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Solidarity Ministerial Meeting
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Development of the Republic of Guinea

Conakry, December 1989

DOCUMENT ON THE ECONOMIC POLICY AND THE DEVELOPMENT STRATEGY OF THE REPUBLIC OF GUINEA *

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*/ The views expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO.

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INTRODUCTION

Guinea, with a relatively large population, is one of the best-endowed countries of Africa from the point of view of its natural potential. Its climate and the wide variety of its regions, its soils and sub-soil, its vegetation and its seaboard justify the best of hopes for development provided that the people harness themselves to that aim and that the international environment is not too unfavourable.

It can be considered that so far the country has by no means derived all possible benefit from its potential. Rather, the first wave of industrialization experienced by Guinea ended, unfortunately for the country, in a serious setback for the industrial potential that had been established, for the following reasons:

- On the one hand, a lack of precision in the design of the projects, their implementation and the day-to-day management of the production units, whose establishment and operation were concentrated in the hands of the State;
- On the other hand, an economic, institutional and regulatory environment that constituted an extreme constraint, incompatible with the needs of industrial activity and resulting from economic policies that have proved to be inappropriate.

Drawing the lessons from experience that has proved to be negative, the authorities of the Second Republic have completely changed development policy in Guinea. After a period of intensive reform, which laid the basis for recovery and a re-organization of the economy, the authorities are now devoting their attention to the conditions for and objectives of relaunching industrial development.

The present report aims to provide the countries and organizations participating in the Solidarity Meeting for Guinea with basic information on the country's economic situation, the objectives pursued, the reforms undertaken and the conditions provided for investment, in particular after the promulgation of the recent Investment Code.

1. GENERAL INFORMATION

- Area: 246,000 km²
- Population: 6.5 million (1987 estimate)
- Principal towns: Conakry 800,000; Kankan, Labé, Boké, Nzérékoré
- Climate: Tropical, hot and wet on the coast. At Conakry (altitude 7 m), hottest month: May, 24/32°C; wettest month: July, 1,298 mm
- Languages: French, Fulani, Soussou and Malinke
- Weights and measures: Metric system
- Currency: Guinean franc (GFr)
- Time zone: GMT
- Public holidays: 1 January, 3 April, 1 May, 2 October, 25 December, Aid and Maouloud

Table 1

Economic indicators	1983	1984	1985	1986	1987
GNP ($US billion)	1.76	1.84	1.84	1.91[b]	2.09[b]
Rate of growth of GDP	1.3	...	2.5	2.5	6.0[a]
Inflation %	...	...	...	72.0	33.1
Population (million)	5.8	5.9	6.1	6.3	6.5
Exports f.o.b.[a] $ million	503	532	559	545	565[b]
Imports c.i.f.[a] $ million	380	438	448	457	474[b]
Current account[a] $ million	-24	-58	-58	-78	-83[b]
External public debt	1,249	1,170	1,296	1,421	1,620[a]
Production of bauxite[c] (million t)	12.4	13.4	12.4	12.8	14.1
Rate of exchange GS/GFr[d]/$	23.10	24.09	24.12	346.7	423.7

Table 2

Distribution of GDP (1986)	% of total	Content of GDP (1986)	% of total
Agriculture	45	Private consumption	75
Mining	23	Public consumption	8
Industry	1	Investments (GFCF)	13
Commerce	19	Exports	32
Government	5	Imports	-28
GDP	100	GDP at market prices	100

Table 3

Distribution of GDP (1986)	$ million	Principal imports (1986) (e)	$ million
Bauxite	383	Intermediate goods	145
Alumina	87	Capital goods	86
Diamonds and gold	77	Food products	69
Coffee	15	Other consumer goods	66
TOTAL (including miscellaneous)	565	Petroleum products	52
		TOTAL (including miscellaneous)	457

Table 4

Principal destinations of exports (1987) (f)	% of total	Principal countries of origin of imports (1987) (f)	% of total
U.S.A.	21	France	35
Spain	12	U.S.A.	9
FRG	11	Belgium	9
Italy	10	FRG	6
Belgium/Luxembourg	10	Italy	6

a: IMF/World Bank estimate
b: Estimate
c: World Bureau of Metal Statistics
d: Currency changed from the syli (GS) to the Guinean franc (GFr) in January 1986
e: Provisional and estimate based on fragmentary information, including trade with the Union of Soviet Socialist Republics, and most imported petroleum products.

2. THE SITUATION VIS-A-VIS FOREIGN COUNTRIES

2.1 Trade balance and structure of trade

External trade statistics are established on a volume basis by the port authorities, and the customs services multiply these volume figures by values (the reference value is that corresponding to the date of physical entry into or departure from the territory, which may differ from the value at the time of payment); on the other hand, they are established in terms of payments by the services of the Central Bank. The result is discrepancies between these different sources of statistics, either because the reference prices for goods have varied between export and payment or because the currency in which the transaction was carried out has itself varied against national currency. It is therefore necessary to make adjustments that are sometimes considerable, leading to divergencies regarding the external trade aggregates between the various producers of statistics (customs, Central Bank, national accounts authority, international agencies).

Furthermore, although considerable progress was made in 1986, particularly with the opening of a counter for the purchase of gold in the Central Bank, a considerable share of external trade is still not carried out through official channels and is therefore not registered. The figures quoted should therefore be used with caution.

A project for the complete reorganization of foreign trade statistics is in hand. This SYDONIA project (computerized customs system) should in the medium term make available reliable and updated series that are harmonized with ECOWAS statistics.

2.1.1 Exports

The main exports of Guinea are mining products, which represent more than 94 per cent of the total value of official exports. Exports of bauxite by the Compagnie de Bauxite de Guinée alone represent 55 per cent of the total. For 1986, f.o.b. exports are estimated at GFr 195.8 billion, or $US 536 million on the basis $US 1 = GFr 365 as the average for the year.

