. The TEC would take the place of a particularly complex tariff structure.

TABLE 2.1 GUINEA’S CUSTOMS TARIFF

[11] Guinea also joined the Mano River Union (MRU) in 1979 and it signed the treaty of the African Economic Community (CEA).

	MFN		ECOWAS	
	Number of lines[a]	Weighted tariff	Number of lines	Weighted tariff
Total	1870	18.57	271	13.42
By WTO Category				
Agriculture products	265	21.81	29	4.06
Other products	1605	15.86	241	13.66
By STIC Rev. 3				
Agriculture & fisheries[b]	4	17.48	3	5.75
Mining products	5	19.22	0	n.a.
Manufactured products	80	18.71	56	13.59
By HS Code				
01	45	11.3	6	3.3
02	87	22.8	4	0.5
03	13	24.2	0	0.0
04	120	22.6	19	4.1
05	21	15.5	6	14.4
06	178	16.2	54	6.2
07	97	17.0	24	9.8
08	14	17.0	3	17.0
09	23	17.0	2	17.0
10	69	16.2	22	10.2
11	285	15.5	22	4.6
12	29	10.3	10	10.1
13	70	13.6	6	16.6
14	4	32.2	0	0.0
15	193	16.2	31	11.5
16	395	15.0	41	5.3
17	63	18.0	9	8.2
18	79	17.0	4	1.1
19	3	17.0	0	0.0
20	80	17.6	7	17.0
21	2	4.8	0	1.5

Notes:

a) Number of lines at HS6 level. Chapter 22 excluded.

b) The difference between weighted tariffs for « agriculture » (WTO) and for « agriculture & fisheries » (STIC) comes from « Food products & beverages » (STIC 15) accounted for as a manufactured product in STIV Rev. 3 and as an Agriculture product (HS chapters 1 to 24) in the WTO system.

Source: National Customs Directorate, calculated by the mission.

Although adopting the WAEMU TEC will not per se eliminate all the obstacles to the liberalization of intra-zone trading, it should reduce the diversions of traffic due to exterior tariff disparities and eliminate the need to resort to rules of origin regulations to avoid re-exportations in the interior of the zone. (ECOWAS rules of origin, which have no penalties in the absence of an internal liberalization, impose a minimum proportion of added value or local inputs). In addition, since the TEC was determined in the WAEMU framework, its adoption presents an advantage in reducing the discretionary power of national authorities in defining and applying trade policies. However, WAEMU TEC has not been defined for all tariff lines, thus the applicable rate for non-defined tariff lines is left undermined.

2.2.2 Access to Outside Markets

Tariff Barriers

Tariff barriers to the access of Guinean products to major world markets have largely been eliminated. Guinea is in fact eligible for two strongly preferential policies: the AGOA (*African Growth & Opportunity Act*) in the US and the EBA ("Everything but arms") in the European Union. As for the Common Exterior Tariff of the European Union, Guinea's 15 main exports in 2001 were exempt from Customs laws in virtue of UE-ACP (ibid.). On the other hand, there are some exceptions, in particular agriculture products (specifically rice, sugar, and bananas) with a strong growth potential, although they are still marginal Guinean exports. These sub-sectors are the focus of a phased liberalization.

Sanitary and Phytosanitary Norms

Due to weak Guinean exports of agricultural and food products, (See above), implicit barriers to market access created by SPS (sanitary and phytosanitary) norms do not directly affect the actual performance of the national economy. Nevertheless, these barriers, the magnitude of which fluctuates across sectors, could become a potential obstacle in a long-term scenario with Guinea returning to agricultural markets.

For coffee, the European Commission recently revised the CE Law 466/2001, fixing maximum norms for certain contaminants in food products.[12] Guinean coffee, being exported un-roasted, is potentially affected by the new European regulation. Up to now, not a single Guinean coffee shipment—whose main outlet is Morocco in virtue of a bilateral trade liberalization agreement—has been rejected for containing excessive amounts of ochratoxins. Likewise, not a single fruit or vegetable shipment (Guinea exports limited quantities of pineapples to the UE) has been rejected for containing excessive amounts of aflatoxins. The SPS norms from the UE have not yet created barriers to market access for Guinean agricultural products, but a lack of vigilance in this domain could cause difficulties in the long run.

The establishment of national sanitary standards was set up by the Public Health Code of 1997 and entrusted to the Institut National des Normes et de la Meteologie (INNM)[13]. Being a public scientific and technical establishment under the authority of the Ministry of Industry, the INNM has benefited from UNIDO's assistance between 1995 and 1996 in the areas of standardization and quality control in sub sectors with high export potential (peach, wood, produce, and construction materials). The National Service for Quality Control and Standards (SNCQN) also benefited in 1991 from Veritas' assistance

[12] Law 472/2002 was adopted on March 12, 2002 along with Directive 2002/26/CE.

[13] National Standards and Metrological Institute.

in training and equipment (a mobile laboratory) designed to allow it to verify conformity with the Codex Alimentarius for running water and for meat and fish put on the market. However, SNCQN's inspections are, at best, sporadic. On the other hand, SGS and Veritas carry out pre-export inspections (quality, quantity, and packaging) under private contracts. Fruits and vegetables fumigation, if applicable, is carried out by the sea or air shipping companies. SNCQN's chronic lack of resources suggests the need for additional cooperation between exporters, public powers, and inspection organizations.

Key Recommendations from Section 2.2

An essential objective is to promote a trade policy with incentives in a regional integration framework. The most important measures (see Matrix 1) include:

Recommendation 1. Adopting WAEMU TEC in due course, in accordance with the IMF mission's recommendations of October 2002. In order to avoid economic distortions and losses in budget revenues, it is necessary to eliminate discretionary exemptions and to drastically limit all exemptions.

Recommendation 2. Resuming the dialogue on the implementation of the ECOWAS trade liberalization agenda.

Recommendation 3. Facilitating the implementation of economic policies and of provisions of the Investment Code, especially for agricultural export products.

Recommendation 4. Strengthening Guinea's capacity to negotiate international agreements and more generally, developing private sector and Administration human capacities and resources in international trade and incentives policies. Technical assistance will be necessary to achieve these goals.

2.2.3 The Role of Customs

The Guinea Customs Administration plays a vital role as a provider of revenue to the Public Treasury. In 2001, Customs accounted for nearly 50% of total State revenue. It also plays an invaluable role in the implementation of economic policy (tariff and other protection measures) within the nation and in the regional context of ECOWAS. It applies a complex, unstable tariff due to frequent readjustments. The tariff schedule is not available to private operators, which reduces transparency of the regulatory framework governing foreign trade.

Consolidation, or rather widening of the tax base notably by introduction of a simple, transparent CET, improvement of procedures for custody of goods and abolition of the lump sum tax on containers, control over exemptions and the transit systems and selectivity of controls are prerequisites for mobilizing revenue and guaranteeing the efficient implementation of the incentive scheme.

As regards Customs clearance operations, the procedure for issuing a release warrant is complicated, long and tedious. The number of Administrations intervening in the clearance process to apply various regulations makes the importation procedure even more cumbersome. On importation, the declaration system is long and very complicated; the exportation process is complex and requires several stages and documents. There is no protocol agreement governing relations between the Customs and its partners (port, enterprises, professional federations, transporters).

A crucial factor of competitiveness is the rapidity of external trade operations at moderate cost. To that end, selective controls seem vital in preventing any meddling with customs clearance operations. Adoption of new working methods, simplification of procedures and more intensive use of computer technology will be very instrumental in achieving these objectives.

