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OVERCOMING GROWTH STAGNATION TO REDUCE POVERTY

SYSTEMATIC COUNTRY DIAGNOSTIC

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LIST OF ACRONYMS

AGCP	Guinean Central Procurement Agency
ANASA	<i>Agence Nationale des Statistiques Agricoles</i> (National Agricultural Statistics Agency) <i>Agence de Promotion des Investissements et des Grands Travaux</i> (National Agency for Promotion of Investment and Major Works)
APIX	Promotion of Investment and Major Works)
BCRG	<i>Banque Centrale de la République de Guinée</i> (Central Bank of Guinea)
CEQ	Commitment to Equity
CGE	Computable General Equilibrium
CNDD	<i>Conseil National pour la Démocratie et le Développement</i> (National Council for Democracy and Development) <i>Confédération Nationale des Travailleurs de Guinée</i> (National Confederation of Workers of Guinea)
CNTG	Workers of Guinea)
CPF	Country Partnership Framework
CPIA	Country Policy and Institutional Assessment
CRG	<i>Crédit Rural de Guinée</i> (Rural Credit of Guinea)
CWE	China Water and Electricity
DEC	Development Economics
DSGE	Dynamic Stochastic General Equilibrium
DTIS	Diagnostic Trade Integration Study
ECD	Early Childhood Development
ECF	Extended Credit Facility
ECOWAS	Economic Community for West African States
EDG	<i>Electricité De Guinée</i> (National Electricity Corporation)
EITI	Extractive Industries Transparency Initiative
ELEP	<i>Enquête Légère pour l'Évaluation de la Pauvreté</i> (Poverty Assessment Survey)
EPC	Engineering, Procurement, and Construction
EU	European Union
FDI	Foreign Direct Investment
FER	<i>Fonds d'Entretien Routier</i> (Road Maintenance Fund)
FEWS	Famine Early Warning Systems Network
FNDL	<i>Fonds National de Développement Local</i> (National Fund for Local Development)
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GNF	<i>Franc Guinéen</i> (Guinean Franc)
HDI	Human Development Index
HIPC	Highly-Indebted Poor Country
HRV	Hausmann - Rodrik – Velasco (2005)
ICT	Information and Communications Technology
IMF	International Monetary Fund
INS	<i>Institut National de la Statistique</i> (National Statistics Institute)
LIC	Low-Income Country
LPI	Logistics Performance Index

LTGM	Long-Term Growth Model
MFI	Microfinance Institution
MoU	Memorandum of Understanding
MPI	Multidimensional Poverty Index
MSMEs	Micro, Small, and Medium Enterprises
MTEF	Medium-Term Expenditure Framework
NOAA	National Oceanic and Atmospheric Administration
NPL	Non-Performing Loan
NRGI	Natural Resource Governance Institute
NSS	National Statistics System <i>Programme Accéléré de Sécurité Alimentaire et Nutritionnelle et de Développement Agricole Durable</i> (Accelerated Program of Food and Nutritional Security, and Sustainable Agriculture Development)
PASANDAD	Sustainable Agriculture Development)
PFM	Public Finance Management
PIM	Public Investment Management
PIMI	Public Investment Management Index <i>Programme National d'Investissement Agricole et de Sécurité Alimentaire</i> (National Agricultural Investment and Food Security Plan)
PNIASA	<i>Plan National de Développement Economique et Social</i> (National Economic and Social Development Plan)
PNDES	<i>Programme National d'Infrastructures Rurales</i> (National Program for Rural Infrastructure)
PNIR	Infrastructure)
PRSP	Poverty Reduction Strategy Paper
RPG	<i>Rassemblement du Peuple de Guinée</i> (Rally of the People of Guinea)
SCD	Systematic Country Diagnostic
SDG	Sustainable Development Goal
SMEs	Small and Medium Enterprises
SNA	Systems of National Accounts (United Nations)
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
TFP	Total Factor Productivity
UFDG	<i>Union des Forces Démocratiques de Guinée</i> (Union of Democratic Forces of Guinea)
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WAEMU	West African Economic and Monetary Union
WDI	World Development Indicators
WGI	Worldwide Governance Indicators
WHO	World Health Organization

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Guinea: Overcoming Growth Stagnation to Reduce Poverty

Executive Summary

Introduction and Country Context

1. Guinea is a country with a rich historical legacy, abundant natural resources, a privileged geographical location — and a rapidly growing population. A successful political transition and the emergence of a vibrant civil society have helped to ensure ethnic peace and the absence of civil wars in the middle of a rather conflict-ridden region. Guinea’s rich natural resource endowment features the world’s largest untapped iron-ore mine in the Simandou mountain range, and about a third of the world’s bauxite reserves estimated at 7-8 billion tons. With the lowest alumina-to-bauxite production ratio of all major producing countries, Guinea exports 95 percent of the bauxite in raw form. Known as the “water tower” of West Africa, major rivers originate from its highlands. It represents the largest hydropower potential in West Africa, estimated at 6,000 megawatts (MW) — little of which has yet been exploited. Abundant rainfall also provides economic potential for agriculture. With a population of 12.4 million in 2016, the country is at the early stage of its demographic transition, with high fertility rates (5.01 births per woman) and a large youth cohort (60 percent of the population is under the age of 24), which could potentially generate a demographic dividend. Its strategic position as a coastal country also provides it with a competitive advantage for business development.

2. Guinea also faces a number of challenges. Indeed, it remains among the poorest and least competitive countries in the world. Poverty is high and rising, affecting almost 60 percent of its population in 2014. According to the 2015 Human Development Index (HDI), Guinea ranked 182 of the 188 countries surveyed. Life expectancy at birth was 59.2 years, and the average years of schooling amounted to only 2.6 years. Access to basic services is low, with a small share of the population having access to electricity (28 percent), improved sanitation (20 percent) and improved water resources (77 percent). According to the 2015-2016 Global Competitiveness Report, Guinea ranked last among a group of 140 countries, with large gaps —and declining trends —for the quality of public and private institutions, infrastructure (transport, electricity, telecommunications), health, education, and financial market development. Per capita growth is also very low, averaging just 0.6 percent in 1998-2016. Agriculture is one of the main drivers of economic growth and employment. However, it suffers from very low productivity levels.

3. The country faces severe challenges in translating its assets and opportunities into higher incomes for its citizenry. Economic growth has been too weak and volatile to contribute to poverty reduction on a sustained basis. The economy is prone to fluctuations of commodity prices and health shocks (for example, the Ebola epidemic). Rapid growth is also hindered by low investment levels, lagging infrastructure, and limited financial intermediation and inclusion. The population’s income is adversely affected by a large human capital deficit, minimal access to input and output markets, low productivity in agriculture (which is the main source of income for the poor), and limited job opportunities in non-agricultural sectors. Moreover, rapid and unplanned urbanization has created a chaotic urban environment, which is facing pressure from both the unemployed urban youth and rural migration. Gender inequalities are large, especially in terms of access to justice, health, education, and credit.

4. This Systematic Country Diagnostic (SCD) posits that two critical factors have affected Guinea’s development path since its independence in 1958. First, the country endured two long-lived authoritarian regimes and political instability before the inception of democracy in 2010. Such a legacy of attendant poor economic governance led to mismanagement of natural resources, institutional fragmentation of the government, a weak social contract and rule of law, and low and ineffective public investment. Second, the structure of the economy remains dependent on the primary sectors—agriculture and mining—lacking diversification in its sources of growth. The ensuing stalled process of

structural transformation is a result of low levels of agricultural productivity and poorly-managed urbanization, which is plagued by informality.

Poverty is High and has Deteriorated since the Ebola Crisis

5. Despite its potential, Guinea remains one of the poorest countries in Sub-Saharan Africa, with stubbornly high levels of poverty. Gross domestic product (GDP) per capita accounted for only US\$531 in 2015, as compared to an average of US\$1,571 for the Sub-Saharan Africa region. Using the official poverty line, poverty affected 55.2 percent of the population, about the same level as in 2002. Moreover, poverty is pervasive and chronic, affecting 4 out of 10 people. Based on simulations using the 2014 population census, poverty increased to 57.7 percent. Further, it was most likely heightened by the 2014-2015 Ebola outbreak. Urban employment deteriorated with Ebola outbreak, with the unemployment rate in urban areas nearing 17 percent, whereas rural incomes declined significantly, especially for women. In fact, as in Liberia and Sierra Leone, Ebola was cited by a substantial share of households as the reason for withdrawing their children from school. Poverty is highest in rural areas (65 percent), where it has remained stagnant. However, there has been a recent increase in poverty in urban areas from 31 percent in 2002 to 36 percent in 2012, possibly attributed to rural-to-urban migration.

6. Consumption growth was not pro-poor between 2007 and 2012. When examining the growth incidence curve of consumption, the consumption growth rate declined from the poorest to the wealthiest decile, showing negative numbers for most households. The slightly positive consumption growth of the poorest decile is driven by rural households. The poor living in urban areas had the largest drop in consumption during this period. Income inequality is low, with a Gini coefficient of 33.7. Again, this is below the average for Sub-Saharan Africa (42.1) and has not changed significantly between 2007 and 2012.

7. The country features wide variations in poverty levels across regions. Of Guinea's eight administrative regions, Nzérékoré has the highest poverty rate at 67 percent, followed by Labé (65 percent), and Kankan, with the lowest (49 percent). The poor are concentrated in Nzérékoré, where more than 1 million people are living in poverty, followed by Kankan and Kindia, both with over 850,000 poor people. Moreover, poverty is not homogeneously distributed within these regions. Rather, it varies based on the socioeconomic and demographic characteristics of the country's 33 prefectures and 342 communes. Poverty maps generated using data from the 2014 population census also show the existence of pockets of poverty across the country.

8. The profile of the poor reveals wide differences in sources of income, demographics, education, and access to key infrastructure. Most of the poor are self-employed in agriculture and have limited sources of income. About 66 percent of households headed by farmers were poor. Poverty decreases when the head of household has acquired some higher education. About 60 percent of households with no education are poor, about three times higher than households where the heads have higher education. Wage income also accounts for a very small share of their income, suggesting that poor households rely on self-employment and informal jobs. With a higher dependency ratio, the presence of children in poor households has a significant, negative effect on household consumption. Finally, poor households are located farther away from key infrastructure, such as food markets, public transportation, health centers, primary schools, water sources, and roads. This in turn impacts their productivity and income-generating potential.

9. The vulnerability of Guinean households has been exacerbated by frequent adverse shocks. Almost two-thirds of households reported at least one adverse event related to a loss of crop (21 percent), livestock (12 percent), income (24 percent), a serious health issue (26 percent) or the death of a family member (23 percent). These shocks contribute to a decrease in household incomes. Vulnerability among the poor then increases because of the lack of an effective national social protection mechanism. Moreover, food insecurity is relatively high at 17 percent. However, it mostly affects the bottom 20 percent of the population (with 53 percent being food insecure).

10. One significant issue in Guinea is gender inequality. By a wide variety of metrics, Guinean women face severe difficulties in accessing resources and services. Women and girls have been disadvantaged by discriminatory practices and policies. Furthermore, years of crisis have exacerbated the gender divide. In the context of high overall fertility rates and associated population growth, gender issues have become even more stark. Human capital development is unevenly distributed across genders. For example, inequalities in education are higher than the African average. There is a large gender gap in school enrollments, which increases substantially once girls approach adolescence and during their transition to secondary school. The ratio of female to male enrollment rates drops from an already low 80 percent at the primary level to just 60 percent at the secondary level. In sum, gender inequality is a pressing concern for Guinea if it is to achieve its population dividend.

Growth is Low and Income per Capita has not Increased

11. Guinea has experienced persistently low growth rates. The GDP growth rate averaged 2.7 percent between 1998 and 2016, about two percentage points below the average for Sub-Saharan Africa. When converted into per capita terms, Guinea averaged a very low 0.6 percent in 1998-2016, about 1.2 percentage points lower than Sub-Saharan Africa — and 3.3 percentage points lower than middle-income countries. Thus, Guinea has not been able to keep pace with other countries in Sub-Saharan Africa. Private consumption has driven growth, and investment has also contributed a small share. Guinea's investment levels are very low, averaging 14 percent of GDP in 2010-2015, much lower than in neighboring countries and for the Sub-Saharan Africa region as a whole (20 percent). Factor accumulation (labor and, to a lesser extent, capital) explain most of the variations in growth. The large contribution of labor to growth is consistent with the expansion of the working age population. Although capital accumulation has had an increasing contribution over time, it cannot be attributed to improvement in infrastructure. In recent decades (since 2000s), negative total factor productivity (TFP) has hindered growth.

12. Mining and agriculture have been the drivers of economic growth in Guinea, and both have characterized by high volatility. Although mining accounted for less than 15 percent of GDP, it represented about 80 percent of exports in 2015. Plummeting commodity prices and delays in the Simandou iron-ore deposit project, a key mining project, have contributed to sector volatility.¹ The export price for Guinea's bauxite declined from close to US\$40/ton in the early 1990s to less than US\$20/ton in the mid-2010s. As such, tax revenues from mining exports have also declined. The primary sector, driven by agriculture, contributes less than 20 percent to GDP, but only 10 percent of exports. Although labor productivity in the agricultural sector has been slowly increasing for the past 20 years, agricultural productivity per worker in Guinea is half that of Senegal and one-fourth that of Mali. Moreover, cereal yields in Guinea have been stagnant for many years, and the country continues to import rice.

13. The Guinean economy has experienced slow structural transformation in the past 20 years, shaped by low agricultural productivity and rapid informality.² The current economic and employment structure reflects the lack of skilled human capital and poor infrastructure. The share of agriculture in the country's economic output averaged less than 10 percent in 1994-2015, with small variations. However, agricultural employment declined from 75 percent in 1996 to 52 percent in 2014. Services, in turn, gained about 15 percentage points of the total employment share, reaching 34 percent in 2014, and fostered by growing informality. The manufacturing sector is very small and stalling. It is

¹ With reserves estimated at 3.2 billion tons of iron ore, the Simandou mining project has the potential of doubling Guinea's GDP. The project requires a substantial initial investment of about US\$ 20 billion, and will entail the development of a new 670-kilometer (416-mile) heavy haul freight railway originating in Simandou and connecting with a new deep-water, multi-user port to be constructed in Conakry. The start of the project has been delayed due to a combination of low iron-ore prices and ownership changes. In 2017, the main shareholder of the Simandou mining project, the Brazilian company Rio Tinto, transferred its shares to Chinalco (a Chinese state-owned enterprise), which now owns 80 percent of the asset.