The main purchasers of Guinean ores are the United States of America and the EEC (about one-third of exports for each zone), the Union of Soviet Socialist Republics and the eastern European countries (20 per cent of exports), and Canada (8 per cent).

2.1.2 Imports

Imports c.i.f. are estimated at GFr 205.5 billion or $US 562 million. Of this total, petroleum products represent 12 per cent and capital goods 14 per cent. Most of the imports are therefore consumer goods (28 per cent, of which rice accounts for 6 per cent) and intermediate goods (45 per cent), which well reflects the recovery in consumption recorded during the year 1986.

Table 5: Trade balance for 1986

	$US million	GFr billion
EXPORTS f.o.b.		
Coffee	19.3	7.0
Other agricultural products	14.5	5.3
GBG bauxite	304.5	111.1
OBK bauxite	67.5	24.6
FRIGUIA alumina	87.5	31.9
Diamonds	24.0	8.8
Other mining products	19.4	7.1
Total exports	536.7	195.8
IMPORTS c.i.f.		
Food products	49.0	17.9
Other consumer goods	109.6	40.0
Petroleum products	66.0	24.1
Intermediate goods	257.0	93.8
Capital goods	81.4	29.7
Total imports	563.0	205.5
TRADE BALANCE	-26.3	-9.7
Sales of services	40.8	14.9
Purchases of services	-61.9	-22.6
BALANCE OF GOODS AND SERVICES	-47.4	-17.4

There are deficits of GFr 9.7 billion in the trade balance and GFr 17.4 billion the in the balance of goods and services. That result seems to be alarming, because equilibrium in the trade balance was one of the objectives of the economic reform which it was not possible to achieve despite favourable international prices for petroleum products and rice, two major import items.

To differentiate this analysis, one should also point out that a major share of the imports of capital goods is financed from external sources and that the corresponding counterpart item appears elsewhere (in transfers). Secondly, imports of intermediate goods (building materials, raw materials for industrial and craft enterprises, spare parts) were a preliminary for the reactivation of economic activity. A correction phenomenon thus came into play in 1986 and will still operate in following years; any analysis of the trade balance intended to result in adjustment measures must take this into account if it is desired to avoid hampering the economic activity that is just reviving.

2.2 Balance of payments

The difficulties referred to in establishing a reliable trade balance also apply to the balance of payments. Many items of transfers are in fact difficult to detect, which leads to difficulties in going below a certain degree of aggregation. Similarly, several financial negotiations were in hand at the end of the year and figures presented can vary widely depending on whether the partial results of these negotiations are taken into account or not.

Table 6: Balance of payments for 1986

	$US million	GFr billion
BALANCE OF GOODS AND SERVICES	-47.4	-17.4
FINANCIAL SERVICES (net)	-139.8	-51.0
Interest on national debt	-49.8	-18.2
Financial services of the mining companies	-90.0	-32.8
PRIVATE TRANSFERS (net)	-8.7	-3.2
PUBLIC TRANSFERS (net)	30.8	11.2
CURRENT BALANCE	-165.1	-60.3
MOVEMENTS OF CAPITAL (net)	-27.4	-10.0
Drawings on public borrowings	145.8	53.2
Amortization of national debt	-139.0	-50.7
Liquidation of holdings of the former banks (BNSE, BFCE)	-19.4	-7.1
Mining companies (net)	-40.2	-14.7
Private capital (net)	25.4	9.3
OVERALL BALANCE	192.5	-70.3

The balance of payments shows a deficit of $US 192.5 million, or GFr 70.3 billion. The trade balance, which in itself is in deficit, did not provide enough resources to deal with the large financial costs, the most important item of which is the service of the national debt ($US 49.8 million interest and $US 139 million amortization of capital). By comparison, public transfers (contributions of sponsors in the form of grants), amounting to $US 30.8 million, and net contributions of private capital ($US 25.4 million), proved to be distinctly inadequate.

The only solution therefore was to negotiate the deferral of capital amortization on the national debt and obtain a number of loans not tied to projects (so-called "structural adjustment loans") in order to meet financial obligations. The result of these negotiations is summarized in table 7: "Meeting financial needs for 1986".

Table 7: Meeting financial needs for 1986

	$US million	GFr billion
NET OVERALL BALANCE	-192.5	-70.3
IMF loans (net)	10.5	3.8
Structural adjustment loans	31.5	11.5
Reduction in arrears of payment	-285.3	-104.1
Paris Club rescheduling	219.2	80.0
Other rescheduling	145.6	53.1
Change in reserves of foreign exchange (net)	-23.0	-8.4
NEEDS NOT COVERED	-94.0	-34.4

The necessary prerequisite for the mobilization of this financial assistance was the signature of the confirmation agreement in April 1986. Even though the amount of the loan seems low in comparison with financing needs (drawings in 1986 amounted to $US 17.6 million), the commitments undertaken by the Government on the occasion of the agreement made it possible to unblock the structural adjustment loans ($US 31.5 million) and to bring negotiations on the rescheduling of the national debt to a successful conclusion. The principal result of these negotiations, which continued in 1987, was to transform a considerable part of the previously accumulated arrears in payment into a long-term debt and to re-establish a minimum level of holdings in foreign exchange.

This total assistance did not, however, suffice to satisfy all financing needs. At the end of the year, an estimated deficit of $US 94 million remained, owing chiefly to delays in certain rescheduling negotiations, which are in fact reflected in new arrears of payment, though at a level distinctly lower than at the beginning of the year.

2.3 External indebtedness

The external debt situation reflects the external trade balance over recent years. For purposes of analysis, debts have been grouped into four categories:

- Debts renegotiable with the "Paris Club": public bilateral loans from countries members of OECD and bank and commercial loans contracted with a public agency;
- Debts renegotiable with the "London Club": bank and commercial loans not contracted with a public agency;
- Non-Paris-Club debts: Bilateral loans not capable of renegotiation with the Paris Club (Union of Soviet Socialist Republics and Eastern European countries, China, Arab countries, etc.);
- Debts to "priority international organizations": debts that in principle cannot involve either arrears in payment or rescheduling.