Customs Clearance and Control Procedures

Customs clearance procedures and methods of work are still characterized by red tape and unwieldy procedures that mar the effectiveness of controls and slow down customs clearance operations. There is duplication of procedures between the Customs and SGS for imports exceeding three thousand dollars. The number of physical inspections carried out by the Customs Service, the police, the *gendarmerie* and the packaging stations appear to be excessive and penalize trade operations. On exportation, the procedure is also penalizing, considering the various bodies intervening and finicky controls during the stuffing of containers. Representatives of the private sector view customs regulations and control mechanisms as complex and lacking transparency.

The IF mission observed that senior staff has technical skills especially in legislation, procedures and control instruments and methods. However, additional training is required to bring some of the senior staff up to the standard required for working closely with the Customs in its modernization efforts.

Computerization is not sufficiently developed for customs agents to undertake controls, especially in the absence of any computer linkage with the customs partners. Even if the Service has developed specific applications help exploit the data generated by the system, there is no systematic exploitation of possible statements and statistical data generated by the system; which reduces the operational impact. The system lacks efficiency due to use of obsolete application and computer architecture as well as low availability of computer equipment.

Key Recommendations for Section 2.2.3

Recommendation 1. Creation of a Customs Reform Committee bringing together customs operators and a strong representation of the private sector, to define a Customs modernization program, according to the guide lines set forth in matrix 3

Recommendation 2. Adoption of appropriate measures to effectively tackle problems raised about the application of the transactional value (WTO)

Recommendation 3. Adoption of simplified procedures and controls, while carrying out verifications based on risk analysis, and effective implementation of the new ASYCUDA version in order to introduce such simplified procedures in the routine duties of the customs staff.

Recommendation 4. Improvement of the taxation performance, while improving incentives: elimination of the lump sum tax on containers, reintroduction of *ad valorem* taxes on rice and initiating tariff preferences granted to ECOWAS member States.

Recommendation 5. Establishing a time frame for Customs to progressively perform the duties currently devolving on the SGS satisfactorily and effectively implement that timetable.

2.2.4 Institutional Support for Export Development [14]

Institutional support for private sector development in Guinea is particularly complex. It involves a large number of diversified bodies, almost all belonging to the public and semi-public sector. The *Ministry of Commerce, Industry and Small and Medium-sized enterprises* (MCIPME) has a major role to play in promoting international trade. The Ministry acts as secretariat for the recently created National Committee on International Trade Negotiations (CNNCI). The Committee seeks to defend Guinea's interests in the framework of multilateral and international trade negotiations.

These institutions are generally (i) suffering of insufficient human, material, logistical and financial resources, qualitatively and quantitatively, (ii) little concerned with trade in general, and exportation, in particular, and (iii) of low operational level. Moreover, at the root of such low efficiency is the deliberate lack of clear institutional responsibilities, due to a conflict of powers or the yet to be clearly defined roles. The overall mechanism could be conveniently re-focused on priority support missions to enterprises, notably in support of exportation.

For most institutions concerned, the main identified needs in capacity building should focus on: (i) training of permanent staff; (ii) information, notably information in real time (on prices and business opportunities in particularly); (iii) Computerization and networking; (iv) Documentation and subscription to specialized journals; (v) computer equipment (computers, terminals and software) and (vi) *ad hoc,* short-term specialized technical assistance.

Key Recommendations for Section 2.2.4

Recommendation 1. Streamlining the particularly complex institutional framework, which lacks efficiency (Matrix 2), and refocusing it on its priority mission of providing support to enterprises, attracting foreign investments and promoting exports.

Recommendation 2. Examining options in restructuring the MCIPME and making it better at promoting exports and participating more actively in international negotiations

Recommendation 3. The streamlined institutional arrangement should help introduce a national quality promotional policy to improve the export sectors performance and enhance the capacity of Guinean products and services to penetrate foreign markets.

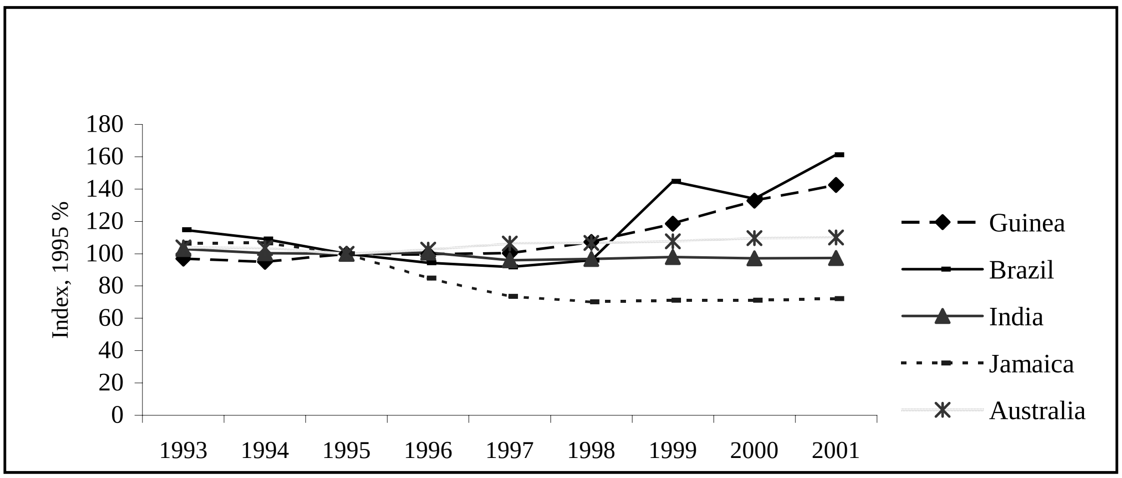
[14] For details see Chapter 3 in volume 2.

2.3 FOREIGN EXCHANGE AND DOMESTIC CREDIT

2.3.1 The Exchange Rate

In 1985, Guinea drastically devalued its currency and abandoned the syli for the Guinea franc. Since then, the nominal exchange rate has progressively depreciated. From 1997 to 2001, the real effective exchange rate (REER) depreciated at an annual rate of 5%, reaching 2.6% in 2002. Such depreciation is an external competitiveness factor, which boosted bauxite exports—although the Brazilian devaluation also enhanced the competitiveness of Brazil's bauxites exports (cf. figure 2.1). Depreciation of the REER should be favorable—especially to non-mining exports. However, in the absence of integration of many domestic markets (see below, Chapter 3), this positive incentive may have not been enough to stimulate production, particularly in the most landlocked and poorest regions.

FIGURE 2.1 EVOLUTION OF THE EFFECTIVE REAL EXCHANGE RATE IN GUINEA



Source: IMF

Guinea joined the ECOWAS Monetary Co-operation Program (MCP) in 1987. The long-term objective of the MCP is to establish a single monetary zone for West African countries. One stage towards the establishment of such a single monetary zone is the creation, in addition to the eight-country WAEMU zone (Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo), of a second monetary zone in West Africa (ZMAO) comprising of Gambia, Ghana, Guinea, Nigeria and Sierra Leone), in which Cape Verde and Liberia enjoy observer status. Considering the complex, demanding job at hand, substantial technical assistance will certainly be required.

2.3.2 Scarce Availability of Foreign Exchange

The Guinean franc is non-convertible, but in November 1994, Guinea acceded to Article 8 of the IMF Statute prohibiting restrictions on routine transactions. Thus, residents were allowed to hold foreign exchange accounts in the commercial banks in Guinea. Deposits by residents into foreign accounts were also authorized but, in principle, the Central Bank was notified of such transactions.