² The definition of structural transformation is a reallocation of factors of production (labor in particular) from one sector to another, driven by productivity differentials. It is the process by which an economy shifts from producing low-productivity, low-skilled goods and services to high-productivity, high-skilled goods and services through technology, investment and learning.

concentrated in the agro-industrial sector, light manufactured goods and beverages, and accounts for less than 9 percent of GDP.

14. Changes in the relative contribution of each sector have also had implications for low labor productivity, as defined in output per worker. Guinea's labor productivity growth averaged 0.48 percent per year in 1994-2015. Most of this growth is attributed to the shift of jobs from agriculture, a sector with the lowest labor productivity, to services. Growth in services has been predominantly in informality-prone activities and, to a lesser extent, industries (that is, static structural change). The positive contribution of demographic changes (0.15 percent) to GDP per capita growth has been offset by a negative effect of lower employment rates (-0.14 percent). Furthermore, with agriculture having about nine times lower labor productivity than the manufacturing and mining sectors, the manufacturing-agriculture labor productivity ratio in Guinea is much higher than the African average of about 2.3. Such a large productivity gap across sectors would therefore indicate that policies aimed at increasing agricultural productivity would foster structural change and contribute to higher growth rates.

15. Since 2010, Guinea has improved its macroeconomic performance — despite the Ebola pandemic and lower commodity prices. After years of fiscal mismanagement and debt build-up, macroeconomic reforms were undertaken with the country's effort to reach the Highly-Indebted Poor Country (HIPC) completion point in September 2012. This led to significant reductions in its external debt levels and servicing costs. Debt servicing payments amounted to over 4 percent of GDP in 2008. However, they have fallen to below 1 percent of GDP since 2013, thereby creating some fiscal space for governmental pro-poor spending.

16. Rising investment in hydropower resources represents a key area of progress. The Parliament approved a new mining code in 2011 that included several best practices to govern relations between mining companies and the government in a fair and transparent way. As a result, the Guinean government launched a new online database containing all its existing mining contracts. It also completed a Technical Review to ensure that the existing contracts align with international fiscal and environmental norms, and that they are in compliance with the 2011 mining code. In order to meet domestic electricity demand with hydropower resources —and become a major electricity exporter to the West Africa Power Pool — the government began investing in new generation capacity. The completion of the 240 MW Kaleta hydroelectricity power plant in 2015 was a major achievement, improving the supply of electricity. More recently, the authorities signed a Memorandum of Understanding (MoU) with China Water and Electricity (CWE) to build the 600 MW Souapiti hydropower project.

Analytical Framework

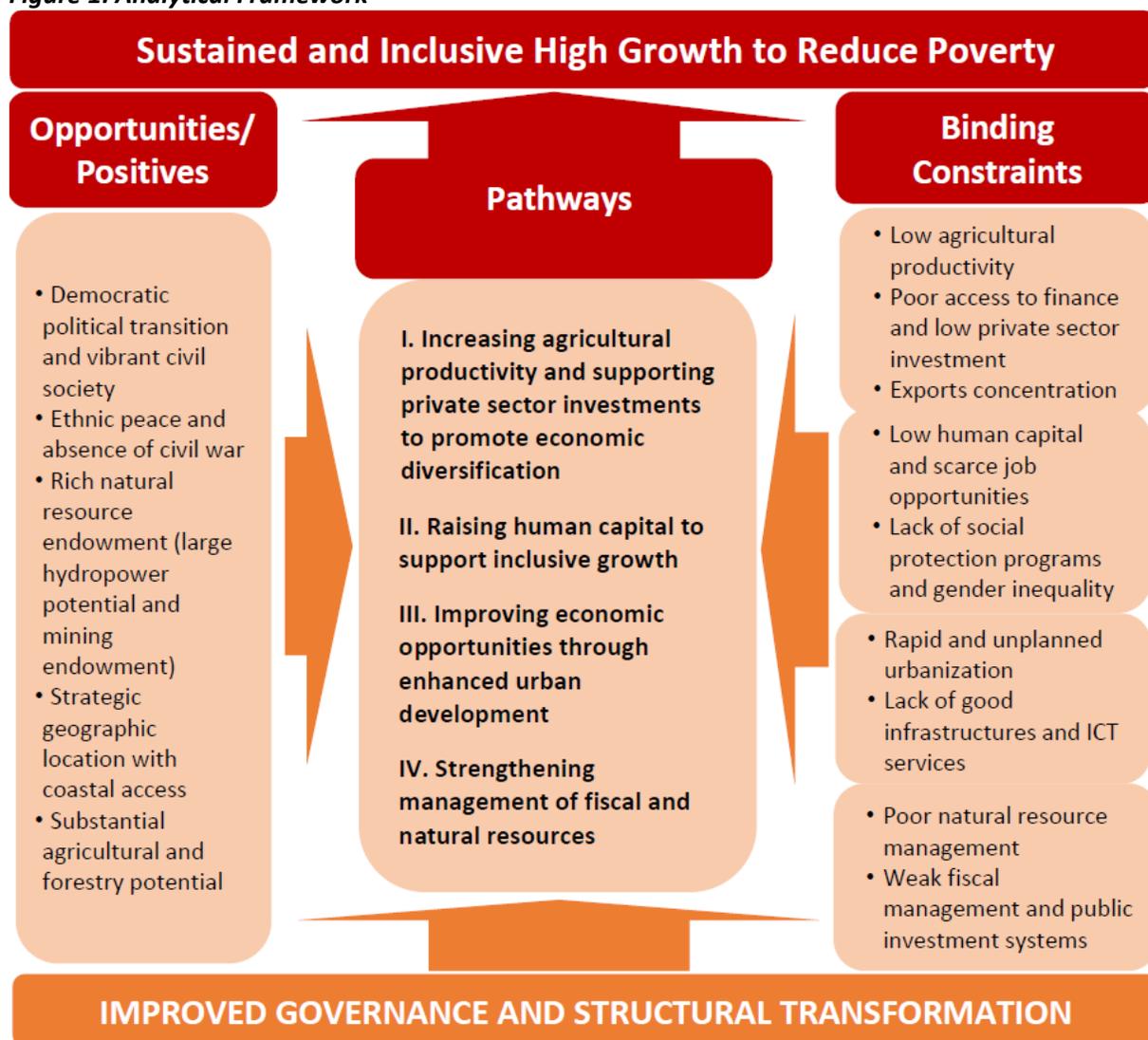
17. The persistence of high poverty and low GDP per capita growth indicates that Guinea is trapped in a low-equilibrium cycle. The analytical framework (Figure 1) consider moving figure 1 closer to text reference provides the basis for a diagnostic of growth and poverty reduction in Guinea, including a six-step process to help identify binding constraints. First, a broad range of constraints to economic growth is identified based on Hausmann - Rodrik - Velasco (HRV) growth analytics, expert views, and available empirical evidence. Second, a parallel exercise finds the general constraints to inclusion and sustainability using poverty analysis and a fragility assessment. Third, the analysis addresses two key explanations centered around weak governance. Fourth, stakeholder consultations and detailed field visits to two cities — Kindia and Labe —are used to test these constraints. Fifth, a cross-country benchmarking exercise with a group of comparators (depending on data availability) is used to gauge where the country's differences lie. Finally, reforms are prioritized based on their expected impact on growth and inclusion, as well as their technical and political feasibility (linked to capacity and sequencing of policy), thereby leading to the four critical pathways for structural transformation.

18. Using the above framework, this Systematic Country Diagnostic addresses three interlinked questions to identify the key pathways to accelerate progress in poverty reduction. Specifically, the three questions are as follows: What are the main challenges that prevent Guinea from accelerating its

economic growth? How will Guinea ensure that economic growth is sufficiently inclusive — even in the absence of a high growth rate? What factors could jeopardize a sustainable process of poverty reduction?

19. This SCD draws on a wide range of diagnostic work, including multiple World Bank sector studies, analytical pieces, and reports. It is also based on a background analysis commissioned by different sectors and Global Practices. It is also in conformity with the Government’s latest development plan. This diagnostic also draws on a wide array of sources, including: household surveys, agricultural census surveys, formal and informal firm surveys, impact evaluation data, third-party indicators of policy performance, aggregate outcome data, press reports, sector-specific indicators, reports, research, and interviews.

Figure 1: Analytical Framework



Constraints to Boosting Shared Prosperity and Reducing Poverty

20. This SCD identifies weak governance and slow structural transformation as the two interrelated challenges that are at the root of Guinea’s underdevelopment trajectory. Whereas governance is a cross-cutting challenge, slow structural transformation is the outcome of a combination of low agricultural productivity, weak human capital, rapid and unplanned urbanization that fosters massive informality, and fiscal and natural resource mismanagement.

Governance: A Cross-Cutting Challenge

21. Guinea faces significant multidimensional governance challenges rooted in the poor quality of its institutions. After several decades of authoritarian rule, the country started its democratic transition

in 2010. Only recently has progress been made toward a more transparent system. However, according to the Worldwide Governance Indicators (WGI), Guinea still scores in the lowest quartile of the world for all indicators, except for the indicator related to political stability and the absence of violence or terrorism. The indicators for Rule of Law, Government Effectiveness, and Control of Corruption are ranked below the 15th percentile, indicating major challenges in these areas. The public institution pillar of the World Economic Forum's Global Competitive Index also shows that Guinea ranks poorly, placing 136 of the 140 countries surveyed. The consequences of weak institutions have led to a fragile political and social compact, inefficient public service delivery, natural resource mismanagement, weak fiscal management, and ineffective public investment.

Low Agricultural Productivity and Insufficient Private Investment

22. Agriculture remains the main source of employment for the poor and a potential source of productivity gains. Agriculture provides income for 57 percent of rural households and employs 52 percent of the workforce. Cultivable land amounts to 6.2 million hectares, of which only 25 percent is farmed. Thus, there is still significant agricultural potential to further contribute to growth. Rainfall is abundant. In this regard, the country has not yet tapped into its potentially irrigable land, of which only 8 percent is currently equipped for irrigation.

23. Agricultural productivity is constrained by a combination of the limited use of improved technologies, failures in input markets, and land tenure issues. Subsistence farmers, who tend 95 percent of the cultivated area, use very few agricultural inputs (for example, improved seeds, fertilizers, pesticides, irrigation techniques, and mechanization). Only 15 percent of poor rural households use fertilizers, about 1.8 percent lower than non-poor ones. At the aggregate level, fertilizer use per hectare is 16 times lower than the average for Sub-Saharan Africa. Thus, cereal yields are relatively low (1.2 tons per hectare), and below potential. Indeed, they have been stagnant for many years. The country continues to import increasing quantities of rice, a staple crop for which it has natural advantages to be competitive. Successive regimes throughout the country's history have not provided a sound inputs policy that would benefit farmers. A subsidy program undertaken in 2011-2016 to increase fertilizer use did not produce the expected result of increasing yields because of poor targeting, inadequate quantity, and lack of improved seeds and extension services. Furthermore, it created market distortions that hindered private sector participation in the fertilizer market. A complex dual land tenure system and weak land administration generate uncertainties that hinder private investment. Moreover, certain groups of people — including women, displaced persons, and migrants — have limited access to land.

24. An underdeveloped agricultural supply chain also limits productivity and farm incomes. Some factors have impeded the development of effective supply chains in Guinea. For example, farmers are mainly focused on crop production for subsistence and lack the skills required to obtain information on market prices. They also lack the requisite skills to enter into business relationships with larger consumers, such as hotels and restaurants. Farmers cannot maximize sales because of limited opportunities to store agricultural products during times of surplus and low prices (harvest period). Additionally, rural transport-related constraints leave farmers with no option but to sell their crops to local traders. The bargaining power of farmers is also limited because they are organized by either crop (for example, rice or potato) or by market orientation (for example, exporters). Value-added agriculture is limited by the lack of a reliable electricity supply, advisory services, and well-organized farming groups.

25. Insufficient investment is a critical obstacle to Guinea's long-term growth potential for poverty reduction. Estimates from a long-term growth model indicate that Guinea needs increased levels of public investment and total factor productivity to achieve higher growth and poverty reduction. Moreover, infrastructure gaps affect the business environment and have had harmful effects on firm productivity and competitiveness. Scaling up public investment to bridge these gaps will lead to higher growth during the construction phase and beyond, and should ideally be accompanied by new private investment attracted by parallel improvements in the investment climate. The government has prioritized public investment in rural development, specifically with regard to electricity, transport, and agriculture.

26. The overall quality of infrastructure and trade logistics is very low and is a binding constraint to growth. According to the 2015-16 Global Competitiveness Report, firms identified the inadequate supply of infrastructure as the third most problematic factor for doing business in Guinea. Moreover, Guinea had the worst ranking in terms of overall quality of infrastructure due to the poor quality of roads, ports, transport infrastructure, and the quality of electricity. Rural roads are in a dilapidated condition, limiting farmers' access to markets. Access to electricity is very low in both rural (3 percent) and urban areas (11 percent), and power outages are common. Likewise, in 2016, Guinea's overall score for the Logistics Performance Index (LPI) was 2.36, and the country was ranked 129 out of 160 countries. Guinean agribusinesses have a perception of being particularly affected by poor transport infrastructure along critical corridors, such as the Kindia-Conakry axis. The Conakry port, which suffers from physical issues and management flaws, has become the most expensive one among West-African ports for all types of vessels. Deficiencies in productive infrastructure raise concerns about the adequacy of governmental spending levels, poor governance, and public capacity to implement infrastructure projects. Over the years, Guinea's infrastructure funding has been low, with funding at close to 10 percent of GDP. The inefficiency of the system was exacerbated by capacity constraints to address deficiencies through its public investment management system (that is, through the budgeting, planning, and prioritization of projects).

27. Low levels of financial intermediation are a constraint for firms with regard to investments, job creation and growth. According to the survey of business executives carried out for the Global Competitiveness Report 2015-16, Guinean respondents ranked access to finance as the most problematic factor for doing business. Financial depth, measured by credit to the private sector to GDP, was 13 percent in 2016, among the lowest in Sub-Saharan Africa. Bank accessibility is also low, with only 1.9 branches per 100,000 — most of which are mainly concentrated in urban areas. Compared to Sub-Saharan Africa, in Guinea, fewer firms have a bank loan/credit line (3.9 percent of firms in Guinea compared to 22.8 percent in Sub-Saharan Africa). Long-term financing is virtually unavailable in the country, and mobile banking is in its infancy, notwithstanding its substantial potential. Nominal interest rates are very high, reaching 22 percent, and are much higher than the 7 percent average in West African Economic and Monetary Union (WAEMU) countries. Microfinance, for which there is considerable demand and potential, suffers from a poor regulatory regime and low coverage.