On 31 December 1985, the external debt situation was as follows:

Table 8: Public external debt of Guinea on 31 December 1985
($US million)

Origin of loan	Amounts outstanding	Arrears Principal	Arrears Interest	Interest on arrears	Total indebtedness
Paris Club	279.2	104.3	30.5	14.5	428.5
London Club	20.2	20.0	5.9	0.1	46.2
Non-Paris-Club	455.4	93.2	25.5	-	574.1
International priority organizations	220.6	14.9	5.8	-	241.3
TOTAL	975.4	232.4	67.7	14.6	1,290.1

A new overall picture of the external debt taking into account all the reschedulings that occurred in 1986 and 1987 has not yet been prepared. Several negotiations are indeed still under way and there have been major variations in the dollar exchange rate of currencies, which makes it difficult to prepare a significant synoptical table. By reference to the situation on 31 December 1987, it can merely be pointed out that:

- Arrears and interests on arrears amounting to $US 287 million have been consolidated, that is to say, that they have been converted into long-term debt and added to the amounts outstanding;

- New arrears were added in 1986, in an amount equal to the financing needs not covered, or $US 94 million.

Not taking into account exchange rate effects (which are, however, not negligible and help to increase the dollar external debt figures) one can assume as the order of magnitude of the debt on 31 December 1986 outstanding amounts to a total of $US 1,280 million and arrears of $US 1,400 million. While the overall level is greater (an increase of $US 110 milli..n in one year) the structure is nevertheless healthier, owing to the considerable reduction in arrears of payment.

This total indebtedness represents the equivalent of three years of gross export receipts and approximately 75 per cent of the gross domestic product for the year 1986.

Most of the loans were obtained on soft terms (concessional loans of the IDA type at very low rates of interest of less than 1 per cent per year and with long repayment periods of more than 30 years and reimbursement of the principal deferred from five to ten years; so-called "first-window" loans - less than 7 per cent interest - whose reimbursement nevertheless places a considerable burden on the State budget. It should be noted that with the reduction in world economic activity and inflation, the real (present value) cost of concessional loans, which were considered almost as gifts, has increased and it has become distinctly more difficult to repay them

For 1987, the service of the national debt is estimated to cost $US 174 million, or 30 per cent of gross export receipts - being made up of $US 104 million repayment of capital and $US 70 million interest. Since the trade balance for 1987 is likely at best to be in equilibrium and could therefore not generate the surpluses necessary for debt service, new financial aid is being negotiated that is intended to make it possible to cope with the debt service and to absorb the remaining arrears of payment.

3. THE MAJOR LINES OF ECONOMIC POLICY IN GUINEA

The seriousness of the economic and financial situation led the authorities of the Second Republic to completely change Guinea's economic options and course of action with the aim of putting an end to the process of deterioration and to establish new bases for the country's development. This purpose was reflected in the launching of the 30-month economic and financial recovery programme defined by the Government in 1985, which set itself the target of rehabilitating the country's economy and finances and implementing new operating rules for the economy. It was intended that action by the authorities should be guided by the following principles:

- The establishment of a market economy and encouragement of private initiative;
- Disengagement of the State from the production system without relieving it of its major responsibilities in providing impetus for development.

The following long-term economic objectives were formulated by the authorities:

- To ensure food security;
- To liberalize economy activity;
- To reduce dependence on bauxite;
- To establish minimum infrastructures;
- To develop the social and educational services necessary to meet the essential needs of Guineans;
- To create an efficient administration.

Finally, as regards ways and means, priority was given to three lines of action:

- Promoting provisions "intended to permit the progressive and easy development of private initiative in the activities of production and trade";
- "Restoring to the rural sector its role as an economic motor by liberating the farmers from the innumerable constraints", which had hampered the development of agricultural income and production;
- "Attracting the necessary external aid and capital in order to restore and develop the production apparatus and the indispensable infrastructures".

Following this policy of simultaneous restructuring and development, the authorities launched and implemented a major programme of reforms which, in a short time, made possible a fundamental change in the economic environment. It will be recalled that the principal elements thereof were as follows:

- A monetary reform that established a realistic rate of exchange by means of a system for selling foreign exchange by auction, which makes it possible to satisfy the main foreign exchange needs of Guinean nationals;
- A banking reform that led to the closure of all the former banks, the establishment of new private establishments with foreign partners and the reintroduction of credit for the private sector;
- A reform of public finance and administration that affected the system of subsidies and the programming of investments and that is to be continued with the establishment of a genuine finance law, the organization of debt management and codification of the management framework for the sector that is to remain public;
- An administrative reform aiming to redefine the regulations, methods and staffing of the central and local administrations, with the aim of improving efficiency at lower cost. This reform is only at the initial stage although a by no means negligible effort has already been made to reduce staff (by 10,000) and to help in the economic reintegration of those affected;
- A reform of economic structures by disengagement of the State from the industrial and commercial sectors, which has led to the liquidation of 123 out of 131 State commercial enterprises and to the ongoing privatization of the industrial sector;
- A reform of regulations in several areas related to agricultural and non-agricultural enterprises with the aim of encouraging private initiative. Accordingly:
  - Price control has been abolished (except for rice);
  - The import trade has been totally lit .ated by the abolition of all licences;
  - A new customs tariff has been established with very low and very simplified rates;
  - A new and more liberal Investment Code has been adopted;
  - Various laws have codified regulations regarding labour, mining, commerce, accounting, etc.

This extremely wide-ranging effort pursued two medium-term objectives:

- To restore internal and external economic and financial equilibrium and to eliminate accumulated imbalances;
- To restore the liberty of entrepreneurship as a principal motor for development and to create the best conditions for doing this.