Exporters are obliged to repatriate 100% of the foreign currency within 90 days (120 days for certain types of contracts), but with no obligation of restitution, since the foreign currency had to be repatriated only into the foreign exchange account domiciled in commercial banks in Guinea in the name of the exporter. Mining companies operating under concession contracts are not bound to repatriate foreign exchange; they are limited to paying a foreign exchange tax payable to the Central Bank or to one of its foreign correspondents. However, voluntarily repatriated sums are refundable.

Importers have access to foreign exchange through monthly auctions organized by the Central Bank. Commercials banks are bound to indicate to the Central Bank, in advance, the amounts their customers intend to purchase. Procedural delays for acquiring foreign exchange on the official market constitute an impediment to agricultural sector operators, in particular for just-in-time production (notably fruits and vegetables).

Needs in foreign exchange not covered by the monthly Central Bank auctions are met through the unofficial market (non bank), estimated at over 100 million dollars per annum and replenished in part by gold and diamond exports. The premium of the unofficial market rate compared to the official market is 3%. Finally, traders and industrialist bypass the foreign exchange market by resorting to netting. Marginalization of the official market generates export activities mainly designed to provide foreign exchange. These “opportunist” activities damage the credibility of the Guinea’s export networks. Enhancement of the functioning of the official foreign exchange market is therefore a priority, not only to facilitate import flows but also enhance the credibility of export channels.

2.3.3 Expensive, Hardly Accessible Credit

Only seven commercial banks were operating in Guinea in 2002, with 27 branches. Bank credit is little developed: credit to the private sector accounts for about 8.7% of the GDP compared to an average of 43.3% in low-income developing countries[15]. Documentary credit for exports is very low and is less and less used, as the cost is inhibitive. Besides a 1% commission, commercial banks charge a rate of interest close to 20% (the Central Bank no longer having a reference rate, the base rate set by commercial banks in 2002 was about 12.5%). Moreover, since the Central Bank ceased refinancing,

[15] World Bank, World Development Report, 2002.

at preferential rates, advances on harvests and fresh fish since the mid 1990s, the pre financing of fisheries and harvest became costly and very scarce. Thus, no pre-financing was granted for the 2001 harvest season (chapter 5).

Constraints to credit expansion and the fall in rates ? are common to most LDCs. The burden of bad debts on the portfolio of commercial Banks in Guinea (30% according to the Central Bank report, 20 -25% excluding the liabilities of the BIAG, a semi-public bank liquidated in 1997) is considerable. An operation has been launched to compensate depositors who lost their money when the *Crédit Mutuel de Guinéel* went bankrupt. Bank lending regulations were flouted as certain banks issued loans seven times their own capital stock to a single customer. This very lack of diversification resulted from the paucity of solvent risks in Guinea.

Time deposits accounted only for a small fraction of deposits, most of which matured in just 3 months and one day, reflecting an agreement allowing for non-taxation of interests. Certain local banks however recently placed successfully long-term products. The lack of saving deposits compelled the banks to limit their long-term outstanding discounted bills drastically.

Moreover, investment credit is highly restricted due to the moral risk. Banks complain about the lack of transparency on the part of their customers. They tend to turn to the affiliates of major international groups, which offer, collateral in the form of guarantees by their headquarters or collateral in the form of raw materials. Operators in the banking sector however acknowledge some improvement in the business climate. Amendment of the land law in the mid 1990s allowed for use, with effect from 1996, of land titles as collateral. Court settlement of conflicts also improved, even if court decisions are hardly ever enforced.

The accession of Guinea in 1995 to the OHADA Treaty (*Organisation pour l'Harmonization en Afrique du droit des affaires*)[16] and its effectiveness on November 21, 2000 seems to hold promise of enhanced transparency and compliance with contracts, at least when the domestic legislation would have been streamlined with the Treaty. Since the Treaty takes precedence over national laws, there is currently some confusion resulting in conflicting interpretations in bank disputes brought before the courts in Guinea. Under the OHADA Uniform Act, the lending bank has the obligation to inquire into the financial standing of the borrower in case of a secured loan, failure to which the

[16] Founded by the Port-Louis Treaty of October 17, 1993, OHADA covers 16 States: Benin, Burkina Faso, Cameroon, Central African Republic, Comoros, Congo, Côte d'Ivoire, Gabon, Guinea, Guinea Bissau, Equatorial Guinea, Mali, Niger, Senegal, Chad and Togo. It seeks harmonization of business law in Member States, promotion of arbitration and training of magistrates. The Treaty comprises of a Uniform Act on general commercial law, a Uniform Act relating to corporate law, and a Uniform Act organizing sureties. Harmonization of labor laws, consumer sales and land transportation laws is under way. .

surety will no longer be liable for interest on the loan. This obligation has not been translated into law in Guinea.

2.4. PUBLIC INFRASTRUCTURE

2.4.1 Port Infrastructure

Guinea has two deep-sea ports: the mining port of Kamsar and the Autonomous Port of Conakry. All the port services (transit, consignment, handling and transportation) have been privatized. Conakry port comprises of an oil terminal, a mineral terminal and a container terminal. Only a small volume of bauxite transits through the mineral terminal used by the Kindia Bauxite Company (SBK). Six hundred and fifty-two ships transited through Conakry port in 2001, including 215 container ships. Although available statistics are not quite comparable, harbor fees in Guinea are high compared with those of other potential competitors in the sub-region. Harbor fees paid by container ships are estimated by maritime professionals at about $9 000, well above the rate in Dakar or Abidjan (about $5 000), but the lay days and time at the dock compare favorably with other ports in the region (Table 2.2). Container traffic in 2001 was 38, 318 entries into port and departures (22 459 importations and 15 859 exportations), rising by 36% as compared to 1996, at an annual increase of 6.3%. The disparity between entry and departure of container ships reflects Guinea‘s trade deficit in most industries, except the bauxite sector. Conakry Port is near saturation, whereas traffic forecasts are high, particularly when the Conakry-Bamako road link is built.

Extension of the port is envisaged. Nevertheless, saturation of Conakry port is not just a matter of capacity but also one of management of trade flows. On the one hand, available berthing space is limited by the large number of empty containers stacked at the port, and which limits the usable space. On the other hand, excessive stacking of containers is aggravated by delays in clearing goods through customs (see chapter 2). Conakry port also suffers from obstruction of access roads through the city of Conakry. Construction of a road-rail transit terminal or «dry port» in the vicinity of Sanoya (36 km from Conakry) for cargo to reach the port by rail is envisaged. A feasibility study was conducted, but there are divergent opinions about the usefulness of creating an additional transshipment point.

TABLE 2.2
PORT INFRASTRUCTURE AND TRANSPORT SERVICES: INTERNATIONAL COMPARISONS

	Guinea[a]	Côte d'Ivoire	Senegal[a]	Ghana	Mauritius	Kenya	Zimbabwe	India	Hong Kong
	Conakry	**Abidjan**	**Dakar**	**Accra**	**Pt Louis**	**Momb.**	**Durban**	**Bombay**	**HK**
Total	1550	2530	2260	1685	1810	2240	1455	1475	
Sea freight[b]	1100	1430	1350	1500	1580	1525	1250	1325	1300
Port charges[b]	450[c]	1100	670[d]	185	230	715	205	150	190
Transportation time[e]	15	15-20	15-20	20-25	28-30	30	21	24	25
Time of berthing of ship	15 h	12-24 h	12-24 h	12-18 h	24 h	4 j	12-14 h	12-24 h	8 h
Time of stay of container ship	24 h	48-72 h	24 h	48 h	24 h	4 j	72 h	24 h	24 h
Frequency of line	1	1	1	3	3	2	3	3	7

Notes:

2002; other countries: 1994

Estimate for one 20' container of dry cargo destined for Le Havre or Hamburg, in US dollars;

Of which $330 for handling and $120 for transit (including loading of the container, fumigation if applicable, and Documentation)

Of which $440 for handling and $230 for transit.