Low Levels of Human Capital and Access to Social Services

28. Guinea's social indicators prevent it from reaping the benefits of the demographic dividend and improving opportunities for the poor. Low levels of human capital prevent individuals from accessing high quality jobs, limiting their earnings potential and contribution to economic growth. The literacy rate is 30 percent, one of the lowest in the world. School enrollment and completion rates are relatively low compared to the average for Sub-Saharan Africa. Inadequate financing, a concentration of teachers in Conakry, a lack of appropriate teaching skills, deteriorating infrastructure, and insufficient planning are among the constraints to improving the educational system. Public spending on education was 2.6 percent of GDP in 2014, which is close to half the averages for Sub-Saharan Africa (4.6 percent) and low-income countries (4.2 percent).

29. Skills challenges impact every sector of the economy. Challenges in the educational system also include very low coverage, poor quality of education and vocational training. Teachers are often underqualified and need additional training. This in turn has led to skill shortages, constraining growth and limiting income opportunities for the poor. Guinea has conspicuously low levels of skills development, and lags significantly behind most developing countries. In the health sector, health care workers are frequently not equipped to handle the complex demands in the field. While farmers lack the knowledge and capacity to grow crops with higher productivity, and are especially challenged in using agricultural inputs effectively, sometimes resulting in crop losses. In the mining sector, operators have difficulty in recruiting skilled Guinean staff trained both in professional and technical/vocational schools (for example, mechanics, welders, and so on), thereby forcing them to rely on expatriate labor. Likewise, the public administration suffers from a lack of skills. Unlike other West African, French-speaking countries until recently, the country did not have a school of administration. Regarding the financial

sector, mobile operators report that low literacy has hindered the update and expansion of mobile money services.

30. Inadequate skills have also been partly responsible for Guinea's poor health outcomes, which can be attributed to a weak public health system that is inaccessible, inequitable, and inefficient. The maternal mortality ratio stood at 679 per 100,000 live births, among the highest in the world. Only 45 percent of births are attended by a skilled professional, lower than in many fragile countries in the region. The under-5 child mortality rate also remains among the highest, with just under 100 deaths per 1,000 live births. Although the chronic malnutrition rate (stunting) decreased from 47 percent in 2000 to 31 percent in 2012, it remains a concern, especially in rural areas where 40 percent of children are stunted. Access to health facilities in Guinea is hindered by high fees relative to incomes and distance, with large disparities between rural and urban areas and across regions. About 34 percent of sick individuals failed to visit a health center due to high medical costs. The lessons learned from the recent Ebola epidemic, which had a disastrous impact on Guinea's economy, suggest the need to create a more robust public health system. Such a system is necessary to improve the economy's resilience to health covariate shocks. This will also help households to cope with the usual idiosyncratic health shocks that negatively affect workers' productivity and the well-being of families.

31. Other key health sector issues include the following: (i) a lack of public resources, resulting in low quality of services as reflected in the lack of facilities and skilled personnel, especially in rural areas; (ii) a lack of demand in health services, particularly in rural areas, because of poor quality, the long distances between the communities and the points of care, and high user fees; and (iii) poor health system governance, specifically problems in financial resource management and the monitoring of the health system.

32. Difficult access to basic infrastructure services also affects human capital outcomes. According to the 2013 Poverty Reduction Strategy Paper (PRSP III), only 42 percent of Guinea's rural population had access to drinking water compared to more than 85 percent in Conakry. Also, only 31 percent of the population lived in households with improved sanitary facilities (15 percent in rural areas and 65 percent in urban areas). Furthermore, the inaccessibility of drinking water has a disproportionate impact on women's workloads.

Rapid and Unplanned Urbanization

33. Urbanization in Guinea has not been well managed, and the economic benefits of agglomeration have been elusive. Messy urbanization has been the result of deficient urban planning, lack of clear and rapid investment in infrastructure, and problems in natural waste management. The triple challenges of congestion, urban slums, and pollution have hampered the influx of investment in real estate. Land regulation failures and weak land laws have compounded the problem. Employment in both the tradable and non-tradable sectors has stagnated. Many of the migrants pushed by the low productivity of agriculture are driven into the cities' informal and non-productive services sector. The large number of urban slums in Conakry has made the delivery of metropolitan basic services and provision of infrastructure a real challenge. In a recent ranking of 231 cities by Mercer in their 19th Annual Quality of Living Survey, Conakry is ranked 222 out of 231 for its quality of life. Additionally, the country suffers from a lack of local government capacity, as well as municipal budgets to address population needs. There is a need for a legal framework for the management of land issues and other urban concerns, and better regulation and safety standards for low-income urban housing and slums. At present, the cities have a limited capacity to absorb the influx of rural-to-urban migrants fleeing their villages.

Poor Management of Fiscal and Natural Resources

34. Guinea's mismanagement of fiscal and natural resources wealth is broad in scope. First, in terms of revenue mobilization (a good proxy for state capacity and authority), the revenue to GDP ratio increased from an average of almost 15 percent of GDP during 2007-08 to an average of more than 18 percent of GDP during 2011-16. However, two-thirds of this increase came from higher revenues from

fuel taxes, which are highly vulnerable to developments in international oil markets and domestic political conditions. Compared to other African countries, Guinea's actual direct (non-mining) tax revenue mobilization is low at 2.7 percent of GDP. Its comparators, Mali and Senegal, started at a lower base and have significantly overtaken Guinea at 6.1 percent and 4.3 percent, respectively. Related to this, Guinea's revenue from the mining sector in relation to GDP has recently been declining despite the country's enormous mineral wealth. Indeed, it was slightly lower in 2015 than in 2007. Guinea's potential for raising revenues from its mineral wealth expanded, in principle, with the 2011 mining code. The new code strengthened authorities tax collection capacity, eliminating the many exemptions granted to mining companies in the past. It also strengthened the Guinean Government's capacity to adequately monitor foreign companies' transfer pricing arrangements.

35. In parallel, Guinea's mismanagement of the energy sector is another binding constraint to growth. The public electricity utility, *Electricité de Guinée* (EDG), has performed poorly, and is in structural deficit. Specifically, it does not have adequate cost-recovery mechanisms, and currently receives more than 1 percent in subsidies from the Government. However, it has recently been undergoing a reform process through a four-year performance management contract with Veolia. At the same time, Guinea is paying for significantly more expensive thermal power at three times the cost of hydropower. Moreover, the country has not yet been able to tap into its significant hydropower potential (including the Souapiti dam). However, it has the potential to become a significant low-cost hydro exporter to the region.

36. Finally, the country's low performing public investment and procurement systems impede its economic progress. Public investment has doubled in the last decade, from a low of 4.7 percent of GDP in 2011 to a high of 10 percent of GDP in 2015. However, it has been quite volatile and inefficient, leading to improper budget planning and waste. Ad hoc cuts and lack of systematic follow-up have hindered its efficacy. In parallel, the public procurement system, another key concern, mainly relies on costly and excessive single sourcing, frequently bypassing existing rules and conventional competitive bidding practices.

Pathways to Structural Transformation

37. Based on these diagnostics, four pathways to structural transformation can help accelerate growth and reduce poverty in Guinea. These are: (i) increasing agricultural productivity and supporting private sector investments to promote economic diversification; (ii) raising human capital to support inclusive growth; (iii) improving economic opportunities through enhanced urban development; and (iv) strengthening management of fiscal and natural resources. In terms of cross-cutting reform, incremental improvements in governance should be sought within each of these pathways.

38. Lastly, delivering reliable public services to the country's most vulnerable people will be key to contributing to poverty reduction. To achieve this goal, the way forward is a mix of strong institutions that can fulfill their mandate through reforms to improve the effectiveness of service delivery. In some cases, these actions should be undertaken jointly with sociological activities to educate the local population in adopting good practices in women's education or in water, sanitation, and health matters.

Knowledge and Data Gaps

39. This SCD has identified several knowledge and data gaps. Work will be required to fill these knowledge and data gaps, and some of it could be included in the next World Bank Group Country Partnership Framework. The main gaps and related issues are as follows:

40. Lack of an enterprise census and household survey. Guinea has never implemented an enterprise census while the last household survey was done in 2012. Such a census will be instrumental in conducting regular firm-level surveys with a representative sample across sectors. The surveys will provide information on firm productivity, performance, and job creation by sector and geographic areas. Regarding household survey, it will be useful to assess poverty and to update the national accounts base year.

41. Tax and benefit incidence analysis. The tax and benefit incidence analysis will estimate the impact of fiscal policy (taxation and spending) on poverty and inequality. It is usually conducted by using the Commitment to Equity (CEQ) tool. Such an analysis will be helpful to assess domestic mobilization and public expenditure reforms, including the subsidy programs in education, health, energy (electricity, gas, and so on), as well as the water and agricultural sectors.

42. Urbanization study. Given the rapidly growing population in urban areas, it is important to understand the dynamics and causes (rural-to-urban migration or high fertility) of urbanization in Guinea. There are other questions to explore as well. For instance, what are the socioeconomic consequences of fast urbanization on employment and quality of urban dwellings? What are the opportunities for poverty reduction in relation to urbanization? In this context, it will also be important to analyze city planning in Guinea and assess the legal and policy framework for implementation.

43. Gender issues. Guinea performs poorly on gender equality issues in relation to several comparators, as well as to the average of Sub-Saharan African (SSA) countries. Analysis is needed to understand the constraints affecting women's entrepreneurship in agriculture, as well as social inclusion. This is in line with the fifth Sustainable Development Goal (SDG), which is to achieve gender equality and empower all women and girls.

44. Labor market. Guinea has not had a good survey of the labor market, including future employment opportunities based on labor market trends. Properly done, such an assessment would add to the stock of knowledge and help guide policy reform.

45. Infrastructure gaps. How is road maintenance managed at the different levels of government? What is the cost of service and how affordable is electricity? What is the level of energy subsidies (explicit and implicit)?

46. Diaspora-related issues. The Diaspora group is powerful and quite important. It can bring valuable financial and technical capital back to the country. Analytical work can explore policy options and strategies to attract diaspora revenues and know how.

47. Climate change issues. The impact of climate change on the environment and on Guinea's development requires exploration. Climate change is now having a global impact, especially in terms of agricultural production, sea levels, and biodiversity. There are several models that could be used to provide empirical evidence on the impact of climate change. Such a study could provide more precise analysis of causal links between climate change, Guinea's development, and its impact on local communities.

I. Introduction and Country Context

48. Guinea is a low-income country with abundant— but unexploited — natural resources. Located in West Africa, the country is bordered by six countries (Côte d'Ivoire, Guinea-Bissau, Liberia, Mali, Senegal, and Sierra Leone). Like other countries in Africa, Guinea is fortunate to have vast natural resources, especially mining and hydropower potential. Its mining sector is vital to the economy as an important driver of output growth and exports. Its mining deposits are very rich, including the world's largest unexploited iron mine in Simandou and the world's largest reserves of bauxite estimated at 7-8 billion tons (accounting for approximately 1/3 of total global reserves). The production of bauxite is comparable to countries such as China, whose reserves are only 15 percent of Guinea's endowment. In terms of renewable resources, Guinea is known as the "water tower" of Africa. It has a large natural resource gap between its mining endowment (mostly bauxite and iron ore) and water resources and actual mining production and hydropower energy generation. Its iron ore reserves are the largest and highest quality in the world, but they remain largely unexploited. It has various river basins with substantial hydropower potential, and is home to the headwaters of important rivers, including the Senegal and the Niger Rivers. However, it has exploited very little of its hydropower potential (estimated at 6,000 MW). Abundant annual rainfall and diverse agro-climatic conditions contribute toward a resilient agricultural sector. The country is divided into four natural regions (Lower, Middle, Upper, and Forest Guinea), with different climatic, hydrological, and ecological characteristics in each region.

49. The country is at the early stage of a demographic transition with a young population that is growing rapidly.³ The total population grew from 7.2 million in 1996 to about 12.6 million in 2015. Until recently, the speed of the country's demographic transition has been relatively low, with a gross birth rate of 34 per 1,000 and a gross mortality rate of 12 per 1,000 in 2015. Meanwhile, women's fertility rate declined slightly from 5.5 to 5.0 children on average from 1999 and 2014. However, there is a high rate of early pregnancy. There are also regional differences in fertility rates, ranging from 3.6 (Conakry) to nearly 7.0 (Kankan). About 80 percent of the population is employed in the agriculture sector, most of them poor, with almost 90 percent of the poor and the extreme poor living in rural areas. With a 2015 per capita GDP of US\$531, the country remains among the poorest in the world, with more than half of its population affected by poverty. In this context, it was ranked 183 out of 188 countries on the 2015 Human Development Index (HDI).

50. Despite its economic potential and relative civil peace, Guinea remains among the poorest and least competitive countries in the world. Poverty is high and rising, affecting almost 60 percent of its population in 2014. According to the 2015 Human Development Index, Guinea ranked 182 out of 188 countries. Life expectancy at birth was 59.2 years and the average years of schooling totalled only 2.6 years. Access to basic services is low, with a small share of the population having electricity (28 percent), improved sanitation (20 percent) and improved water sources (77 percent). According to the 2015-2016 Global Competitiveness Report, Guinea ranked last out of 140 countries, with large gaps and declining trends for the quality of public and private institutions, infrastructure (transport, electricity, telecommunications), health, education, and financial market development. Per capita growth is very low, averaging 0.6 percent during 1998-2016. Agriculture is one of the main drivers of economic growth and employment. However, it suffers from very low productivity levels.

51. This Systematic Country Diagnostic (SCD) will answer three interlinked questions to identify the key pathways to accelerate progress in poverty reduction. Specifically, what are the main challenges that prevent Guinea from accelerating economic growth? How will it make economic growth sufficiently inclusive in the absence of a high growth rate? What factors could jeopardize a sustainable process of economic growth and poverty reduction?

