

Business in Guinea
FIELD AFRICA



Guinea Market Overview

Guinea has vast mineral wealth, including one-third of the known world reserves of bauxite, along with gold, diamonds, iron, timber, graphite, and great potential in hydroelectric power. Starting in 1984, the Guinean government undertook an ambitious program to dismantle the 26-year-old, centralized, state-run economy. The government adopted a market economy and opened the country to trade and investment from the outside world. These measures achieved significant progress in downsizing the public sector and improving the regulatory environment. The government has had less success, however, in liberalizing prices, reforming the exchange-rate system, and increasing the efficiency of the tax system. Moreover, Guinea's preoccupation with security, its inward focus, and its less-than-transparent judicial system have discouraged many investors. Bauxite remains the government's primary source of revenue. Two proposed projects to expand the country's capacity to refine bauxite into alumina promise increased revenues. Guinea's collapsing infrastructure and the government's failure to upgrade electric and water utilities have dampened investor interest.

Guinea's macroeconomic picture is troubled. In the past three years, the state of the economy has sharply deteriorated. Weak revenue coupled with excessive spending has left the government with a large budget deficit. Until 2002, the government relied upon the budgetary support of the International Monetary Fund (IMF), the World Bank, and other external creditors. Profligate spending and poor fiscal management forced the IMF, the World Bank, and the European Commission (EC) to suspend support. Other influential creditors such as the French Development Agency and the African Development Bank have followed suit and suspended further credit. The Guinean government has responded by borrowing heavily from its other creditors and printing money. The inflation rate for 2004 reached 28%, and the country's external debt stands at more \$3 billion.

Guinea is currently ineligible for the Highly Indebted Poor Countries (HIPC) Initiative, which would relieve some of its debt burden. President Lansana Conte has frequently responded to the economic crisis by intervening in the market via price controls and reshuffling his cabinet. The government's insistence on an official exchange rate diverts hard currency from the Central Bank, whose reserve shortages exert hardship on import-export interests. In 2004, the official exchange rate was changed, with a resulting 25% devaluation of the Guinea franc. Nevertheless, the current spread between the official and parallel market rates is approximately 25%. Because of regional conflicts in Sierra Leone, Liberia, and Cote d'Ivoire, the Guinean government has diverted government resources to border security, while neglecting fiscal reforms and poverty reduction strategies.

President Conte appointed a new, reform-minded prime minister, Cellou Diallo, in December 2004 and gave him an explicit mandate to re-engage with external donors, renew the dialogue with the political opposition, and undertake desperately needed economic and political reforms. As of this writing, Prime Minister Diallo is proceeding with these reforms, as evidenced in the program of government he presented to the National Assembly in February 2005.

Guinea's 2004 GDP comprised the following: commerce 27%, mining 17%, agriculture/livestock 13%, public works 11%, other services 10%, fishing 8%, transportation 6%, administration 5.5%, manufacturing/industry 4.1%.



Market Challenges

Three major issues affect the business climate: the need for fiscal reform; the need for administrative/judicial reform; and uncertainty about Guinea's continued political stability. Declining mining revenue and disproportionate spending has left the Guinean government with a large budget deficit. Debt servicing remains a large part of the budget and consumes most mining receipts. The government is chronically late with payments and has failed to pay many of its larger creditors for several months. As a result, the African Development Bank (ADB), the French Development Agency (AFD), and the World Bank have invoked penalty fees and suspended credit. Many other creditors have followed suit. It is increasingly difficult for the government to fund its budget deficit. The Central Bank has resorted to printing money and has been reluctant to issue treasury bonds as an alternative. Foreign currency is scarce, and the Central Bank regularly rations it to favor priority sectors such as fuel imports. For most private transactions, foreign exchange is available only on the parallel market. Although the government provides investment incentives, large businesses and foreign interests often contribute more than their fair share of taxes, utility costs, and other fees due to inequitable billing and collection, fraud, and non-payment for services by Guinean subscribers.

Current fiscal reform efforts, in conjunction with the World Bank and the IMF, aim to increase the tax base by improving the billing and collection processes. To enhance institutional capacity and a stable investment climate, the judicial and administrative systems need significant improvements. Government has implemented some positive measures, such as one-stop business registration, the creation of an arbitration court to handle business disputes, and signature of the OHADA treaty. However, rampant corruption negatively impacts even the most basic business transactions. Virtually every U.S. company and U.S. businessperson with ties to Guinea has reported one or more of the following experiences: an arbitrary tax assessment, failure of the government to rebate value-added taxes, a legally unjustifiable court decision, requests from government officials for specific gifts, pressure to participate in government infrastructure projects that were not in the company's best interest, pressure to hire certain individuals, threats of or actual imprisonment, impounding of vehicles, and closure of the business's office. President Lansana Conte has been in power since 1984.

Elected to five-year terms in 1993 and 1998, Conte ran for a third term in December 2003, which he easily won in a race that most major opposition parties boycotted. Conte has suffered serious health problems in recent years. Questions regarding his ability to continue to lead the country and the fact that he has no clear successor have caused concern for some investors. Situated in an unsettled region, Guinea has hosted thousands of refugees during the past ten years from Liberia, Sierra Leone, and Cote d'Ivoire. The conflicts in Sierra Leone and Liberia have ended, allowing most refugees to return home. However, the civil strife in Cote d'Ivoire continues to add a level of uncertainty and instability on that portion of Guinea's borders. Guinea has insufficient well-trained managerial and technical personnel. Labor productivity is low. The commercial banking sector provides limited and expensive services, with restricted financing options. Outside of the mining sector, foreign-aid projects continue to provide the largest source of business opportunities for expatriate firms and are critical driving forces in developing Guinea's infrastructure.

Market Opportunities

Although U.S. investors and exporters profit from a healthy public and private interest in U.S. goods, services, and technology, third-country competition for markets is strong. The French, traditionally one of Guinea's major suppliers, are present in a variety of sectors. Guinea's leading sources of imports in 2004 were France, Belgium, the United States, and China. Imports reached \$673 million in 2004.

Leading imports include:

- Food products: \$121 million
- Petroleum products: \$111 million



- Other consumer goods: \$101.63
- Machinery and equipment: \$60.89 million
- Construction materials: \$37 million

Principal Growth Sectors:

- Fishing
- Construction
- Forestry
- Agriculture
- Transport
- Electronics/hi-tech services

Malaysia has made significant investments in the banking and telecommunications industries, but their efforts have proved largely unsuccessful. After failing to meet the performance criteria prescribed in their agreement with the Guinean government, Malaysia withdrew from the telecom sector in 2004. Corruption, fraud, and bad debts hamper progress. However, a large retail sector exists in Guinea. Traders of Lebanese origin comprise a highly visible part of this sector.

Guinea's economy depends heavily on the mining sector (particularly on bauxite exports), making the economy vulnerable to global trade fluctuations and recessions in client countries. U.S.-Canadian companies Global Alumina and Alcoa/Alcan have each announced plans to construct alumina processing plants, each worth \$2 billion. A few, large-scale gold operations exist, and some expansions are planned despite concerns about the uncertain political and economic environment.

Market Entry Strategy

Starting a business in Guinea is relatively simple. Businesses must register. Legal incorporation for new investments involves signing by-laws, depositing the startup capital in a blocked bank account, registering the company at the register of economic activities, and announcing the incorporation in a journal for legal notices. The process is centralized at the Center of Business Formalities (Centre de Formalités des Entreprises) in the Office for the Promotion of Private Investment (OPIP), the one-stop business registration office.

Successful ventures require establishing good relationships with potential partners.

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