Days at sea

Total average time in harbor (that is waiting time) and berthing.

Passages per week

Source: Conakry Port and Maersk Lines for Conakry, Maersk Lines for Dakar; World Bank 1996 for the other ports.

2.4.2 Airport Infrastructure

Conakry Airport has an international passenger terminal with a capacity of 600 000 passengers per annum as well as an inland terminal with a capacity of 200 000 passengers. Both are under-utilized. The airport also has a freight terminal with a capacity of 6 000 tons per annum and, since January 2003, it has been equipped with cold-storage installations expected to be an important asset for the fisheries sector. However, certain economic operators fear being compelled to store in or to transit through the new warehouses and having to defray the ensuing costs, which will add to their trading costs and reduce their often low profitability in export operations. It is important to give operators freedom of choice in the use of the new facilities.

2.4.3 Road and Rail Infrastructure

The road infrastructure is comprised of 6 827 kilometers of national roads in 2002, including 1, 959 km of asphalted roads (1, 638 km in 1996, or an increase of 3% per annum) and 4, 868 km of earth roads. In addition, Guinea has 7, 099 km of regional roads. Traffic rose by about 15% per annum, owing to the increase in the car fleet. The government of Guinea recently took steps to cut down on the number of road barriers and make them more efficient. The cost of the roadblocks which is even higher than the cost of transportation itself, is one of the major obstacles to market integration and competitiveness in Guinea.

In 2001 Guinea adopted a «Transport Master Plan» for the development of road, ports and airport infrastructure, which was presented during a Donors' Round Table in June 2002. The plan provides for a certain number of major projects aimed at developing international trade and opening up the Haute Guinea. An ongoing project concerns the Conakry-Bamako road link. Moreover, several peri-urban road projects are under study.

Degradation of rural roads, particularly in the region of Kankan, contributes in penalizing rural areas by isolating rural products from their natural markets, particularly perishable products.

The railway network is limited to the Conakry-Kankan 662 km line, now out of use, while the three other lines are reserved for mining traffic. The Conakry-Kankan line rehabilitation project did not arouse any interest, as there is not enough freight traffic to justify investment in a railway line. However, a railway link between Sanoya and Conakry port is under study. The project, coupled with the earlier mentioned «dry port» project, has followed a BOT («*Build-Operate-Transfer*») contract signed in September 2000 with a Slovakian company, but still awaits implementation.

2.4.4 Electricity supply and costs

Guinea's electricity sector is currently in a deep crisis. Over an already constrained peak demand of 120 MW, only 20 MW are being supplied. This crisis reflect mainly the poor management of the sector. Beyond management problems of the public company (Electricite de Guinee, EDG) managing the sector (billing and collection, lack of cash for recurrent expenses, etc.), improper management of the Garafiri dam has emptied the reservoir. To compound these problems, there is inadequate capacity of the transmission line from Garafiri, and the network is "unstable". There is a lot of hardship because of the lack of electricity, especially when this is combined with lack of water because of pumping. This affects especially the poorer sections of Conakry that have less resources to deploy to mitigate theses effects (individual diesel generators, etc.).

Producers and exporters are also severely affected by the power shortage. When they can afford it, buying generators and operating them is costly and affects their competitiveness in both domestic and foreign markets. Some goods which were traded at the margin before the electricity crisis are becoming non traded because they are losing their competitiveness due to higher energy costs. Small and medium scale industries have been particularly hit by direct cost increases but also indirectly through the chain reaction increase in the cost of their input. Some are going out of business altogether.

A possible solution resides in the immediate involvement of the private sector in the management of the electricity sector. This involvement can only be progressive starting with a management contract. As the situation improves, with strong government commitment and leadership, the private sector involvement could be deepened. The strong support to such a strategy by donors is a sine qua non condition to put the system back into normal operation and getting the private sector interested anew. Failing that, the costs to the economy would continue to mount with detrimental effects on productivity, competitiveness, employment and growth.

2.4.5 Key recommendations

Recommendation 1. Extension of the port and modernization of its management in order to use existing and future infrastructure more efficiently.

Recommendation 2. Design a management contract with a strategic private partner to start a progressive involvement of the private sector in the electricity sector for an improved management of the sector.

Recommendation 3. Vigorous execution of the "rural roads" component of the transport sector strategy by restructuring its current management.

Recommendation 4. Continued implementation of the «Transport Master Plan» in order to open up *Moyenne Guinee* and *Haute Guinee*

CHAPTER 3
SECTOR ANALYSES

Given the primary objective of the Integrated Framework initiative, the sector analyses focus on the activities which would most likely increase exports. These sectors are agriculture, fishing, tourism and, traditional mining and non-mining activities. This choice does not rule out the possibility of promoting manufacturing operations for export on a longer-term basis, but this would require a business environment as favorable as that of other competitors.

3.1 AGRICULTURE AND AGRICULTURAL EXPORTS [17]

3.1.1 Agriculture – A Key Sector

Guinea's agricultural sector accounts for seventeen percent of GDP and employs two-third of the work force the majority of whom are women. Hence, it is a major business sector which, if developed, could reduce the country's dependence on the mining sector. Nevertheless, agricultural exports are relatively low. Exports of coffee, Guinea's leading agricultural export, are steady at around 20,000 tons. However, fruit exports to Europe (pineapples, bananas, mangoes) generally do not exceed a thousand tons; in the case of bananas, they have stopped altogether. Exports of these fruits to the countries of the sub-region are about the same in terms of volume. Exports of cotton fiber are up sharply but are still in a start-up phase, as are exports of cashew nuts. Exports of potatoes, livestock and rubber are still negligible.

Limited Exports in a Difficult Environment

Before its independence, Guinea was well represented on the world market with an abundant supply of pineapples and bananas, attesting to the country's comparative advantage in those crops. Since then, as a result of events in Guinea and the development policies adopted, Guinea has remained absent from the international markets. There are numerous obstacles to expanding agricultural exports, and not only because the international climate is clearly unfavorable for the moment.

First, real prices for staple commodities are in a downward trend and many products have now reached historically low levels. Second, access to western markets has become more difficult with the application of increasingly strict plant pest and disease standards and quality controls. Protective measures are even being granted for some strategic products, such as rice, cotton and bananas.

TABLE 3.1 PRINCIPAL AGRICULTURAL EXPORTS (IN TONS)

[17] For details, see Chapter 5, Volume 2.

	1961	1970	1980	1990	1995	1999	2000	2001
Cashews						1,018	1,641	1,800
Pineapple	4,000	10,720	3,000	1,700	1000	1,298	1,893	2,611
Cocoa	1,500	2,000	4,000	1,800	2520	1,793	na	na
Coffee	19,165	11,000	2,900	7,000	18880	11,796	na	na
Mangoes				200	500	818	2,865	347
Leather and animal hides					399	275	10	60

Source: FAO, PCPEA, Ministry of Agriculture and Livestock.