³ The demographic transition is the transition from high to low birth and death rates. In an early phase, it speeds up and the age structure becomes more concentrated around working ages. All else being equal, a larger share of the working age population delivers higher per capita growth — if sound policies are implemented to increase investment in physical and human capital.

52. Guinea is a country on the brink of fragility because of its vulnerability to internal and external shocks. According to the World Bank's definition of "fragile" situations, fragile countries are characterized by either: (i) a harmonized average Country Policy and Institutional Assessment (CPIA) country rating of 3.2 or less, or; (ii) the presence of a United Nations and/or regional peace-keeping mission. Guinea is not on the World Bank's harmonized list of fragile situations because neither of these two conditions applies. Nonetheless, under International Development Association (IDA)18, Guinea has been classified as an "exceptional fragile, conflict and violent (FCV) risk mitigation regime" along with other three countries (Nepal, Niger and Tajikistan). Ongoing political instability linked to recurrent tensions over political elections, a poverty rate already reaching 55 percent in 2012 —and likely higher following the Ebola epidemic, and other external shocks are reasons for concern over Guinea's potential fragility. Although some ethnic tensions are observed during the recent presidential elections, this has not led to major conflicts. In fact, there has been a good social cohesion across ethnic groups in Guinea despite the attempts of politics to exploit ethnic divisions to consolidate their power, especially in the early hours of political movements.

53. The country faces multiple challenges in translating its opportunities into higher incomes for its citizenry. Economic growth has been too low to contribute to poverty reduction. The economy is susceptible to commodity price fluctuations and health shocks (for example, Ebola). Rapid growth is hindered by low investment levels, lagging infrastructure, and limited financial intermediation. The population's incomes are affected by a large human capital deficit, low access to input and output markets, low agricultural productivity (the main source of income for the poor), and limited job opportunities outside of agriculture. Rapid urbanization has created an unmanaged urban environment, which is facing pressure from both the young unemployed urban population, as well as from rural migration. Gender inequalities are considerable, especially in terms of access to justice, health, education, and credit.

54. The combination of Guinea's six main characteristics makes it a unique country. First, it has the lowest alumina-to-bauxite production ratio of all the major producing countries, and it exports 95 percent of the bauxite in raw form. In terms of water, the country is home to the headwaters of important rivers, including the Niger and Senegal Rivers. It has abundant rainfall, but has exploited very little of it. Second, the country faced various political challenges originating from its historical heritage, but only recently emerging from political instability and transitioning to a democratic rule. Upon independence, officially declared on October 2, 1958, Guinea was the first country in French West Africa to break all ties with a hostile French government. It adopted socialist economic policies and nationalized all of its industries Third, despite the absence of civil wars as in several neighboring countries — such as Côte d'Ivoire, Guinea Bissau, Liberia, and Sierra Leone — Guinea has a development gap that does not differ very much from them (with the exception of Côte d'Ivoire, to some extent. Fourth, the country has an agricultural gap. It has vibrant private sector-made products (bananas, pineapples, mangoes) collapsing after independence (with foreign capital outflows) and has not fully regained its dynamism since then. Fifth, Guinea has a substantial skills gap, ranking among the lowest performing countries in the composite United Nations Development Programme (UNDP) Human Development Index (182 of 188 countries surveyed in 2014). Moreover, Guinea scores below the average in the group of "low human development countries" on all components of the index: life expectancy at birth was 58.8 years compared with 60.6 for the group; expected years of schooling was 8.7 years compared with 9.0 for the group; mean years of schooling was only 2.4 years as compared with 4.5 years for the country group; and Gross National Income (GNI) was US\$1,096, as compared with US\$3,085 on average for the group. Finally, the country has an urban development gap, with a degraded and unmanaged urban environment. It is also facing pressure from both the unemployed urban youth and rural migration.

55. This SCD posits that Guinea's development challenges are not new. Poor political and economic governance and low levels of structural transformation are at the center of Guinea's development difficulties. The literature on the role of institutions in development and the recent World Development Report on Governance and the Law provides a conceptual framework for understanding why Guinea is trapped in a low-level equilibrium. The legacy of poor governance inherited from colonial powers led to

a mismanagement of natural resources, institutional fragmentation of the government, a weak social contract and rule of law, and low and ineffective public investment. After its independence in 1958, the country endured two authoritarian regimes and political instability, before the inception of democracy in 2010. The regimes that ruled the country until 2010 were authoritarian regimes that maintained their powers through allocation of public resources to their supporters, thereby hindering the establishment of a true multi-party-political system. Moreover, the country's transition to democracy was not smooth even though a political settlement was reached between different stakeholders, including the opposition, the military, and civil society. In parallel, the country has faced strong challenges in governing the mining and energy sectors, partly because of a difficult political economy of rent-seeking and a history of opaque deals with individual mining companies. The energy sector has faced problems with the public-sector utility and has experienced difficulties in managing hydropower resources. The lack of direct tax collection capabilities, both in the extractives and non-extractives sectors, coupled with corrupt public procurement practices and inefficient investment, have prevented Guinea from achieving a strong economic take-off.

56. The low levels of structural transformation imply that the economy remains dependent on agriculture as the main source of employment. Agriculture is largely dependent on rainfall and is of the extensive type, with low use of inputs, resulting in low agricultural productivity. Rapid urbanization has created an unmanaged urban environment, which is facing pressure from both urban youth unemployment and rural migration. In Guinea, sustainable urbanization has not been embraced as a vehicle for economic and social transformation.

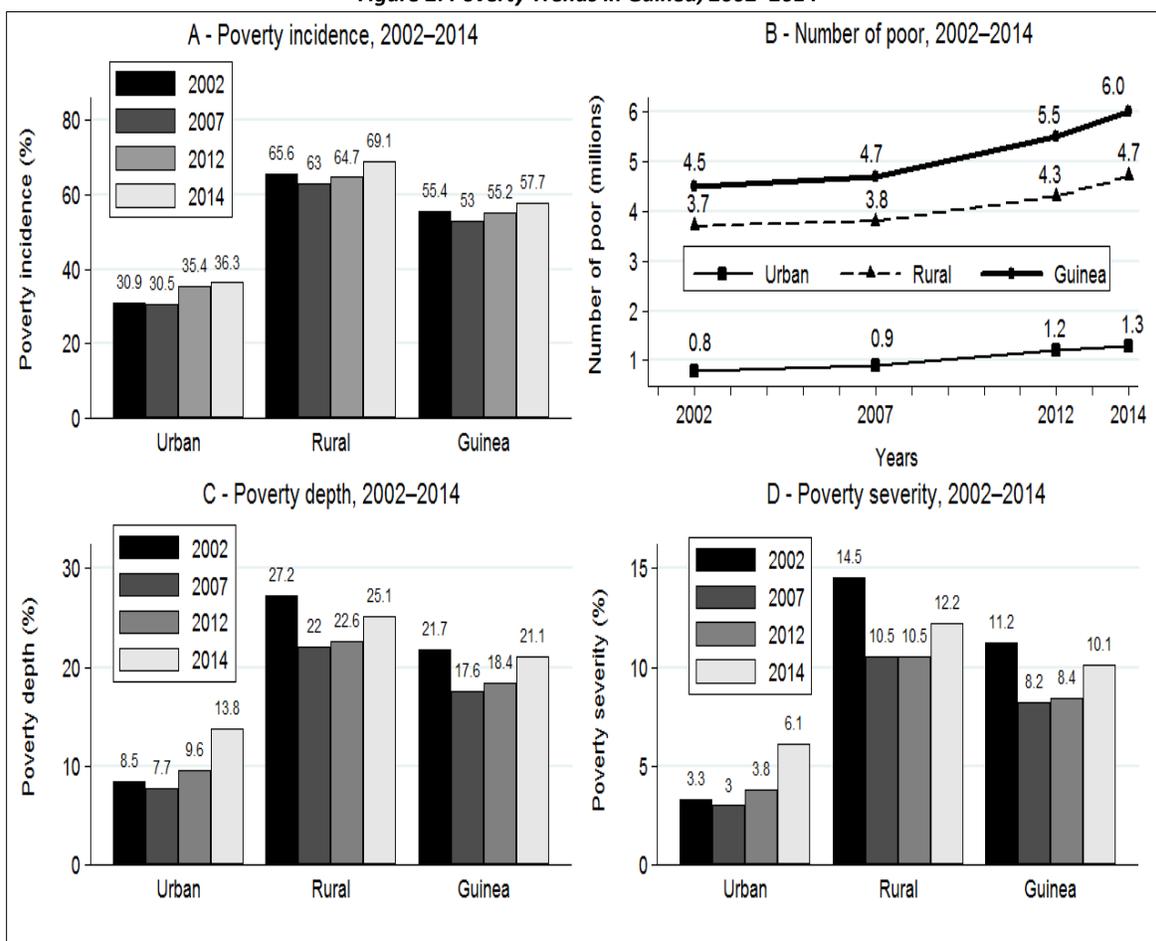
57. This SCD is organized as follows. Chapter 2 provides an assessment of progress toward the twin goals of poverty reduction and shared prosperity. Chapter 3 examines Guinea's growth performance, the process of structural transformation of the economy, and long-term growth prospects. Chapter 4 presents the analytical framework used to identify four pathways that could lead to higher and more inclusive growth. Chapter 5 discusses the main constraints to achieving shared prosperity and poverty reduction. Chapter 6 summarizes the prioritization exercise to select a few critical binding constraints for the short and medium term. Finally, Chapter 7 summarizes important data and knowledge gaps.

II. Assessing Progress Toward the Twin Goals

58. Despite Guinea’s abundant natural endowments, poverty reduction and shared prosperity have not materialized over the past decades. Monetary poverty remains widespread, at around 55 percent in the 2000s. Except for Kankan and to a lesser extent Kindia, poverty has increased in all regions in 2007–2012. Poor households are found mostly in rural areas, but with large regional disparities. The poor are usually engaged in agriculture. Several medium and long-term drivers of poverty include: lack of opportunities for high-income generation activities, low access to infrastructure, relatively high demographic growth, low human capital (education and health), and little use of modern farming inputs and techniques. Poverty stagnation in recent decades, as well as a slight increase in poverty in the mid-2010s, can be explained by factors such as sociopolitical instability, repeated social crises and other shocks (including the Ebola epidemic, and decline in commodity prices). Taken together, they have had adverse effects on economic growth, poverty reduction and shared prosperity.

2.1 Poverty, Growth, and Shared Prosperity

Figure 2: Poverty Trends in Guinea, 2002–2014



Sources: Basic Comprehensive Survey to Evaluate Poverty (EIBEP) 2002–2003; Poverty Assessment Survey (ELEP) 2007 and 2012; 1996 and 2014 census records; and authors’ calculations.

59. Monetary poverty remains widespread in Guinea; it may have increased slightly in the mid-2010s following the Ebola epidemic shock. Poverty is deeply rooted and persistent. The Bank’s poverty analysis shows poverty stagnating at around 55 percent for the period between 2002 and 2012, after a slight decline in 2007. Simulations based on the 2014 Census suggest a likely increase in poverty to nearly 58 percent in 2014 nationally, with both urban and rural areas experiencing increased poverty (see Figure 2A).⁴ In fact, a post-Ebola survey conducted in September 2015, based on a mobile phone survey of 2,467

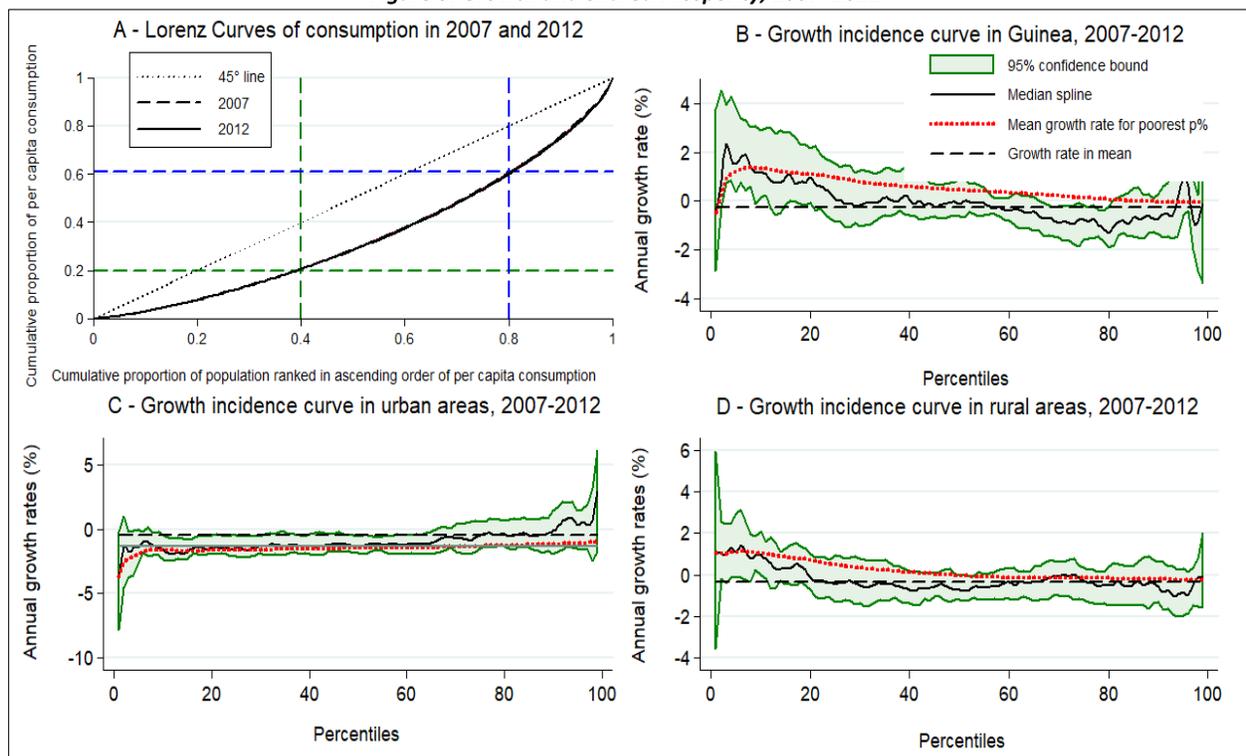
⁴ The survey-to-survey imputation methods are used to correct the bias related to the non-comparability issue between the 2002

households, suggested that poverty might have increased further. This increase in the 2010s is consistent with the evolution of growth rates and the social losses brought about by the Ebola outbreak. Figures 2C and 2D show that the depth and severity of poverty follow the same trend, although with greater variations.