Even though progress still has to be made in other respects before these two objectives can be fully achieved, it can already be considered, without a systematic study, that this complex of reforms has already had positive effects that can be noted at various levels:

- In agricultural production, essentially, which seems to have reacted favourably, as witness the very large increase already reported in the production of rice and coffee, fruit and vegetables, and also in stock-farming and fisheries;

- In the supply of goods, flows of which are becoming compatible with the proper functioning of the economy and satisfaction of the essential needs of the population;

- In the launching of new economic activities in which small enterprises and services seem, according to information available, to have achieved a quite remarkable upswing; at Conakry, at least, a recent survey indicated that the number of small production establishments had doubled between 1984 and 1987, with major employment effects. The construction, services and commerce sectors have apparently been the most dynamic;

- In overall growth, which, according to provisional indications, amounted to 7 per cent in 1987;

- In management of the economy, where notable progress has been made, especially in the management of public investments.

Thus, thanks to this complex of guidelines and reforms, the economic environment has changed considerably, certainly resulting in a general context that is more favourable to private initiative, which must now be one of the principal agents for triggering industrial investment. Inadequacies or constraints remain. Some of them will be dealt with below. However, it should already be noted that, at the overall level, the main constraints will probably originate on the one hand from conditions of external equilibrium - such equilibrium will largely depend on mining resources and indebtedness - and also on the rapidity with which agricultural development can take concrete shape and open up new prospective markets for industry, directly or indirectly.

4. DEVELOPMENT STRATEGIES

The Guinean Government has taken firm decisions, on the one hand, to entrust all commercial activity to the private sector and, on the other hand, to concentrate its own efforts on improving the management of the economy and the public administration and on infrastructural development, both agricultural and social. These two principles are the basis for a development strategy directed along four main lines:

- The disengagement programme;
- The public investment programme;
- The administrative reform programme;
- The economic reform programme.

This chapter summarizes the essential elements of each of these programmes. Other details that might interest potential investors will be presented later.

A. The disengagement programme

The Government has closed almost all the more than 200 State enterprises and sales points that existed in 1985. That is the most complete disengagement programme that has ever been undertaken in Africa so far.

- Banking sector

  The six State banks were closed and liquidated in December 1985 and were replaced by three new banks managed by the Banque Internationale pour l'Afrique de l'Ouest (branch opened in August 1985), the Banque Nationale de Paris and the Société Générale des Banques (branches opened in January 1986), the three largest French banks in Africa.

  During the first two quarters of 1986, the new banks had succeeded in harnessing more than 25 per cent of the money supply in Guinea as deposits, furnishing a whole range of national and international services and beginning to offer certain credit facilities for commercial operations, though at very high commission and interest rates. At the same time, the Government has begun to return the deposits blocked in the old banks.

- Commercial sector

  Except for certain essential goods that are either not of immediate interest to private operators (for example, fertilizers) or whose appropriate management still require State intervention (for example, motor fuel), commerce was entirely entrusted to the private sector in 1986. All but some half dozen of the State commercial enterprises were closed and liquidated.

  Officially registered private imports grew significantly from $US 4 million in 1985 to more than $US 165 million in 1986, including operations amounting to a value of about $US 40 million that were financed under the new system of foreign exchange accounts for commercial companies. Guinean and foreign suppliers soon commenced operations in the sectors abandoned by the State, principal among which were the import of essential goods and the export of coffee and other agricultural products.

- Industrial sector

  In December 1985, the Government closed the 43 industrial enterprises in its portfolio, either transferring them to private interests or winding them up. Some factories are in good condition and some 20 have already been taken over, or negotiations on a take-over are at an advanced stage. The Government is prepared to retain a certain stake in these enterprises to facilitate a rapid recovery in their operation.

- Other disengagement activities

  The few enterprises that have not been closed - which import agricultural inputs and equipment and export coffee and fruit - have all lost their monopoly rights and received minimum budgetary allocations for 1986 and 1987, pending the results of analyses concerning their possible utility and future recovery prospects.

The only State enterprises that are genuinely in operation are essentially those that manage the public infrastructure. The Government has, however, displayed its interest in associating private partners in the rehabilitation of the installations and services in question, as witness the reopening of port services by an association of shipping companies. The import and distribution of motor fuel was the subject of prolonged negotiations with private companies, though the des' ed formula for distribution throughout Guinean territory has not yet been wo. out.

In order to benefit fully from the disengagement programme as an incentive for investors, the Government still has to refine its capability and strategy for the provision of a development framework for the national private sector and for attracting and welcoming foreign investors. The most urgent tasks are as follows:

- To complete the readjustment of the pertinent legislation;
- To define still more clearly the role of institutions responsible for regulating private sector activity;
- To determine what forms of support the State could provide to the private sector and actually to set up the programmes in question.

Such action is being prepared. The Government has already expressed its wish that the Guinean banks, the new Chamber of Commerce, Industry and Agriculture and other private sector bodies should participate in the design and provision of the support services in question.

In March 1987, assistance to the private sector was still modest in scale:

- Three lines of credit (in foreign exchange - medium-term) proposed by sponsors and managed by the local banks;
- The assistance programmes of the National Centre for Promotion of Private Investment (CNPIP) attached to the Ministry of Planning and International Co-operation and the Small and Medium Enterprise Division of the Ministry of Industry;
- Some very specific projects enjoying external sponsorship: for example, in the agriculture, fisheries and stock-farming sectors.

Important progress has already been made with regard to new laws and regulations in the fields quoted below. They comprise the reorganization of the judicial system, the entry into force of a new Investment Code, a new Commercial Law and sectoral codes in mining, petroleum and fisheries, new detailed foreign exchange regulations, a new Accounting Plan, less cumbersome procedures for the establishment of enterprises and for obtaining operating licences, and the preparation of drafts of the Employment Code and the Fiscal Law. However, new texts have still to be introduced in the two latter fields, as well as with regard to land law.

B. The Public Investment Programme

The Ministry of Planning and International Co-operation has co-ordinated the preparation of a Public Investment Programme (PIP) with a three-year horizon, with contributions from the various ministries and government services and by sponsors. The programme includes a list of more than 300 projects in hand or being negotiated, organized by sector and type and origin of financing.