The development of agricultural exports for international and regional markets is part of a strategy to combat rural poverty and is the responsibility of Guinea's agricultural sector. In fact, in addition to being a source of foreign currency revenues, agricultural exports are a major factor in Guinea's food security. They are also a source of income for small farmers and agricultural laborers, helping to reduce poverty in rural areas. In addition, Guinea's diverse climate conditions, water resources and soil fertility give it a natural comparative advantage in producing a wide variety of products. Furthermore, the tight domestic market is an incentive for producers to turn to foreign markets, especially the markets of bordering countries.

3.1.2 Export Potential by Sub-Sector

The Coffee Sub-Sector – The Impact of Low International Prices

The coffee sub-sector is threatened by low international prices. It is also vulnerable to any change in Morocco's trade policy. Morocco, which grants advantageous terms to Guinea (importing all coffee free of duties or taxes), is for all practical purposes the exclusive outlet for Guinean coffee.

With prices at current levels, investing in replanting and improving the quality of the coffee exported would not be cost-effective. It is, however, important to preserve this export sub-sector because of its contribution to export revenues and to the incomes of over 100,000 producers, pending a cyclical upturn in prices.

Therefore, the inefficiencies in the domestic marketing sub-sector must be reduced so that the sub-sector will break even without cutting the prices paid to producers. This means taking steps to cut domestic marketing costs (i.e., develop highway infrastructures, reduce administrative and regulatory obstacles to shipping products, etc.) and to reduce tax or tax-related distortions (reduce export taxes levied by the government and by quasi-governmental organizations, offset the VAT, etc.). Over the long term, bringing coffee exports up to international standards should help to establish Guinea's original reputation and make it easier to find new markets.

Cotton Production – A High-Growth but Vulnerable Sub-sector

There has been a tremendous boom in cotton production, which has helped considerably to increase farmers' incomes, improve food security, and modernize farms in disadvantaged areas of Upper and Central Guinea. This sub-sector is organized around a private company, the CGC, which has a legal monopoly to gather *seed cotton* and distribute seeds. The CGC also handles inputs and credit.

The sub-sector's two primary assets are the quality of the product exported and the strong performance of producers' groups. However, the sub-sector remains fragile because of fluctuating world prices. Thus, as a result of the fall in prices in 2001 and the company's lack of sufficient capital combined with defaults by the State (failure to repay VAT credits, failure to finance infrastructure, research, etc.), the CGC has been unable to meet its commitments to farmers and there is a major risk that farmers will lose interest in this crop.

Thus, the State should make a clear commitment to re-establishing an economic and tax climate which is favorable to the growth of this sub-sector. A major point would be to strengthen the ability of producers and their representatives to have a voice in defining cotton policy.

TABLE 3.2 PRODUCTION (TONS)

	1961	1970	1980	1990	1995	1998	1999	2000	2001
Seed cotton			41	5,050	10,712	37,460	26,525	23,281	32,693
Paddy rice	219,000	350,000	480,000	423,821	630,511	763,955	750,000	739,341	789,247

Source: CGC, FAO.

Rubber

Rubber exports are still in an experimental phase. The rubber tree sub-sector is organized along the same lines as the cotton sub-sector. SOGUIPAH, a public corporation now managed by a private operator, handles a range of activities, including production, and works with small farmers under contract.

The rubber produced by SOGUIPAH is an internationally recognized high quality product, for which the prospects on the international market are fairly positive. The main problems in the sub-sector stem from the fact that production areas are remote and not easily accessible. The lack of security in neighboring countries prohibits shipment through Liberia; this situation also threatens exports of fresh produce to Ivorian processing plants. Lastly, the sub-sector is currently going through a critical phase related to the debt structure of SOGUIPAH.

Malacca Beans and Cashew Nuts

The outlook for Malacca bean [*noix d'anacarde*] production is good, and the quality of Guinean cashews [*noix de cajou*] is fairly good. These nuts are exported in equal quantities to India and neighboring countries (Ivory Coast and Guinea Bissau). Maritime exports are performed essentially by only one exporter. Over the medium and long term, export prospects are fairly unfavorable because of the expected increase in production by India and other African countries competing with Guinea. The strategies required to enhance the competitiveness of Malacca bean exports are the same as for the coffee sub-sector.

The Fruit and Vegetable Sub-sectors

Fruits and vegetables enjoy favorable market conditions because of a growing demand in the urban areas of the sub-region and in developed countries. Among fruits and vegetables, Guinean mangoes and pineapples are appreciated abroad for their taste. However, Guinean exports do not yet enjoy a good reputation. Export flows remain low and irregular. Despite the presence of a few professional operators, these sub-sectors are having trouble developing and reaching a critical profit threshold. The other fruits and vegetables (such as bananas and potatoes) are mainly produced for domestic and regional markets that are less demanding in terms of product quality.

Pineapples are produced on a commercial basis, solely for export to the EU, and by small farmers for domestic and regional markets. In 2002, the Guinean pineapple was not competitive on the European market. The primary reason was the high cost of airfreight and refrigeration for shipments by sea. In addition, the pineapple export sub-sector is highly dependent on imported equipment and inputs, which are expensive because of shipping costs to Conakry and problems in enforcing the laws exempting agricultural equipment and inputs from import duties. Finally, the cost of producing pineapples for export is further eroded by trucking and port access problems. Small farmers lack easy access to inputs (i.e., plant material, fertilizers, pest and disease products and packaging) and to training. The cost of marketing their products is exacerbated by the cost of roadblocks. If pineapple exports are to be developed, steps must be taken to reduce domestic marketing costs and attract large investors so as to reach the critical threshold in terms of quantities exported in order to lower sea-shipping costs.

Considering Guinea's potential, *mango* exports are fairly negligible. Mangoes are exported to the EU by one international company that has been active in Guinea for only a short time, and two national companies specializing in organic foods. Despite low production costs, the competitiveness of Guinean mangos compared with mangos from Ivory Coast and Mali also suffers from the cost of shipping to Europe. Only organically produced mangoes, exported by air, appear to be profitable. In addition to cutting international shipping costs, which depends on the size of refrigerated containers, an essential factor in cutting the production costs of Guinean mangoes would be to improve domestic transport conditions, as mentioned above, and to rebuild the major roads to the bordering countries that import mangoes from Guinea.

Exports of *bananas* are currently marginal. Re-launching exports to international or regional markets would require major capital expenditures on production and marketing structures. In fact, bananas are fragile, perishable products requiring only minimal packaging and storage before being placed on the market. In addition, the current quality of Guinean bananas does not meet international standards, and grower yields are low. Lastly, although there is a demand in the urban centers (primarily Conakry) and in neighboring countries such as Senegal, heavy investments may not produce a return in these markets, which are less demanding in terms of quality and face competition from neighboring countries.

Potato production was recently introduced in Guinea and has grown rapidly, which is generally attributed to the fact that the sub-sector is organized around an efficient federation of producers. For the most part, the potatoes produced are sold on the domestic market, which quickly becomes saturated during certain periods of the year, while exports to neighboring countries such as Senegal remain marginal despite the existence of substantial regional outlets. The growth of exports to bordering countries is hampered by inadequate packaging, storage and transport infrastructures. The development of potato exports also depends on a guaranteed, regular supply of certified seeds, inputs and packaging materials.

Rice Production

Despite strong growth in national paddy rice production, Guinea is still a net importer of rice. The poor competitiveness of Guinean rice appears to be the result of low yields by growers, high domestic transport costs, the lack of organization by those working in the sub-sector, problems accessing credit, and inadequate marketing infrastructures. Among the different kinds of rice, mangrove rice is a product with high growth potential that could be exported to organic food markets in Europe. To develop organic rice exports to European markets, the sub-sector would have to be structured around one large-scale investor or around trade organizations.