60. The combination of low economic growth, a high incidence of poverty, and a fast-growing population have led to a steady increase in the absolute number of poor in both urban and rural areas. Estimated at 4.5 million people in 2002, the population living in poverty is projected to have increased to about 6 million in 2014, which represents a net increase of 1.5 million people (see Figure 2B). Half a million of the total increase occurred in urban areas, and the remaining 1 million was in rural areas.

61. Between 2007 and 2012, continued inequality and near-zero economic growth partly explain the stagnating poverty. Inequality does not seem to have changed during this period, with the Gini index at around 31 percent. However, there are also regional disparities that are consistent with geographic poverty trends (Figure 3). In this period, consumption growth seems to have been negative for most households. The bottom 20 percent of the population showed only modest gains in consumption. Figures 3A, 3B, 3C and 3D show the Lorenz and growth incidence curves for per capita consumption among households for 2007–2012. As previously observed, the curves in the Figures indicate that consumption growth is far from being pro-poor, even if a slight increase may be observed for the poorest 15 percent. Instead, most people, including the poor, have experienced a decline in their consumption during this period. This situation is even worse in urban areas where the poor seem to be the most affected by the drop in consumption, whereas the situation in rural areas is similar to what was observed at the national level.

Figure 3: Growth and Shared Prosperity, 2007–2012



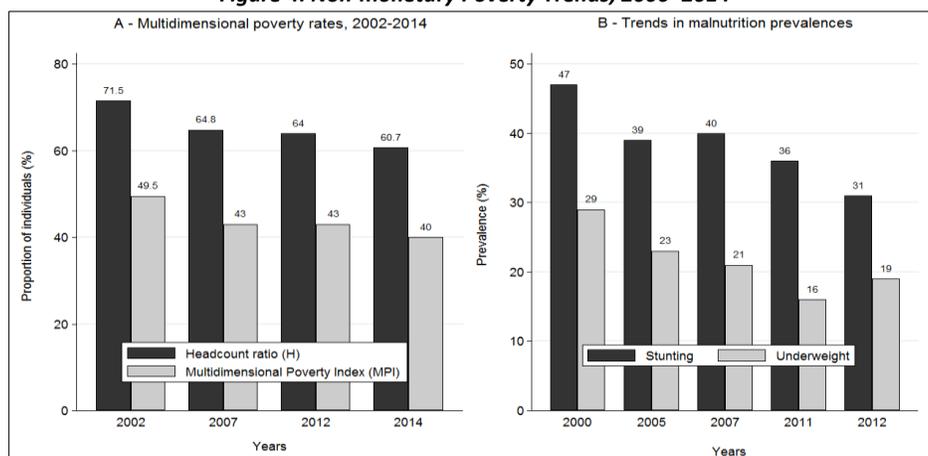
Sources: Poverty Assessment Survey (ELEP) 2007 and 2012, and authors' calculations.

62. Unlike monetary poverty trends, non-monetary poverty measures generally showed some improvement in well-being during the 2002-2012 period. There was a reduction in multidimensional

household survey and the most recent surveys (in 2007 and 2012). The same methods are used to impute poverty for 2014 based on census data.

poverty⁵ between 2002 and 2007, and the situation stabilized in 2007–2012. There was a slight decrease in 2014, mostly driven by mobile phones (see Figure 4A). In this sense, the multidimensional poverty trends appear to be slightly different from those of monetary poverty, even if the stability observed between 2007 and 2012 is consistent with the evolution of economic indicators. As shown in Figure 4B, although the nutritional health of under-5 children improved between 2005 and 2012, the level of malnutrition remains a concern⁶. Nearly a third of under-5 children (31 percent) suffered from stunting⁷ in 2012, including 17.5 percent in urban areas and 40 percent in rural areas —accounting for a total of 579,000 children in the country.

Figure 4: Non-monetary Poverty Trends, 2000–2014



Sources: United Nations Children’s Fund (UNICEF)/World Health Organization (WHO)/World Bank 2014; EIBEP 2002–03; ELEP 2007 and 2012; 2014 Census; and authors’ calculations.

Box 1: Understanding Poverty Reduction in Kankan

The significant change in Kankan has been driven by poverty reduction in rural areas, whereas urban poverty appears to have increased. This atypical trend, observed in Kankan only, may be partly explained by the import and the use of new metal detectors by rural households in the early 2010s. This led to a rise of artisanal mining, which is an important source of non-farm income. Moreover, trade activities (rice, maize, groundnut, livestock, and so on) are relatively well developed. In addition, the region benefited from some agricultural development during the same period. In fact, the implementation of several farm projects allowed for the construction of some rural roads during this same period. Demographic changes have also had an impact; household size has declined in Kankan by an average of one person per household during the period. By contrast, this decline is only 0.5 person at national level.

63. Trends in monetary poverty in 2007–2012 mask substantial heterogeneity between regions (Figure 5).⁸ All regions appear to have experienced a worsening of poverty during this period, except for the Kankan Region in Upper Guinea and, to a lesser extent, the Kindia Region in Lower Guinea. They experienced a reduction in the incidence of poverty of 10 and 1.6 percentage points, respectively. An attempt to explain the exceptional performance of Kankan is provided in Box 1. By contrast, the Faranah Region, which straddles Upper Guinea and Forest Guinea, experienced the largest increase in poverty, with an increased poverty rate of nearly 12 percentage points, followed by the Mamou Region in Middle Guinea, where poverty increased by nearly 11 percentage points over the same period. Changes in the depth and severity of poverty suggest notable differences in the poverty dynamics between regions, especially when considering the case of the poorest. Non-monetary poverty measures partially confirm

⁵ The Multidimensional Poverty Index (MPI) is estimated using the approach by Alkire and Santos (2014). It is based on eight dimensions, including six dimensions of living standards (assets, roofing, electricity, cooking, sanitation, and drinking water), and two dimensions of education (adult schooling and child school attendance).

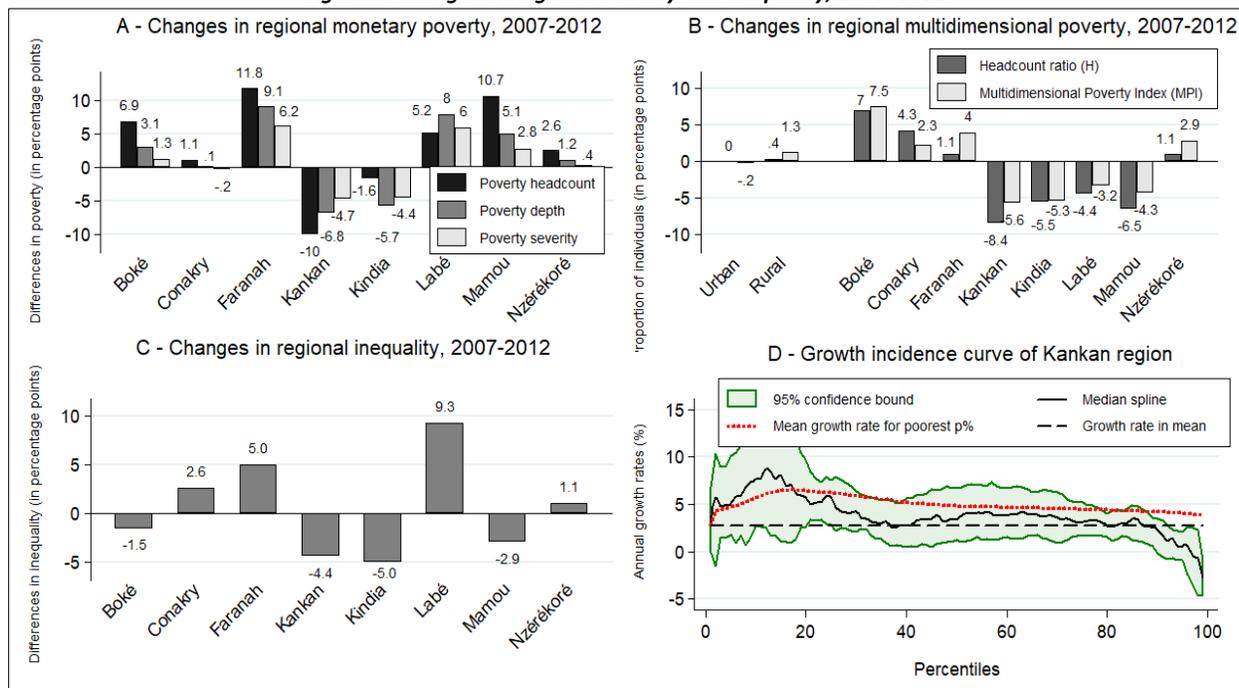
⁶ The malnutrition issue is an important issue to be addressed because undernutrition is associated with half of all under-5 children’s deaths in the world.

⁷ Stunting or chronic malnutrition is generally reflective of the standard of living of the household and the quality of its environment.

⁸ For regional and distribution analysis, it is appropriate to focus on the 2007–2012 period, which involves two comparable surveys. The team will explore in further detail what factors explain these wide regional disparities.

these heterogeneities. However, one point of difference is the extent of variation across regions, which seems to be less pronounced than in the case of monetary poverty.

Figure 5: Changes in Regional Poverty and Inequality, 2007–2012



Sources: ELEP 2007 and 2012; and authors' calculations.

2.2 Who Are the Poor and Where Do They Live?

64. Poor households tend to live in rural areas. The incidence of poverty was 55.2 percent in 2012, with a poor population estimated at approximately 5.5 million people, and most living in rural areas. In fact, the incidence of poverty for rural areas is almost 65 percent (Figure 6A and 6B), accounting for a population of 4.3 million poor people, as compared to 5.4 percent in urban areas, where the number of poor is estimated at 1.2 million.

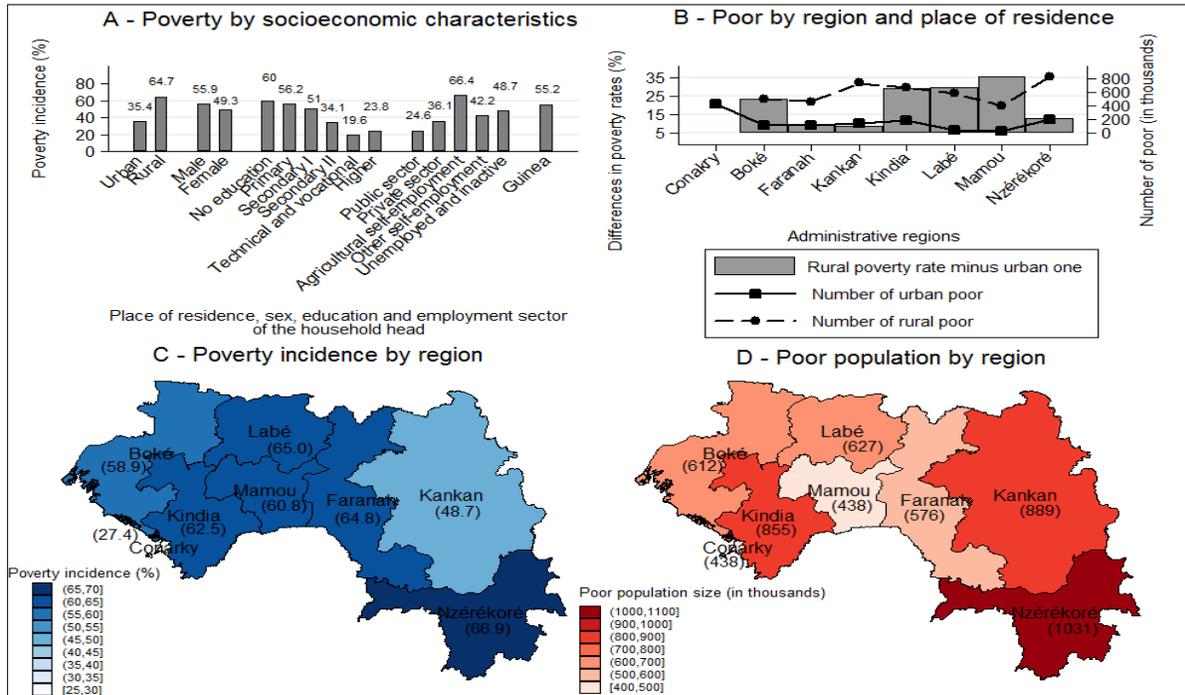
65. Poor households are usually engaged in agriculture. This is consistent with the breakdown of household heads by employment sector. It appears that households headed by farmers are most affected by poverty, with an incidence of 66.4 percent, as compared to only 24.6 and 36.1 percent, respectively, for households working in the public and private sectors. Households led by farmers account for a poor population of nearly 4 million, or 70 percent of the total poor population.

66. Poverty is linked to a lack of education. Household heads with no education have a poverty rate of nearly three times that of households where the heads had some higher education. These households have an incidence of poverty of 60 percent and represent nearly 80 percent of the total poor population. However, the primary education level does not appear to be an important determining factor since the incidence of poverty among households where the heads had only a primary education is close to that of households with an uneducated head (about 56 percent).

67. There are large regional disparities in poverty, with the poor living mainly in the regions of Kankan, Kindia and Nzérékoré. In addition to having the highest incidence of poverty (65 percent), Nzérékoré seems to also have the highest number of poor individuals, with more than 1 million people living in poverty, followed by Kankan and Kindia, each with over 850,000 poor people. Although most of the poor live in rural areas, there are regional disparities in terms of urban-rural inequalities. For instance, differences between the incidence of poverty in both types of areas are low for the Kankan and Faranah regions (less than 10 percentage points), which means that the likelihood of an individual being poor is not significantly different between urban and rural areas. By contrast, in the Kindia, Labé, and Mamou regions, rural-urban differences reach 30 percentage points. In fact, poverty is not homogeneous within

regions and varies according to the socioeconomic and demographic characteristics of smaller areas, such as livelihood zones, prefectures, and municipalities (Figures 6C, 6D).

Figure 6: Monetary Poverty Profile in 2012



Sources: ELEP 2012; and authors' calculations.