The PIP priorities lie mainly in the fields of rehabilitating and expanding the infrastructure, agricultural development and strengthening social services. As an example, the following approximate budgets had been drawn up by the end of 1986:

- Roads	$US 175 million;
- Telecommunications	$US 60 million;

- Energy $US 55 million;
- Transport $US 35 million;
- Agriculture $US 90 million;
- Social services $US 100 million.

Nearly 75 per cent of the PIP is accounted for by the purchase or construction of installations and about 33 per cent of the budget is directed towards investments at Conakry, where the port and the main telecommunication centres and power stations are located.

The Government envisaged that up to 90 per cent of the approximate cost of the PIP of $US 700 million would be financed by the sponsors, since the latter had in fact committed the amounts mentioned. The impact of PIP on debt service could amount to as little as $US 20 million per year during the years 1990-2000, since most of the financing takes the form of grants and concessional loans.

C. <u>The administrative reform programme</u>

The Government is undertaking a very ambitious and complex administrative reform programme, aiming to:

- Conduct the difficult operation of removing or pensioning off about 50 per cent of the 75,000 employees still in government service;
- Redesigning the government apparatus and improving the performance of its institutions and staff;
- Introducing the ideas of decentralization and development on a community basis in the political evolution of Guinea.

Some of the main activities undertaken in these fields are noted below:

- The President formed a new Government in December 1985, readjusting the portfolios of most of the ministries, which were reduced in number and most of which are headed by civilians.
- A census of the public administration was completed in 1985/86 and the process of reducing staff was taken in hand.
- A retirement programme was established, offering several incentives for officials who retire voluntarily: monthly payment of their salaries and benefits for five years; 14 months of salary initially followed by monthly payments over 30 months; or a lump-sum payment of 42 months' salary, provided that the money is paid into a bank account and is used as proprietor's funds for investment projects (which would, incidentally, be eligible for special long-term loans equivalent to 80 per cent of their value).
- More than 10,000 employees of the public service and State enterprises had already been removed from office before March 1987.
- A system of tests and training is in hand for officials retained in the service and there will also be a substantial increase in their salaries, in addition to the increases and bonuses granted as from January 1986, in order to alleviate the effect of abolishing the various subsidies and rationing that came into force on that date.
- Considerable efforts were made to improve the health and education services, particularly in the framework of the PIP.

- Local administrative and consultative structures have been defined and are being developed under the direction of the four regional ministries that were established in the course of the government reshuffle in December 1985.

Satisfactory continuation of the administrative reform programme will strengthen political stability in Guinea and is an important condition for the success of an economic development strategy that is strongly directed towards expansion of the private sector.

D. The economic reform programme

After 18 months of preparation, the implementation of the economic reform programme was vigorously launched in December 1985. With the support of the disengagement programme, this effort appreciably transformed the process of economic management and the business environment in 1986.

The principal components of the programme are summarized below.

1. Introduction of a new currency and of a system for weekly auction sales of foreign exchange in January 1986

The Guinean franc replaced the syli on 6 January 1986. This action and a simultaneous audit of the State banks that were closed enabled the Government to quantify the money supply and to lay the basis for the operation of a new monetary policy.

At the same time, the currency was devalued by a factor of 14 (from 23 sylis to the dollar to 340 Guinean francs to the dollar), thus approximating the official rate to the market rate of GFr 410 per dollar. On 30 April 1989, the market rate was GFr 560 = $US 1.

In addition to the change in the currency and the devaluation, new exchange regulations were promulgated in January 1986 (see below), and weekly auction sales of foreign exchange were introduced. This market, which is still in operation, establishes on a weekly basis the Guinean franc:dollar exchange rate (the basis of the exchange rate for all other foreign currencies) and places the required foreign currency at the disposal of importers. This market has so far satisfied demand for all operations permitted on the basis of increasingly liberal eligibility criteria (at present, all operations of Guinea on current account).

Sales on this market amounted to $US 93 million (dollars and French francs) in 1986, including $US 75 million of net sales after deduction of currency purchases by the Central Bank. That far exceeded the minimum target of $US 1 million per week established in the framework of the standby agreement concluded with IMF in January 1986. The auction market was remarkably successful in persuading businessmen to join the new banking and regulatory system, despite their objections regarding the level of commissions charged and the difficulties of obtaining credit.

The three banks managed by French institutions opened simultaneously with these reforms and provided excellent support in the replacement of the currency and the introduction of the auction sales procedure.

Considerable support was provided by the sponsors in the framework of the monetary reforms: grants and concessional loans for 1986-1987 exceeded $US 150 million (over and above the financing provided for the PIP), and resident advisers assisted in reorganizing the Central Bank and various ministries, while a number of countries, including the United States and France, provided large stocks of essential foodstuffs to help in the rapid and large-scale transition programme that was carried out for the benefit of private commerce.

2. <u>Further refinement of trade and foreign exchange regulations during 1986</u>

The principal concerns of the Government with regard to regulating trade and foreign exchange matters were to avoid breakdowns in the supply of essential foodstuffs, to reintegrate international commercial activities in the official economy and to control the money supply in an adequate manner.

The following regulations were introduced in January 1986 and were still in force in March 1987.

- All import licences and currency allocations are dealt with solely by the Central Bank.
- Businessmen can maintain foreign currency accounts in Guinea and can use these resources to finance imports direct.
- Whether an import is financed by means of the auction sales or directly out of a foreign currency account, it must be domiciled with a local bank and presented to the Central Bank for authorization.
- Non-residents may maintain foreign currency accounts in Guinea and may dispose of them at will.
- Exports must be registered with a local bank and earnings must be repatriated. The foreign currency proceeds can be used directly within the three months following repatriation to finance imports.

Other measures in the field of commerce and foreign exchange were under study, particularly in the following fields.