Animal Products

The potential for developing exports of animal products is considered substantial because of natural factors and possibilities for outlets in the countries of the sub-region, especially for tripanosomiasis-tolerant breeding lines. At present, exports are marginal and are confined to the informal sector. Expanding these exports would mean organizing the sub-sector, especially in terms of compliance with export health standards. Exports of other animal products are hampered by the same problems as agricultural products – increasing export flows and preserving products in the case of leather and hides, and product quality and packaging in the case of honey.

3.1.3 Obstacles to Developing Agricultural Exports

In addition to factors linked to the international environment, a review of export sub-sectors reveals various obstacles to the development of agricultural exports that are related to domestic policies. These include distortions or defects in some markets (e.g., the foreign exchange market, input markets) and in the tax and customs incentive system, the high cost of inputs in the agricultural export sector, the high cost of financing for production and marketing, insufficient agricultural support services (e.g., infrastructures, monitoring of standards, research, agricultural extension services, etc.) and shortcomings in the legal and regulatory framework. These problems are exacerbated by road barriers.

These factors explain the opportunistic behavior of many non-professional exporters of agricultural products, the poor quality of the products exported, the substantial risks involved and the poorly developed financing mechanisms for export activities. They also explain why Guinea's agricultural sector is not very attractive, why new operators have encountered problems becoming established, and why Guinean products cannot compete in the market.

3.1.4 Key Recommendations for Agriculture

Regardless of the market targeted, whether international or regional, the development of agricultural exports will require reducing any inefficiencies or shortcomings that may generate obstacles to trade and impact the competitiveness of Guinean products. It is also crucial to increase the scale of production so that export operations can reach the critical profit threshold. At the same time, quality control measures must be taken to enhance product value and find new outlets. These policies will require a commitment on the part of the government along with foreign technical assistance aimed at (see Matrix 5):

Recommendation 1. Facilitate the distribution and marketing of agricultural products by (i) reducing government controls and red tape, (ii) expanding and improving public roads and highways, and (iii) ensuring the permanence and development of the steps taken to facilitate export operations, particularly through CAFEX.

Recommendation 2. Reduce distortions caused by government or quasi-government taxes by (i) avoiding multiple levies on products, (ii) avoiding "disguised" taxes (price controls or administrative formalities), (iii) ensuring that export sub-sectors are not penalized by incorrect application of the VAT, and (iv) by ensuring the correct application of laws exempting inputs and equipment from import duties, as well as tariff cuts on imported raw materials.

Recommendation 3. Establish a legal framework of attractive incentives: (i) guarantee contracts and ownership rights (particularly for property), which is vital for increasing investment. This means well-defined and stable rules of law and an efficient judicial system. (ii) Analyze the appropriateness of creating a special system for agricultural export companies based on the "free trade site" model.

Recommendation 4. Promote foreign investment and Guinean products abroad: (i) ensure the permanence and development of the steps taken by the PCPEA to promote and support foreign investment in the agricultural sector by creating a special unit if necessary, (ii) take further steps to prospect for new export markets, especially for rice and animal products, and establish a reporting system on foreign markets (conditions for access, prices, etc.).

Recommendation 5. Support farmers' and inter-industry groups. (i) Eliminate the legal gap surrounding trade organizations by giving them legal status, (ii) enhance the abilities of these organizations through training programs for members, (iii) establish micro-credit institutions, (iv) support the activities of women, who play a dominant role in agricultural production and who are also the most affected by poverty (in terms of access to land, and support in producing, processing and marketing agricultural products, etc.).

Recommendation 6. Expand and develop government research units and agricultural extension services as well as marketing infrastructures. (i) Provide more resources for research to develop improved plant materials and new technical lines for organic products, for which there is strong market potential, (ii) provide additional resources to train farmers in the use of new production techniques and new varieties, (iii) develop basic community infrastructures for the marketing of agricultural products, such as the Conakry National Interest Markets, Regional Capital Markets, regional slaughterhouses, etc.

Recommendation 7. Invest in Guinea's reputation as a source of export products. (i) Work with the various sub-sectors to organize and define quality charters in each sub-sector, (ii) then require exporters to comply with international standards, (iii) enhance the government's ability to enforce regulations, (iv) upstream of the sub-sectors, promote quality through farmers' awareness and training programs.

Recommendation 8. Redefine, if necessary, and implement the various development plans by sub-sector.

3.2 THE FISHING SECTOR[18]

3.2.1 Fishing– A Sector with Significant Potential

Guinea's Fishing Potential

Guinea's fishing potential is over 200,000 tons in the years when small pelagics are abundant, placing it clearly ahead of most of the countries in the Gulf of Guinea, but behind Guinea Bissau and even more so behind Senegal. In addition to the coastal fishing potential, the country also offers freshwater fishing, which can produce widely varying but highly significant results. Finally, the size of the waterway and mangrove network suggests major possibilities for fish and shellfish farming.

Despite this potential, until now the fisheries sector does not seem to have received the same attention from the government as the mining and agricultural sectors. Thus, a major problem is the disputable line delineating the border of the exclusive economic zone (EEZ), which cuts Guinea off from roughly fifty percent of the territory that should logically belong to it, to the benefit of Sierra Leone.

Fishing Fleets in Guinea

The fishing fleet operating in Guinean waters was estimated in 2001 at a minimum of 65,416 tons of industrial fishing units and 75,000 tons of traditional coastal fishing units. These figures do not include the capacity of the European tuna seiners' fleet. There is also a large but unknown number of dugouts used for onshore traditional fishing. National fishing accounts for only a small percentage of industrial fishing (twenty-four Guinean trawlers compared with ninety-three chartered trawlers). In addition, a substantial portion of fishing operations has been leased to foreign-based fleets, particularly Little is known about the economic fall-out from the presence of this foreign fleet in Guinean waters.

Sector Contribution to GDP and to Exports – a Highly Flawed Assessment

An assessment of the sector's contribution to GDP based on products actually unloaded (and on ratios based on the professional experience of mission experts) gives only a figure of 1.86 percent, including 1.68 percent for traditional fishing segments alone. Catches by foreign fleets that are not unloaded in Guinea are not included in this figure. the serious lack of sufficient data on the sector's contribution to GDP, exports and job creation is a major obstacle to consistent management of the sector and should receive very close attention.

[18] For details, see Chapter 6, Volume 2.

3.2.2 Weaknesses and constraints of the fishing sector

Weakness of Industrial Fishing in Guinea

Currently, because of its weaknesses, the national shipping fleet plays only a minor role in industrial fishing. Large fishing areas are leased to foreign-based fleets, European and Chinese in particular (over one third of the trawlers active in Guinean waters). Leasing some resources is justified when national operators have technical or financial shortcomings that prevent efficient access to those resources. This is the case of deep-sea tuna fishing, deep water trawling and catching small pelagic fish in distant areas, which require resources that are usually out of reach for small developing countries.

However, granting fishing licenses to foreign trawlers for small fishing grounds places them in direct competition with national shipping companies that offer a much wider domestic distribution of revenues than foreign ships. Foreign ships rarely use Guinea as a supply or off-loading point. The lack of fishing infrastructures at the current port makes the presence of more Guinean boats problematic.