68. Multidimensional poverty indicators from 2014 affirm the demographic and major geographic area inequalities. However, the disparities between rural and urban areas are even more pronounced than in the case of monetary poverty, with nearly 90 percent of multidimensional poor people in rural areas compared to only 19 percent in urban areas (Figure 7). In terms of the household head gender, the poverty level of households headed by men seems to be somewhat higher than that of households headed by women because households headed by women are on average relatively smaller in size than those headed by men. In the agro-ecological zones of the country, multidimensional poverty appears much lower in Lower Guinea as compared to the other three zones where the poverty headcount exceeds 70 percent, and the Multidimensional Poverty Index (MPI) is higher than 46 percent. However, Middle Guinea seems to be the poorest natural region, with nearly 80 percent of multidimensional poor and an MPI of almost 56 percent.

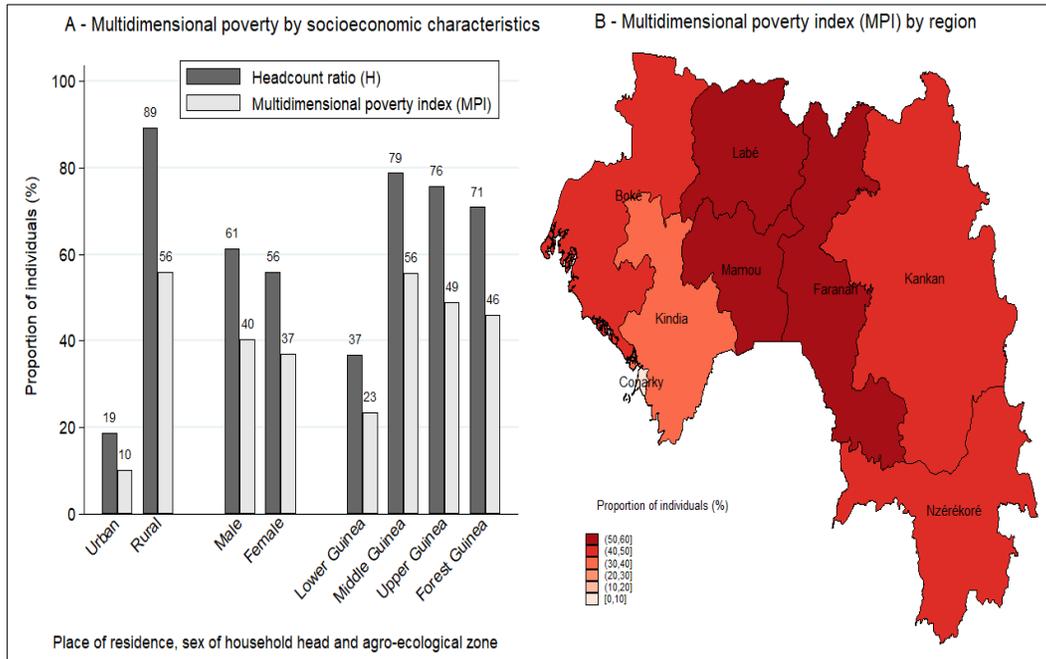
69. Poverty disparities in the administrative regions of Guinea reflect those observed in agro-ecological zones. Indeed, the regional gap analysis of multidimensional poverty shows that the poorest regions are located in Middle Guinea, Upper Guinea, and Forest Guinea — although the intensity of this poverty, as evidenced by the MPI (see figure 7), is higher in Middle Guinea (Labé and Mamou) and in a part of Upper Guinea (Faranah). These results, like those previously obtained, suggest that a more detailed spatial analysis could better define the regional differences and dynamics in connection with the livelihood zones.

70. Eleven livelihood zones have been defined in Guinea since 2013. Rice, maize, and manioc are the three most important food crops in Guinea, and rice remains the most important food in household consumption. In 2013, these three crops, in addition to fonio and groundnuts, were considered as the main source of calories for most households.⁹ Livelihood zones have been defined based on these major crops and the specificities of each zone, including livestock, fishing, mining, palm oil, and horticulture.

⁹ Results are drawn from the workshop organized in February 2013 by the Famine Early Warning Systems Network (FEWS NET), with the participation of government departments, sub-regional and international institutions, as well as nongovernmental organizations operating in the country.

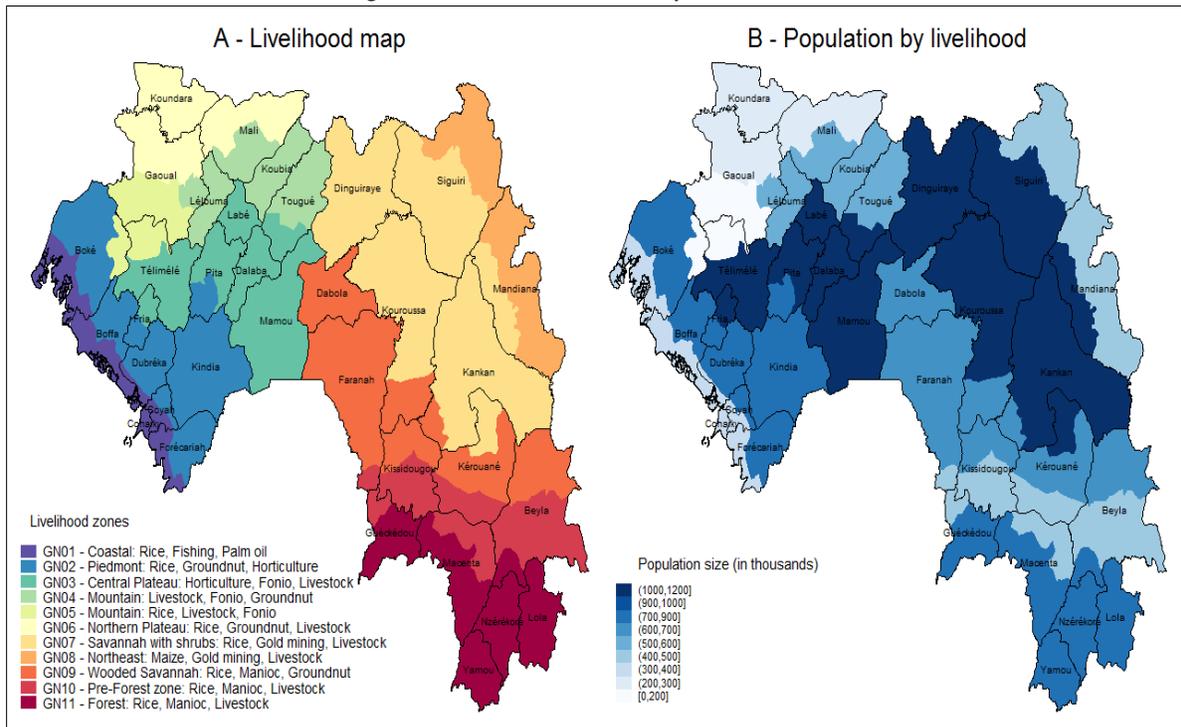
These zones, which total 11 in number, account for rural populations engaged in agricultural activities and reflect agro-ecological differences (see Figure 8).

Figure 7: Nonmonetary Poverty Profile in 2012



Sources: 2014 census; and authors' calculations.

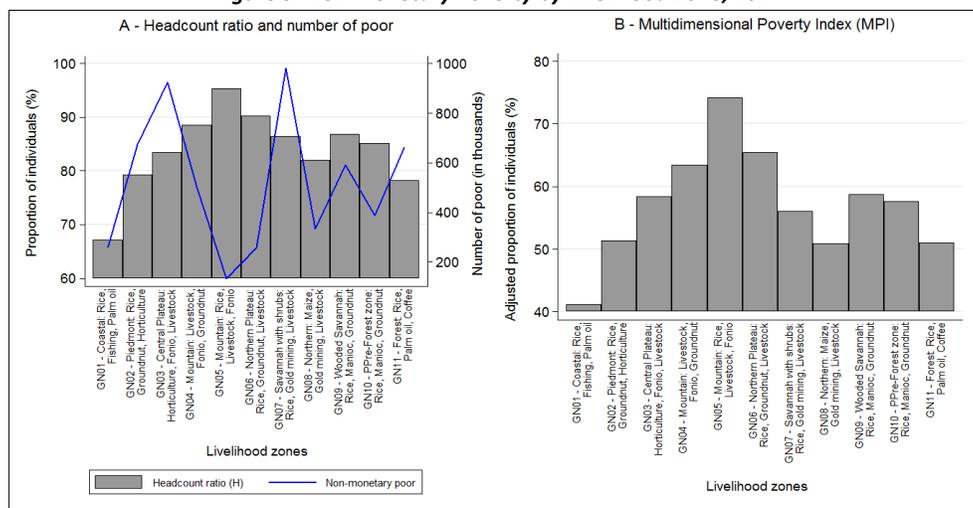
Figure 8. Livelihood and Rural Populations in 2014



Sources: FEWS NET 2013; ELEP 2012; and authors' calculations.

71. Most Guinean rural households live in poverty, with many disparities across livelihood zones¹⁰. The proportion of the non-monetary poor varies from 67 percent in the Coastal zone to more than 95 percent in the Mountain zone, which produces rice, groundnuts, and livestock (see Figure 9). The level of poverty of the rural population in Savannah (with shrubs) and in the Northern zone is not significantly different from what is observed in the other zones. The exception is the Coastal zone where the Multidimensional Poverty Index (MPI) is the lowest (41 percent), and the Mountain zones and the Northern Plateau where it is the highest (around 65 percent or more). The number of poor is higher in the Savannah (with shrubs) and in the Central Plateau, where their numbers reach nearly one million. By contrast, a sparsely populated zone such as the Mountain zone, with rice, groundnuts, and livestock, has a poor population of only 134,000. In all, the rural poor are estimated at approximately 5.7 million individuals, accounting for over 83 percent of the total rural population.

Figure 9: Non-monetary Poverty by Livelihood Zone, 2014



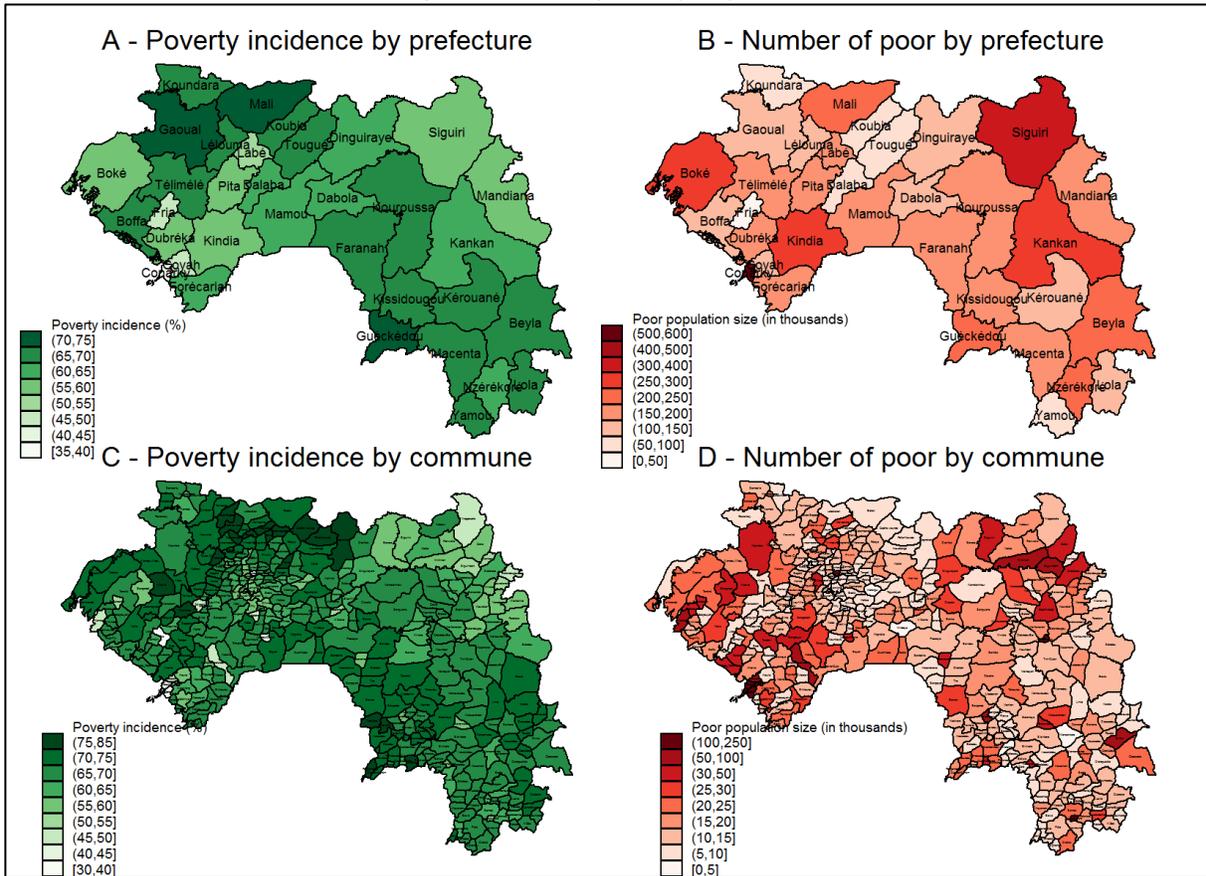
Sources: 2014 census; and authors' calculations.

72. Whether in terms of prefectures or communes, monetary poverty is unequally distributed in Guinea. Generally, the regional poverty numbers hide inequalities between smaller areas such as prefectures (33 in number) and communes (342 in number). Assuming that households with the same standard of living tend to live in the same neighborhood, calculating poverty indices at smaller level of disaggregation will provide a better assessment of poverty in the country. It can possibly allow for better targeting of the most deprived populations. Figure 10 shows poverty distribution across prefectures and communes. Poverty seems to be more prevalent in the northwest part of the country, particularly in the region of Labé, in the northern part of Boké, and in the extreme north of the region of Faranah. There are also pockets of poverty in the southeast of the country, more precisely in the western part of the region of Nzérékoré, and in the extreme south of Faranah.

73. Differences in monetary poverty between communes from the same prefecture can be relatively high. Figure 10 also shows the high inequalities that exist between communes in each prefecture, which reinforces the importance of having poverty numbers for these small areas. However, these inequalities may vary according to the prefecture. For example, if we consider Coyah, which is the prefecture with the lowest poverty incidence (about 47 percent) after Conakry, the poverty incidence of its various communes ranges from about 44 percent to approximately 60 percent —representing a difference of 16 percentage points. The gaps between communes may be relatively high for some prefectures (Fria, Labé, Mamou, Pita) where they exceed 30 percentage points. By contrast, the differences are relatively low in the poorest prefectures of the country, where the poverty incidence in communes varies from 70 to 79 percent.