- It was intended that generally applicable provisions should always be established through the auction sales or in another context for the repatriation of profits by non-residents. That is guaranteed by the Investment Code, but, up to March 1987, repatriation of money was carried out under special agreements with the State.
- In order to encourage exports of gold and diamonds of craft origin through official channels, the Central Bank proposed buying these materials at a discount on the London market price and paying the suppliers 50 per cent of the value in foreign currency, which would be at the latter's disposal without a time-limit. This system has still to be improved in practice, and stronger support has to be sought from the local banks.
- Discussions concerning the possible integration of UNOA and the Central Bank for the States of West Africa (BCEAO) are still at the preliminary stage. The latter Bank has already provided some technical support to the Guinean Central Bank, and France accepts the principle of admitting Guinea. Such a development (possibly in the next two or three years) would introduce the CFA franc, with its almost unlimited convertibility.

The ultimate objective of this development of the regulatory framework is to provide the private sector with an inexhaustible supply of foreign currency for any legitimate use and to continue to reduce the volume of the parallel foreign currency market. It has already been said that this market was reduced by at least 50 per cent in 1986. The difference between the rates of exchange in the auction sales and on the parallel market has generally remained at about 10 per cent, apart from a few brief erratic movements.

The extent and efficiency of the foreign currency management system can only be strengthened if the Government, the sponsors and the banking system continue to support its development.

3. Management of the economy

The Guinean Government has taken a very direct line for the improvement of the economic management process and the country's financial situation.

The Ministry of Planning and International Co-operation, the Ministry for the Economy and Finance and the Central Bank are the institutions that have chief responsibility for the preparation and management of economic policy. Each of them has devoted intensive attention to the re-establishment of a data base and a statistical base, the restructuring of its departments and staffs and the co-ordination of various initiatives among them and with other government agencies.

The key personalities of the Government meet frequently in the Economic and Financial Co-ordination Committee (CCEF), of which the representatives of IMF and the World Bank are members, and whose duties include preparing the national budget, monitoring and reacting to economic developments and supervising the disengagement programme. A committee for drawing up supply contracts and a committee for the co-ordination of external aid, of which important personalities are also members, are responsible, respectively, for the approval and follow-up of all public contracts concluded with private companies and of all commitments undertaken in the framework of sponsors' programmes.

The Government has imposed severe budgetary discipline on itself: any extra-budgetary expenditure must be approved by the Governor of the Central Bank, the Ministry for the Economy and Finance and the President himself. In addition, the Guinean Government has undertaken in its agreements with IMF not to contract any loans for terms under 12 years (except in the framework of current expenditure), to achieve very precise and ambitious targets for reducing the national debt to the banking sector, to set a ceiling on borrowing by State enterprises from the Central Bank, amortization of the external debt and increasing foreign currency reserves.

The Central Bank is developing a loan policy that is to make possible an appreciable increase in private sector borrowing, whether for local expenditure or for the purchase of foreign currency. So far, it has established ceilings on bank rates and on the overall expansion of credit. In addition, treasury bonds have been introduced through the commercial banks (in denominations of approximately $US 250, $US 1,250 and $US 5,000), offering maturities of 90 or 180 days and bearing 17 per cent interest per year, which is 2 per cent above that of remunerated bank accounts.

A concrete indication that the economic reform programme is on the right lines and well under way is the fact that the rate of inflation has fallen drastically since the beginning of 1986, when subsidies and price controls were abolished on all products except rice, motor fuel and certain public services. The price of public services has multiplied by reference to the 1985 levels.

Although the average inflation rate in 1986 was 72 per cent, it was 18 per cent in the third quarter of that year and zero in the fourth quarter.

The rescheduling of about $US 220 million of the official debt of Guinea to the Paris Club in May 1986 began to alleviate the problem of the country's overall debt of about $US 1.3 billion. Some $US 400 million due to the Soviet Union and other non-Western sponsors is also beginning to be repaid in various ways, including deliveries of bauxite, while the level of the outstanding debt to foreign private persons is very low.

E. Economic prospects

Guinea has the potential to develop as rapidly as will be permitted by the following factors:

- The ability of the State to continue to implement the four principal development strategies described above;
- Continuous improvements in the physical and regulatory environment of private investment;
- The response of the private sector to the manifold new investment opportunities and needs.

The programmes for disengagement, public investment, administrative reform and economic reform are eloquent proof of Guinea's desire to promote private investment. Its will to do so has aroused the support of the international community and the interest of investors oriented towards Africa. However, the reactions of the private sector are unforeseeable and active encouragement is required, especially in order to fulfil the hope that private persons will address themselves to the country's most urgent needs.

The most basic need in Guinea is to diversify exports, which makes it necessary to promote the development of resources and projects outside Conakry, for it is there that resources to be developed are to be found. The objective is to reduce the proportion of exports of bauxite and alumina (at present $US 600 million) from 90 per cent in 1986 to 65 per cent in 1991. Exports other than the above have already expanded, rising from $US 24 million in 1985 to $US 60 million in 1986, since the large-scale diamond project (Aredor) has reached its full production level and owing to the success of the first free export campaign for the main cash crops (coffee, palm kernels, pineapples and mangoes).

Guinea has had a positive trade balance for a number of years, including a $US 200 million surplus in 1986: the sharp drop in imports by the State, from $US 290 million to $US 170 million, has largely compensated for the rapid expansion in private imports. However, debt service and other transfers create a structural deficit in the balance of payments, which will probably amount to $US 100 million per year on the average in the course of the next five years, especially if receipts for bauxite diminish as envisaged during this period. Aid for the balance of payments, the rescheduling of the debt and a strict ceiling on new commitments should remedy this deficit, but Guinea must devote its entire attention to developing new sources of foreign exchange.

In public finance, the strict limits on expenditure and borrowing, the disengagement programme, the abolition of subsidies and the establishment of a new fiscal base through taxes and customs duties are all promising factors. The progress made by the Public Investment Programme will bear witness to the Guinea's capacity to absorb substantial support from sponsors and to manage new projects in many fields.