The Lack of Efficient Management of Fishing Resources

Permanent management of fishing resources runs into various problems, such as:
i) interactions among fishing vessels (the shrimp trawlers are destroying the young most valuable fish (poisons nobles), the cephalopod trawlers are also catching fish and shellfish, etc.), ii) some migrating species can only be managed on a sub-regional basis, iii) the magnitude of foreign fishing suggests a lower degree of empowerment among operators, iv) weak controls imply substantial piracy that could completely erase the beneficial effects of any steps taken in terms of sound management.

Major Drawbacks to the Development of Traditional Fishing

Because of the number of jobs it provides and the substantial distribution of income that it generates, traditional fishing should play a major role in any poverty reduction strategy. Among the obstacles to the development of traditional fishing are the high costs, the result of a tight market, and also the high cost of imports. For instance, there is only one outboard motor supplier. Probably no more than thirty percent of the traditional fleet is motorized. Furthermore, the fuel it uses is not tax exempt. Lastly, traditional fishing services (i.e., supply of materials to make fishing equipment, ice-making plants, engine repair shops, unloading areas) appear highly inadequate and costly, particularly outside the capital.

Fishing Oversight Deficiencies

Deficiencies in the supervision of fishing areas are evident on two levels:

i) The material resources committed are insufficient given the extent of the fishing operations to be monitored and the extent of the EEZ. This explains the small number of patrols and reports filed. As a result, fishing resources are not sufficiently protected;

ii) ii) The same authority that is in charge of investigating fishing license applications and calculating the corresponding fee, assigning licenses, and collecting the fees is also responsible for controlling and monitoring fishing. This kind of organization weakens the system as a whole.

The large number of frozen products taken out without even touching Guinea illustrates to what extent the sector is not integrated within the national economy, and indicates the sector's export potential. The segment exporting fresh fish by air to Europe is an outstanding breakthrough that could be expanded to other noble species such as the red surmullet. With regard to both fresh and frozen products, Guinean operators are currently allowed by European health authorities to export only lightly processed products, excluding high value-added products like filets. Therefore, substantial progress has yet to be made.

3.2.4 Key Recommendations for the Fishing Sector

Recommendation 1. Establish a new government unit in order to enforce the principle of separation of State oversight functions in the area of access rights to fishing resources: review of applications for fishing rights, collection of fees and payment to the Public Treasury, issuing fishing licenses and monitoring fishing operations.

Recommendation 2. File a claim under international law with the international court of The Hague to re-establish the integrity of Guinea's EEZ in order to rectify the maritime border with Sierra Leone.

Recommendation 3. (i) Improve the ability of the government to assess the contribution made by the sector to GDP, exports and employment. (ii) Strengthen research structures to develop a better understanding of the country's short and medium-term fishing potential in order to optimize resources as part of a permanent management of fishing resources. Specifically, this will mean expanding existing research to inventory coastal fishing resources and measuring the extent of fishing operations. This should be a targeted research and should be used as the basis for Guidelines for the Fishing Sector, a policy document for developing the sector. This policy will also be used to determine the roles to be played by the industrial and traditional sectors.

Recommendation 4. Take the necessary steps to improve the competitiveness of the operators in the sector: ensure that the input market is competitive, improve the technical, logistical, and safety capacities of export units for fishing products. If Guinea is to achieve a stronger position in the global and regional market, the components of these national fishing markets must be studied more closely, market analyses must be completed and, in particular, the competitiveness of frozen fish products must be studied. Proper management of safety and rescue operations at sea should also help boost competitiveness.

Recommendation 5. Prevent tax fraud by improving specific techniques relating to activities such as gauging the tonnage of ships, checking shipments, monitoring the coastline, etc. The customs staff should be mobilized for this purpose, and further resources should be provided to customs where necessary.

3.3 TOURISM[19]

A sector with plenty of competition

Despite major handicaps and the fact that up until now this has been a marginal business[20] in Guinea, tourism as an export activity seems likely to contribute to the poverty reduction strategy. Tourism is a business that creates direct jobs and more importantly, indirect jobs. Creating modern viable jobs is obviously essential to combat poverty. Every paid job provides additional income to family members. Jobs are created regardless of the type of tourism developed. Furthermore, tourism, especially in the form of travel tours, generates domestic demand, especially for traditional crafts.

In 1999-2000, the Ministry of Tourism and Crafts drafted a Strategic Tourism Development Plan with the assistance of the UNDP and the World Tourism Organization (WTO). The plan was approved in late March 2000. A round table discussion with the private sector was held in 2002. The plan inventories Guinea's strengths and weaknesses in terms of tourism potential, and was supplemented by a study on the human resources needed. However, the strategy suggested by the Plan is too ambitious given the sector's starting point and its current human, financial and administrative capabilities. To date, the plan has not yet been implemented. The purpose of this part of the report is to propose the broad outlines of a more realistic strategy along with a concrete action plan to promote the tourism sector in Guinea.

3.3.1 Context and Constraints of the Sector

Guinea is arriving on the tourism scene well behind other destinations in relation to which it must find a specific marketing position. This will mean getting known in a special niche that allows it to stand out from the other destinations.

Fairly Unfavorable Current Context

The already marginal role played by West Africa in global tourism is now declining even further. This sector is suffering from major constraints. The Casamance region is closed to tourism; Gambia's image as a tourist destination has been tarnished; Sierra Leone is just beginning to recover from serious civil unrest; and for the moment, Ivory Coast is no longer a tourist destination at all.

In Guinea, the tourism industry is faced with numerous constraints (e.g., roadblocks, various annoyances, unsafe borders, high water, power and airport costs, etc.). In addition, there is no hotel training school and the system as a whole is inefficient.

[19] For details, see Chapter , Volume 2.

[20] The approximately 37,000 visitors from Europe are primarily businessmen, expatriates with their families and "ethnic flow" from visits to parents and friends. The 66,000 visitors from Africa do not come for "tourism".

Constraints to be Overcome

International customers compare the different products offered, and some services are considered vital. The safety of property and persons, including health and hygiene and ease of travel, are considered essential requirements. It is vital for tourism infrastructures to be served by good roads and airports. Currently, the roadblocks and various annoyances would be a hindrance to tourism.

For investors, vital needs include the rapid processing of projects in the pipeline, an incentive-based investment code as compared with other rival countries, secure access to property, and an effective judicial system.

Guinea is not well known as a tourist destination. Because of the cost of promoting this destination, a private tour operator will be understandably reluctant to venture into uncharted territory. Thus, it is up to Guinea's public sector to create the conditions for a favorable image.

3.3.2 Broad Outlines of a Strategy for the Tourism Sector

A significant pilot operation could be considered. This would be easier to implement than general tourism, given that the interior of the country is under-equipped, and has problems, such as the unsafe situation posed by roadblocks. Then, based on the experience gained from this operation, further steps could be considered.

Launching Guinea as a destination implies a positive atmosphere. Those involved in culture and the arts are the best salesmen for Guinea's image. This means featuring special events that showcase Guinea from a marketing standpoint (e.g., songs and dances, the Slave Route, festivals).

A plan must be designed to protect and develop the country's architectural heritage and promote events in potential tourism markets. For instance, sites along the Slave Route must be developed, the National Museum's collection must be redesigned, and the palaver hut and the Government House in Dalaba must be renovated, event planning around the *balafon* and three festivals – on African folklore, theater and rap.

Arts and crafts are a vital component of tourism, both as a source of upholstery fabric, furniture and hotel decorations, etc., and in terms of sales to tourists. The two sectors must work closely together (i.e., changes in techniques and designs, adaptation to tourism demands).

3.3.3 Key Recommendations for the Tourism Sector

Recommendation 1. Fine-tune the Tourism Development Plan in order to identify more realistic, pragmatic objectives and the measures needed to implement them.