¹⁰ The analysis by livelihood zone was limited to the multidimensional poverty provided in the census data. Missing information on small areas (communes) in the 2012 household survey (ELEM) prevented the team from conducting an analysis from a monetary poverty perspective.

Figure 10: Monetary Poverty Maps, 2014



Sources: ELEP 2012; 2014 census; and authors' calculations.

74. In terms of the number of poor, poverty is unequally distributed across prefectures and communes, although it is present in the whole territory apart from some sparsely populated areas where the number of poor does not exceed 5,000. When the analysis is conducted to measure the concentration of the poor, both areas in the northeast (region of Kankan) and those in the southwest (Lower Guinea), which generally have low poverty rates, turn into areas of high poverty because of the high concentration of the poor population. However, some areas with high poverty rates appear relatively less poor in terms of the total number of poor.

2.3 Vulnerability, Shocks, and Lack of an Adequate Social Protection System

75. Several factors such as socio-political instability, repeated social crises and adverse shocks have prevented Guinea from making progress in poverty reduction. Since 2002, the adverse poverty trends seem to be consistent with the evolution of the main macroeconomic indicators. For instance, after a rather positive evolution early in the period, the real GDP per capita growth rate was relatively low from 2003 to 2007, fluctuating between -0.8 and 0.8 percent.¹¹ The situation was also characterized by a relatively high inflation rate, frequent socio-political instability, and the global financial crisis, which led to an economic recession in 2009–2010. This probably explains why poverty increased slightly between 2007 and 2012 despite a modest recovery from 2011. An economic recession occurred again after 2012, following the Ebola health crisis. This in turn probably led to an increase in the poverty incidence in 2014.

76. After 2014, the Ebola study (based on mobile phone survey of 2,467 households) suggested that poverty may have further increased.¹² The study finds that the pandemic had ripple effects on the economy, and that its economic effects have outlasted the epidemiological ones. Overall, all parts of Guinea were economically affected, with greater impact in the southeast and the areas around Conakry.

¹¹ These statistics are based on the World Development Indicators.

¹² World Bank (2016), *Republic of Guinea: Socioeconomic Impact of Ebola using Mobile Phone*, Report No ACS18659, May.

Several effects on employment, income, agriculture, food security, education, and health were also captured. Urban employment deteriorated and a decline in rural income was observed. Agricultural production remained resilient, which has not prevented a decrease in food consumption, probably given the isolation of some localities where surplus production has been stored. The impact on education was also significant, with close to 7 percent of households withdrawing their children from school. Regarding health, many households decreased their use of health facilities for minor purposes. However, they continued to utilize these facilities in case of serious health issues such as malaria.

77. Apart from these major crises, Guinean households also suffered from several additional shocks that led to increasing vulnerability. In 2012, more than three out of five households reported at least one adverse event related mainly to a loss of crop (21 percent), income (24 percent), or livestock (12 percent), a serious health issue (26 percent) or the death of a family member (23 percent) (see Figure 11). Rural households, already the poorest, remain the most affected by the various shocks. They had the most in out-of-pocket expenses. Shocks also affect regions differently depending on their natural endowments and main activities, with Kankan being the most affected region. These shocks contribute to weakening households and increasing their vulnerability, which is of particular concern given that there is no effective national social protection mechanism in place.

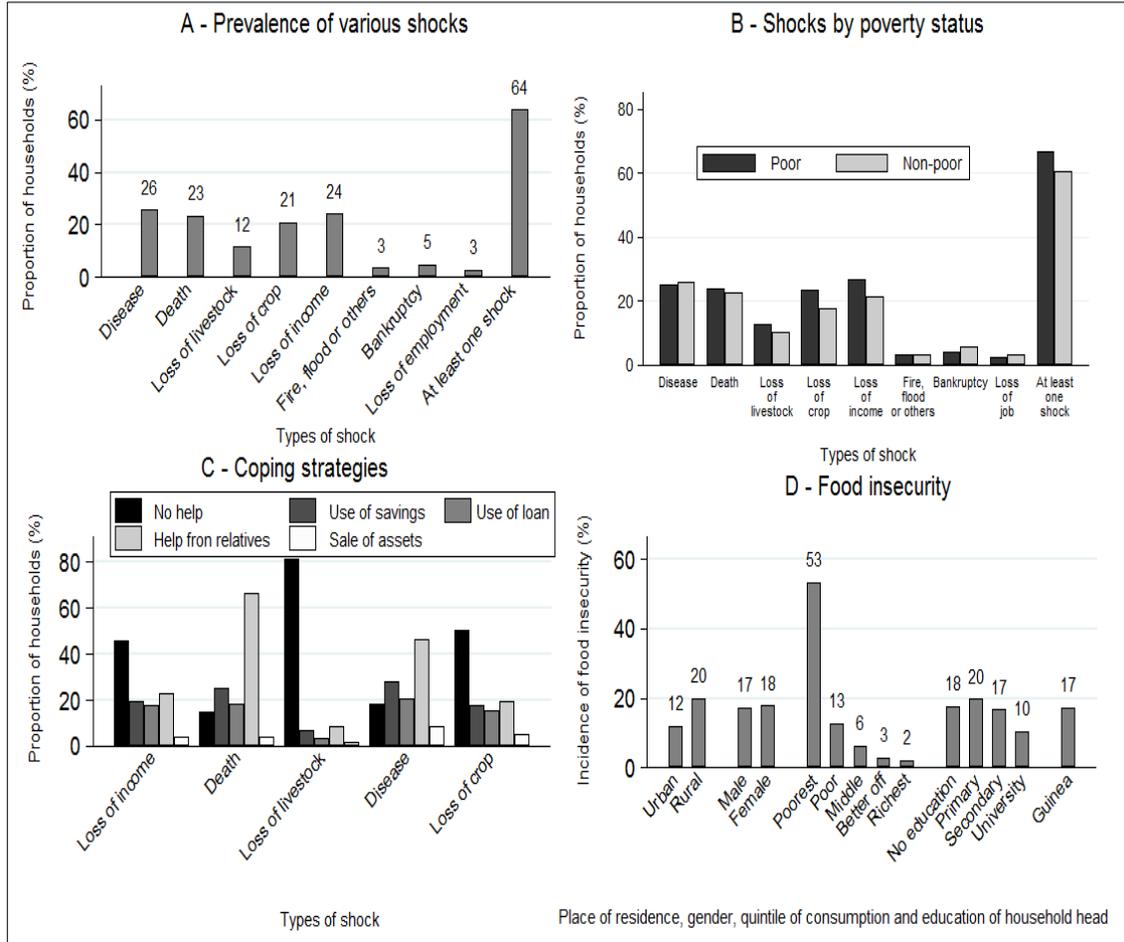
78. Food insecurity, which can be seen in some way as food or extreme poverty, is relatively high in Guinea, with 85 percent of the food-insecure population accounting for the bottom 40 percent. In 2012, 17 percent of the population was food-insecure, accounting for nearly 1.8 million people (see Figure 11D). Food insecurity has had a greater impact on rural areas with an incidence of 20 percent as compared to 12 percent in urban areas. It also affects mainly the poorest households since the incidence among the poorest 20 percent is about 53 percent as compared to only 2 percent among the richest 20 percent. Overall, 85 percent of the total food-insecure population account for the bottom 40 percent of the Guinean population.

79. Despite the rich agricultural environment, food insecurity appears to be relatively high, which may be explained by some factors not directly related to food availability. A 2012 national survey on food security and vulnerability shows that limited access is one of the most significant determinants of food insecurity in the country¹³. Access issues include the slow development of the road network, and a lack of transport and communication structures in general. This survey reveals that 57 percent of the villages are hardly accessible for at least a portion of the year, mainly due to rainfall (41 percent) and deteriorating roads (30 percent). This situation negatively affects the access of households and communities to local markets.

80. Given the weakness of the national strategy to support the population in case of shock, households tend to develop their own strategies depending on the nature of the shock suffered. The analysis of strategies used by households to cope with shocks highlights the poor capacity of a low-income country such as Guinea in terms of ensuring social protection. As the insurance system is almost nonexistent, households are then forced to develop their own strategies. More than half of the households do not receive assistance, nor do they have any strategy to cope with the loss of livestock, crops, or income (Figure 11C). In this regard, more than three-quarters of households may rely on relatives in case of death and nearly half in case of disease. Other strategies include the use of savings or loans and, less frequently, the sale of assets.

¹³ Ministère de l'Agriculture et WFP (2014), *Enquête Nationale de la Sécurité Alimentaire et de la Vulnérabilité (ENSAV) : Données de 2012*, Janvier.

Figure 11: Guinean Household Vulnerability, 2012



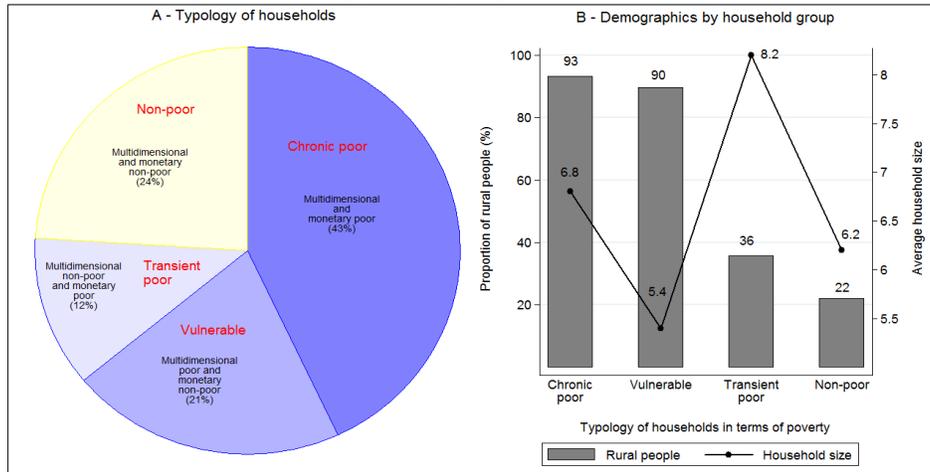
Sources: ELEP 2012; and authors' calculations.

81. Four categories of households are defined in terms of monetary and multidimensional poverty status: the chronic poor, the vulnerable, the transient poor, and the non-poor (see Figure 12). The first category includes households that are poor according to both definitions of poverty. These households may be considered as comprising the core of poverty because, not only do they have low levels of consumption, but they are also living in unhealthy environments. Considered to be the chronic poor, they account for about 43 percent of the population. The second group consists of non-poor households in terms of monetary poverty, but not in terms of the multidimensional measure. These households have an adequate level of consumption but are living in difficult conditions. They account for a proportion of about 21 percent of the population. They may be considered as vulnerable. The third group includes the monetarily poor households, but not poor from the perspective of the multidimensional definition. They account for 12 percent of a population living in decent conditions, but not consuming enough. They may be seen as the transient poor. The fourth category includes the non-poor households regardless of the poverty approach considered. It accounts for nearly a quarter of the population of Guinea, which can be considered unambiguously as non-poor.

82. The analysis of the profile of the various household groups reveals significant spatial disparities as well as some smaller differences in sociodemographic characteristics. The profile by sociodemographic characteristics shows a difference between the transient poor households and the other households, with an average household size of more than eight members as compared to less than seven members for all other categories (see Figure 12B). The chronic poor households are mainly found in rural areas, with a proportion of 93 percent as compared to only 7 percent in urban areas. The non-poor households are found largely in urban areas, with a proportion of 78 percent as compared to 22 percent in rural areas. As previously observed, multidimensional poor households tend to live in rural

areas, whereas those who are monetary poor, without being multidimensional poor, are found mostly in urban areas.

Figure 12: Typology and Profile of Guinean Households, 2012

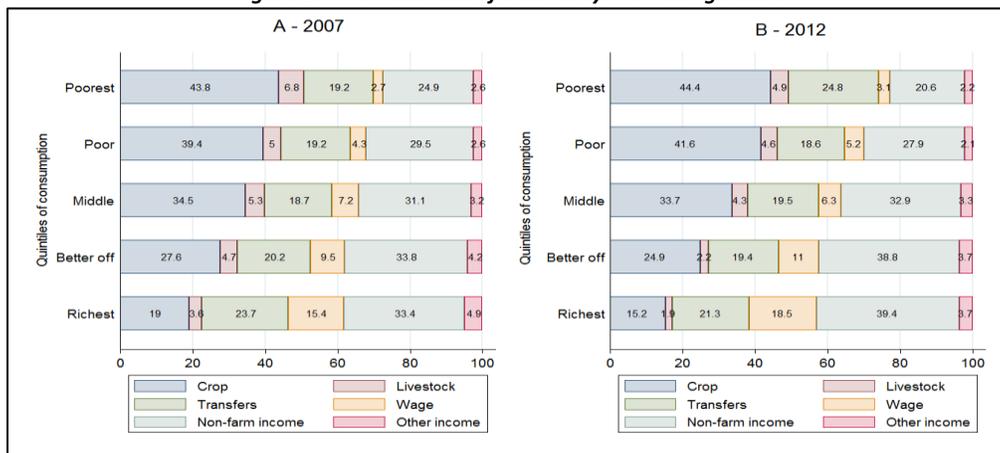


Sources: ELEP 2012; and authors' calculations.

2.4 What Are the Drivers of Poverty?

83. Poor households tend to have less diversified incomes, and their main source of income is predominantly from agriculture. Diversifying one's income is an important strategy, especially when facing potential shocks. Income from crops is the main source of income for the bottom 40 percent of households. These are mainly sale revenues from rice, maize, tubers, and other crops. Farm income and income generated from non-farm activities appear to be equally important for middle-income households. Non-farm income remains the main source among the better-off and richest households (see Figure 13). Moreover, money transfers are a relatively significant source of income, accounting for a share of about 20 percent of the total income regardless of the type of household. Finally, income from wages is relatively low in Guinea and tends to increase with the household standard of living, from 3 percent among the poorest to more than 15 percent among the richest.