5. INVESTMENT POLICIES AND PROCEDURES

This chapter gives an overall view of the laws and procedures in force in March 1987 that govern and influence foreign investment in Guinea.

A. The Investment Code

Guinea promulgated a new Investment Code on 3 January 1987. This legislation fixes not only the guarantees that are offered to any investor but also the advantages that can be obtained only by application to the National Investments Commission (CNI). The Commission is an inter-ministerial organ under the chairmanship of the Ministry of Planning and International Co-operation.

1. General conditions

The new Code guarantees all investors the rights:

- To import all necessary goods and equipment;
- To export goods produced;
- To establish and implement their own operating and employment policies;
- To choose their customers and suppliers and to fix their prices freely;
- To repatriate profits on their foreign currency capital investments or their investment in new equipment, as well as the proceeds of liquidating such investments;
- To operate in free and equal competition with both private and public enterprises.

The Code protects investors against expropriation, except for reasons of public utility, as well as providing fair compensation in the event of nationalization. It also guarantees equality of treatment of national and foreign investors, equal protection with regard to trademarks and patents and the same conditions regarding access to the courts for all. The Code makes no mention of the possibility of obtaining monopoly rights, thus remaining faithful to the principles of a free and private market that are upheld by the Guinean Government.

2. Privileged regimes

Any investor may present to the National Investments Commission (CNI) an application for approval under the privileged regimes. The eligibility criteria are as follows:

- Projects may be submitted in any sector of activity except the resale of finished products and mining and petroleum operations (subject to special codes).
- At least 33 per cent of the finance, including working capital, must be provided by a capital investment (contributions in cash or in new capital goods and reinvestment of profits).
- The enterprise must qualify under one of the following categories:
  * Small and medium enterprises - Enterprises in which the majority of the capital must be held by nationals and the capital may not exceed GFr 300 million (approximately $US 750,000);
  * Exporting enterprises - Enterprises that export at least 22 per cent of their output, all products being eligible except gold, diamonds, bauxite and iron ore;

* <u>Enterprises utilizing local natural resources and raw materials</u> - The value of imported inputs may not be equivalent to more than 30 per cent of costs of production. If imports are combined with local products to create a new input containing less than 30 per cent of imported elements, the total value of the new input is considered as being of local origin in determining whether the enterprise is eligible under the privileged regime (for example, when imported ink is incorporated in packaging that is otherwise of local origin);

* <u>Enterprise set up outside Conakry</u> - A production project under which 90 per cent of the personnel works outside Conakry or a service project whose head office and principal place of activity are outside Conakry.

The Code provides certain <u>common advantages</u> to all enterprises thus authorized:

- Exemption from import duty and taxes on all necessary capital goods for the initial investment period (maximum: two years after approval);
- Deduction from profits liable to profits tax, for three years as from the date of commencement of operations, of an amount equal to three times the lowest wage multiplied by the number of employees;
- Five years' exemption from the apprenticeship tax and the lump-sum levy on wages and a 50 per cent reduction in these taxes during the subsequent three years.

The <u>special advantages</u> linked to the four privileged regimes are summarized below:

- <u>Small and medium enterprises</u>
  - Exemption from the minimum lump-sum tax for 10 years;
  - A 33 per cent reduction of profits tax for the first five years of actual operation.

- <u>Exporting enterprises</u>
  - The percentage difference between export sales and local sales constitutes the percentage of profits liable to profits tax that are exempted from that tax for the first five years of actual operation, but only up to 60 per cent of the enterprise's net profits. Thus, if an authorized enterprise has export sales of 1,000 and local sales of 600, 40 per cent of its net profits will be exempt.

- <u>Enterprises utilizing local resources</u>
  - These projects can deduct from their net profits 20 per cent of the value of local inputs (excluding labour costs), for a period of five years after the commencement of operations.

- <u>Enterprises outside Conakry</u>
  - Total exemption from profits tax for a period of five years of actual operation;
  - A 33 per cent reduction of turnover tax for five years.

3. Authorization procedures

Applications for authorization under one of the four privileged regimes should be sent to the Secretariat of the National Investments Commission (CNI), accompanied by a simplified dossier, which is considered as being complete if the promoter does not receive any contrary notification from CNI within 30 days after submission.

Within 30 days after receipt of a complete dossier, the Secretariat distributes copies of the dossier, with its recommendation for approval or rejection of the application, to each of the members of CNI for authorization. The decision of CNI is due 15 days after the distribution of the dossier or at the next meeting of CNI (if the latter is earlier).

In the event of approval of the application, the Chairman of CNI prepares and signs a decree enumerating the privileges granted to the project. In the event of rejection, the investor has the right to submit additional information and to appeal against the decision.

The dossier submitted for authorization must contain the following information:

- Technical description of the premises, equipment, processes and goods or services intended;
- Availability and cost of local and imported inputs;
- Evaluation of the amount of investments to be carried out, including the necessary working capital, the allocation of foreign currency and national currency and disbursement periods;
- Financial forecasts covering five years, including production and turnover, costs of production, duration and means of amortization of financing, and complete liquidity projections;
- Structure of employment and remuneration and special mention of training programmes and recruitment of Guinean management staff;
- Indication of the legal structure of the company and its capital composition.

Finally, authorized enterprises must provide the following information to CNI annually:

- Accounts certified by an authorized chartered accountant;
- List of employees by category and salary/wages;
- List of equipment in service and their value after depreciation;
- Other information necessary to confirm that the enterprise has adhered to the conditions for authorization under the privileged regime to which it has been admitted.

4. Comments on the Investment Code

The main advantages of the new Code are summarized below.

- The Code is considered as the framework and the supreme law for private investment. Contradictions or gaps existing in other laws will be corrected very shortly in order to facilitate the application of the Code. For example, the Central Bank is preparing the text of an executive decree establishing the repatriation of profits.