Recommendation 2. Strengthen the ability of the Ministry of Tourism to perform its oversight functions, but especially to assist foreign private investors in completing projects in the sector.

Recommendation 3. Prepare a manpower training program in the tourism and hotel sector. Enlist the support of the private sector. Make certain there are enough jobs in the sector to accommodate all newly trained workers.

Recommendation 4. Attract private investors in order to develop a well targeted, model site that could become a showcase for further development of the tourism sector in Guinea. Initiate an economic and social impact analysis to be published and distributed to potential investors. The Bel Air site appears to be such a site and could be enhanced by cultural and craft-oriented initiatives.

3.4 The Non-Mining Craft Sector [21]

3.4.1 Production and Employment – Major Potential

The Government has begun to realize the major role played by the non-mining craft sector from both an economic and a social standpoint. However, the number of projects undertaken and the results obtained are still limited. There is an obvious failure to gather reliable indicators and statistics on the arts and crafts sector, which increases the risk of underestimating the size of the sector.

Roughly twenty percent of the workforce is engaged in non-mining arts and crafts, accounting for around 1,440,000 permanent jobs. Eighty percent of the workforce engaged in arts and crafts lives in the rural area. In addition, non-mining craft products help to meet the need for manufactured goods for large parts of the population with low purchasing power; income from non-mining craft activities is either used to meet basic needs or reinvested. Lastly, arts and crafts provide an occupation for children not in school and for migrants seeking work in urban centers.

Arts and crafts activities are carried on in the form of micro-enterprises, using primarily family labor, which is trained on the job. These activities add value to local resources and involve most sectors of the economy. Given the current weakness in tourism, Guinean crafts are designed mainly to meet domestic needs. However, they could find export outlets, especially if tourism is developed.

The craft industry also plays a vital role in providing goods and services to people with a low standard of living and is a source of income for low-income workers. However, non-mining craft activities also have a negative social impact because of the use of child labor and the hereditary transmission of the skill.

There is little data on the contribution to GDP by the non-mining craft sector. According to some estimates, the sector accounts for as much as forty percent of all goods produced. Even though agriculture is considered an essential driver of development, the craft industry supports it in many ways, both upstream and downstream: equipment production, repair and upkeep, spare parts, processing of agricultural products, etc.

The craft sub-sectors with major export potential are: sculpture and fibers (basket-weaving, and items made from raffia, bamboo or rattan), and traditional textiles and leather. The types of markets open to the products are the local market, the national market, the regional market (Burkina Faso, Senegal, Liberia, Sierra Leone, South Africa, etc.) and the international market (the United States, Europe, etc.).

---

[21] For details, see Chapter 9, Volume 2.

3.4.2 Constraints

In rural areas, because of their isolation, artisans have to take their products to local weekly markets or turn them over to a middleman who handles the sales. Often, craftspeople (tie-dye artists, shoe-makers, etc.) sell most of their production through specialized traders who control the retail networks in neighboring countries and Europe and who place orders in bulk.

Because of insufficient resources and inadequate organization, outreach and extension services are deficient or non-existent in many traditional non-mining production regions. The lack of coordination between the units responsible for promoting the craft sector, negligible resources allocated to organizing the sector and to the OPDA (Board for Arts and Crafts Promotion and Development) in particular should be noted. Artisans suffer from a lack of training and infrastructures which mean a lack of production and service centers (i.e., craft centers). The lack of viable craft production areas offering equipment for general use, the lack of access to electricity and water, combined with transportation problems and the lack of communications equipment like the telephone are all handicaps.

3.4.3 Key Recommendations for the Traditional Non-Mining Sector

Recommendation 1. Enhance outreach and support services structures (in particular, restructure the OPDA); steps must be taken to establish inter-departmental coordination among government units, given the nature of the traditional sector.

Recommendation 2. Disseminate to artisans the entire legal and regulatory code that applies to them, especially the arts and crafts code.

Recommendation 3. Begin inventory and gather of scientific knowledge of the craft sector and its economic and social contribution.

Recommendation 4. Design appropriate training programs for traditional artisans, provide better outreach services to compensate for the failure to develop this valuable human resource.

3.5 THE TRADITIONAL MINING SECTOR[22]

[22] For details, see Chapter 8, Volume 2.

3.5.1 Substantial Production

Traditional gold production officially marketed in recent years accounts for around one fourth of gold production and more than seventy percent of diamond production. Traditional gold production may be estimated at between ten and fifteen tons a year, and diamond production at around US$ 100 million a year. Gold and diamonds account for approximately 100,000 traditional jobs. Traditional production of both products sold in official channels accounts for an average of around fourteen percent of total mining exports.

Export trading in gold is completely free in Guinea. No approval or license is required to purchase, sell, hold, transport or export gold. The only requirement is to follow the export procedures of the BCRG (Central Bank of Guinea) and / or the investment banks. The traditional mining and marketing of diamonds were also deregulated in 1993.

According to the normal rules for allocating income from traditional mines, 33 to 66 percent of the value of traditional mining exports corresponds to revenues distributed in the rural and suburban areas around mining sites, which is important in attempts to combat poverty.

3.5.2 Major Constraints on Traditional Mining Activities

The traditional mining sector is facing major constraints because of deficiencies in outreach and support services and also because of an unfavorable technical and financial climate. The different production and marketing activities are supported by a number of units the efficiency of which is substandard (except for the BCRG). Marketing (collection and organization) is not well organized. The workers are poorly organized and supervised. They receive no guidance in prospecting and no assistance in mining work from extension services. Fees do not always seem to be applied correctly.

These deficiencies have a damaging effect. From a social standpoint, these effects include a rural exodus towards the mining areas, a high incidence of AIDS and other STDs, a lack of safety and poor working conditions. In terms of the environment, this has resulted in the destruction of the plant cover, water pollution, dangers of unclosed mines, deforestation of shorelines and disruption of waterways.

However, traditional mining is fairly seasonal and does not compete with rural sector activities. Traditional work site organization, with specialized tasks performed by the different players, can serve as a focal point to improve operations, and marketing networks can play a role in production support programs.

Fraud is not controlled, either in mining areas or in marketing channels. The implementation of the Kimberley[7] Process in early 2003 is an opportunity to achieve better fraud control, and for the producer countries in the same sub-region as Guinea to harmonize their procedures for better control of cross-border flows of goods and merchandise.

The sites set aside for traditional mining are poorly studied or contain little wealth, which is one of many factors that encourages clandestine mining. The sector remains handicapped by technical problems of removal and aeration and by a lack of planning (ore excavation and processing). Outreach and extension units do not provide any technical assistance. The government has yet to pay any particular attention to making appropriate technologies available, especially for gold.

3.5.3 Key Recommendations for the Traditional Mining Sector

Recommendation 1. Given the complexity of the current institutional environment of traditional mining, it would be appropriate to conduct an in-depth study in order to: (i) define the appropriate institutional framework for the sector, including Cooperatives and Trade Associations; (ii) determine whether or not it would be worthwhile to involve mining sector technicians in traditional mining.

Recommendation 2. Make the Soil Restoration Fund operational to avoid damaging the environment while promoting sustainable resource development.

Recommendation 3. Introduce training programs for traditional artisans. This should help to introduce behavior that encourages greater safety.

[7] The Kimberley Process, introduced by the countries of Central Africa (SADEC) under the supervision of South Africa, launched in May 2000 in Kimberley, is the principal international initiative established to break the ties between trade in rough diamonds and armed conflicts.