- The rights and protection granted to every investor are in conformity with international norms. For example, the Code does not stipulate the requirement of compulsory partnership between foreigners and Guinean nationals.
- The privileged regimes are provided for the priority sectors towards which private investment is likely to direct itself, including the utilization of local resources, production for export markets and the establishment of projects outside of Conakry (less probable, but enjoying the greatest incentives).
- The advantages granted are competitive as compared with those proposed by many other African countries, especially with regard to projects outside Conakry and those that provide for the simultaneous enjoyment of incentives under a number of regimes.
- The advantages can be calculated very precisely on the basis of the formulas proposed, which eliminates <u>ad hoc</u> decisions.
- The Secretariat of the National Investments Commission has a co-ordination role, which is intended to make it unnecessary for investors to obtain individual approval from every member of the Commission.
- The compulsory time-limits guarantee that a decision will be made by CNI within 45 days following the receipt of a complete dossier, or within 90 days in the event of an appeal.

Some potential investors have pointed out <u>possible shortcomings</u> of the Code:

- The minimum ratio of 2:1 between borrowing and own funds might be too restrictive and might exclude viable and desirable projects.
- The Code does not grant advantages to projects that would provide services or would produce for import substitution, mainly with the use of imported inputs: though it is true that this type of project would be likely to attract investors (<u>inter alia</u> in the framework of the reopening of certain State enterprises), the Code can be defended by pointing out that these projects will enjoy low tariffs, good growth prospects and the political stability resulting from the development strategies that are being implemented.
- Some consider that the Code does not provide sufficiently strong incentives by comparison with other markets, especially in view of Guinea's infrastructure problems. However, other experts affirm that certain existing codes are too generous and leave too much discretion to decision-makers.
- Very detailed data must be provided in advance in the applications for authorization and, since few projects exactly follow forecasts, it seems that the evolution of a given project may one day be considered unsatisfactory in the light of the conditions of the authorization granted. Although this possibility does indeed exist, the real purpose of the provisions in question is to enable CNI to exercise its responsibilities regarding follow-up and to detect any attempt at fraud.

Despite these few reservations, the new Code is distinguished for its clarity, its respect for international norms with regard to rights and protection, and the incentives that it provides for those who concern themselves with the country's resources and needs.

B. Other texts and procedures

1. Fiscal and accounting system

The Guinean fiscal regime - both the texts and the administrative system - has been under review for more than two years. In March 1987, it was foreseen that a new fiscal law would replace the law of 1962 in the course of the year.

According to the previous law, taxes on profits are as follows:

- 35 per cent for companies;
- 30 per cent for private persons;
- 20 per cent for craftsmen;
- 10-25 per cent for investment and interest.

In addition there is a turnover tax of 12 per cent on production and 10 per cent on services. Other taxes, such as the minimum lump-sum tax and social security contributions, are distinctly lower.

In addition to the process for the revision of the fiscal code, the Guinean Government has concentrated its efforts in an initial period on import and export duty in order to re-establish its fiscal base. In March 1987, a decree of January 1986 was still in force and imposed the following charges (on a c.i.f. basis for imports and on an f.o.b. basis for exports):

- On all goods, 7 per cent import tax, 3 per cent customs duty and 2 per cent turnover tax. The import tax was only 4 per cent for basic foodstuffs, medicaments and agricultural inputs;
- For a list of luxury products specified in detail, the decree imposed a 20 per cent or 30 per cent surtax. Goods subject to the tax were exclusively luxury consumer goods: tobacco, alcohol, perfume, leather goods, toys, vehicles and aircraft;
- Export duties were 2 per cent for all exports apart from precious metals (5 per cent) and precious stones (7 per cent);
- A decree of November 1986 established a research and processing tax on exported agricultural products, ranging from 2 per cent for vegetable oils to 5 per cent for coffee and 10 per cent for fruit.

These tariffs are very low compared with those in force in most African countries. In combination with the new foreign exchange regulations, the tariff structure has contributed greatly to the success of the strategy for the integration of commerce in the official regime. Moreover, low import duties are applied to all equipment and goods that the investor would wish to import into Guinea, except vehicles and aircraft.

Another factor of importance to investors is that the Government adopted a new Accounting Plan in 1987.

2. Employment Code

It was regarded as highly probable in March 1987 that a new Employment Code would be adopted in the course of the year, seeing that a very detailed draft was under study. This draft contained the following provisions:

- The right to employ staff on probationary and fixed-term contracts;
- The liberty to establish remuneration and working hours, subject to a minimum wage and a standard of 40 working hours per week;
- The liberty to punish and dismiss employees, subject to certain procedures;
- A regime for overtime, paid leave and maternity leave;
- The right to set up trade unions, to strike and to enter into collective agreements.

The object of this new law would be to create rights and protection both for employers and employees in keeping with international standards as well as to create a free employment market in which the State would intervene only to settle disputes.

Most of these liberties have already been in force, since the Ministry of Industry, Human Resources and Small and Medium Enterprises has not made any effort to apply the old outmoded provisions.

3. Commercial and company law

Guinea adopted a new commercial law in May 1985, but, after study, partially replaced it in July 1987. This text comprises:

- General principles regarding national and international trade;
- Definition of the activity of a businessman and commercial dealings;
- Conditions for engaging in commerce;
- Obligations with regard to accounting.

This text still had to be supplemented with new laws concerning the establishment of companies and commercial negotiable instruments, and special texts regarding certain types of businesses, such as forwarding agencies and shipping companies.

Until March 1987, a fundamental problem that still had to be solved was the complexity of existing procedures for establishing new companies, under which it was still necessary to obtain authorization from several technical ministries. It was envisaged that a simple registration system (rather than authorization) would be set up, except for authorization applications under the privileged regimes of the Investment Code, for which co-ordination services are provided by the Secretariat of CNI.

4. Land law

The investment climate has suffered from the absence of a land survey and a real estate registration system. That makes it difficult for the investor to obtain land rights on a reliable basis and to mortgage real estate. Several ad hoc solutions have been adopted, including the rental or assignment of land by the State on a contractual basis. There are a number of technical assistance projects aimed at facilitating the introduction of new systems.