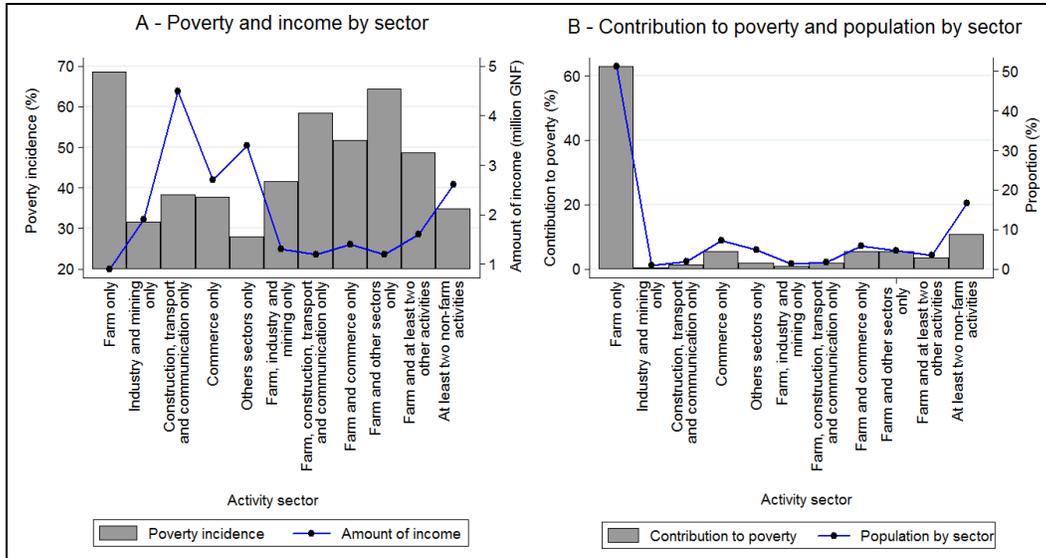
Figure 13. Main Sources of Income by Well-being Status



Sources: ELEP 2007 and 2012; and authors' calculations.

84. The type of employment determines, on average, the amount of generated income and level of poverty. Farm households generate little income compared to other households. Eighty percent of individuals are living in households involved in agricultural activities. Half of Guineans account for over 60 percent of poor in the country belong to households only involved in agriculture (Figure 14). People are better off, on average, when their households are engaged in non-farming activities (such as industry, mining, commerce, construction, communications, and so on). The main constraints to reducing poverty include relatively low crop yields and the lack of proper infrastructure.

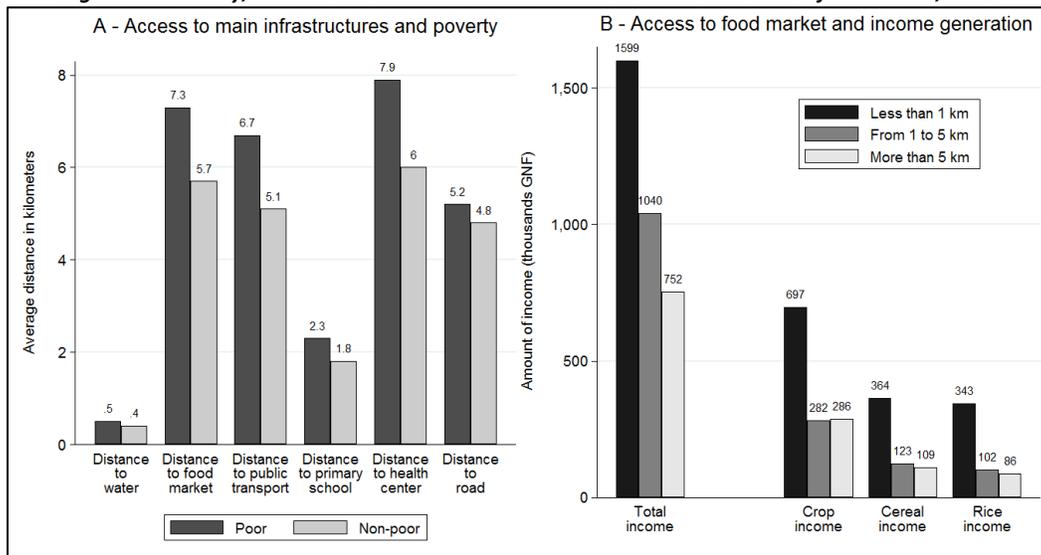
Figure 14. Poverty, Income and Population by Sector, 2012



Sources: ELEP 2012; and authors' calculations.

85. Access to infrastructure affects the well-being of populations. This fact was highlighted by the findings that residing within one kilometer of infrastructure seems to significantly promote income-generating activities. On average, the distance that a poor household would travel to reach a water source, a food market, public transport, a primary school, a health center, and a road is higher than the distance that a non-poor household would travel to reach the same infrastructure (Figure 15). The proximity of public infrastructure may create an enabling environment for income-generating activities. For instance, farm households living within a kilometer of food markets can generate on average an income per capita significantly higher than that of households living relatively far from such infrastructure. This income is more than twice that of households living more than 5 kilometers from infrastructure, and the difference is even higher when considering crop income.

Figure 15: Poverty, Income and Farm Household Access to the Main Public Infrastructure, 2012



Sources: ELEP 2012; and authors' calculations.

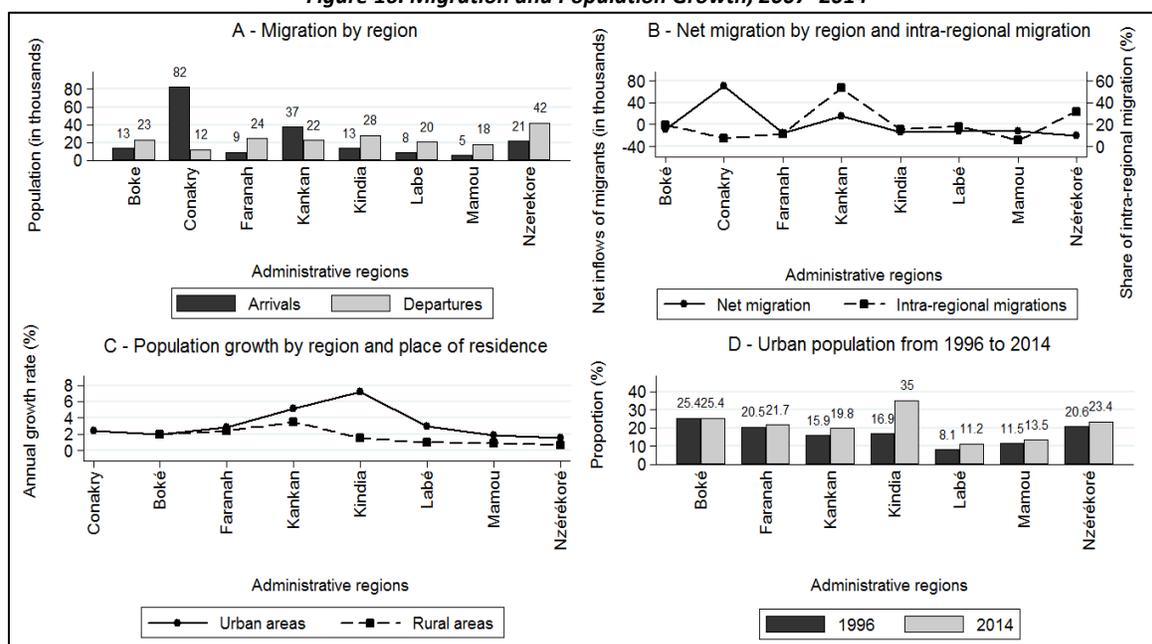
86. Demographics are an important driver of poverty. First, household size and composition are highly correlated with per capita consumption and income. Indeed, there is a strong negative correlation between household size and both farm household consumption and income. Also, youth dependency has a negative and significant effect on income and consumption. The presence of children, regardless of their gender, has a negative and significant effect on household consumption. Given the country's

relatively high population growth, it is possible for the country to benefit in the medium and long terms from a demographic dividend — if measures are to be taken for the decline in mortality to be coupled with a significant decline in fertility.

87. The relatively slow demographic transition has not led to a demographic dividend. Until now, the speed of the country’s demographic transition has been relatively low, with a gross birth rate of 34 per 1,000 and a gross mortality rate of 12 per 1,000 in 2015. Women’s fertility remains high, although it decreased between 1999 and 2012, as evidenced by the total fertility index showing an average decline from 5.5 to 5.1 children per woman¹⁴. There are also regional differences, with an index ranging from 3.6 (Conakry) to nearly 7 (Kankan). Women with no education have an average of 2.7 children more than those who attained at least a secondary education. Based on data from the last two censuses of population and housing, the population growth rate was about 2.2 percent between 1996 and 2014. This rate is relatively high and means that the country is among those with the highest population growth rate in the world.

88. Internal migration, especially rural-to-urban migration, is another demographic dimension that affects poverty trends. Between 1996 and 2014, the urban population increased by an average of 3 percent per year. The rural population experienced a relatively lower rate of 1.8 percent, which is the result of both a natural increase in population and rural-to-urban migration. According to the 2014 census data, nearly 240,000 Guineans (from about 200,000 households), or about 3 percent of the total population, migrated between 2007 and 2014. This represents an internal migration rate of 56 percent. The regions of Conakry and Kankan (especially the prefecture of Siguiri) experienced net inflows of migrants, whereas Nzérékoré has the highest rate of emigration (Figure 16). These migrations may result in a transfer and increase in the rate of poverty from rural to urban areas. In fact, without migration, poor people would have increased annually by 4.1 and 2.1 percent on average, respectively, in urban and rural areas.

Figure 16. Migration and Population Growth, 2007–2014



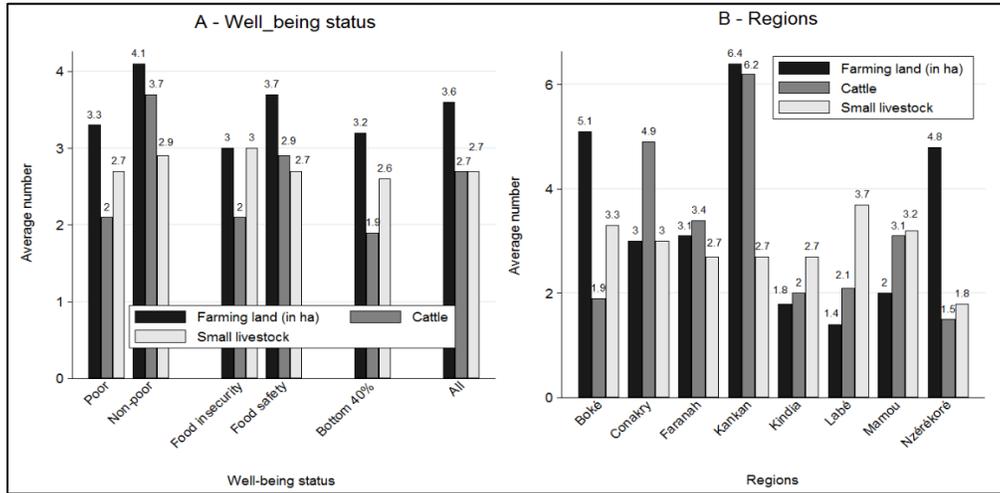
Sources: Censuses 1996 and 2014; and authors’ calculations.

89. The acquisition of education as a form of human capital appears to be significantly correlated with well-being. Households headed by educated individuals tend to consume more than those in which the heads have no education, especially in urban areas. However, the returns to education do not seem to have been significant in rural areas. This could be explained by the low yields of Guinean agriculture—

¹⁴ See INS (2013), Guinée: Enquête démographique et de santé et à indicateurs multiples (EDS – MIC 2012), Ministère du Plan et Measure DHS, ICF International, Calverton, Maryland, USA, November.

the main activity in rural areas—which do not capture the effect of education. Indeed, education has not proved to be relevant for crop income generation, whereas education (especially secondary and higher education) has a positive and significant impact on the total income of farm households. Education can therefore provide opportunities for farm households to generate non-farm revenues, especially from service sector activities.

Figure 17: Ownership of Farm Assets by Households, 2012



Sources: ELEP 2012; and authors' calculations.

90. Health is the other essential component of human capital in fighting poverty more effectively.

For example, the presence of disabled members within a household has a negative and significant effect on the per capita consumption. Disability should be addressed by appropriate social protection programs.

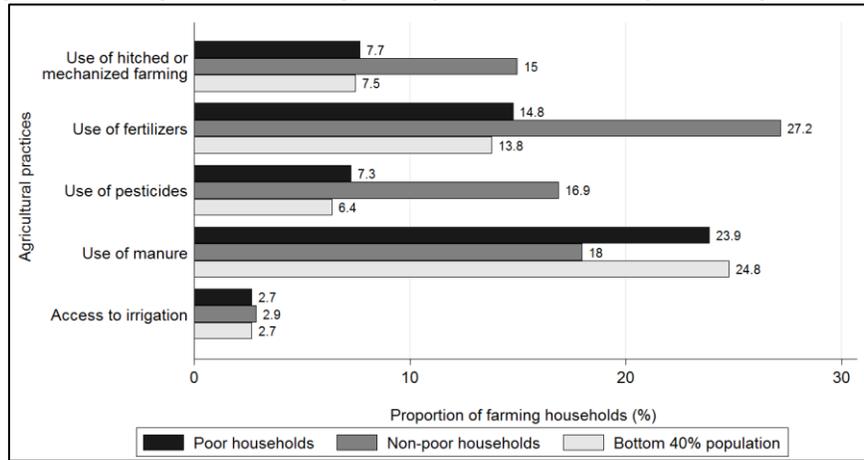
91. Ownership of sufficient farming land and cattle seems to ensure food safety and well-being for households.

The ownership of physical assets such as livestock and farming land is common in most households (poor and wealthy alike). However, wealthy households, as well as food-secure households, raise larger herds of cattle and have larger farming lands (Figure 17). These assets enable households to diversify their source of income. The sale or rent of livestock and farming land also can procure extra incomes for households. The role of farming land in income generation is evidenced by a significant positive effect on household consumption and farm household income.

92. Good agricultural techniques are necessary to increase household incomes.

Such techniques contribute to improving the productivity of the main crops, and include the use of fertilizers, access to irrigation, and hitched or mechanized farming. The use of these measures positively and significantly affects the capacity of households to generate farm income. Unfortunately, these practices are disproportionately benefiting the wealthier farm households as they are more likely to engage in modern agriculture (Figure 18). However, improved productivity does not guarantee an increase in incomes. A good infrastructure network to facilitate transport and access to markets is also essential to increasing household incomes.

Figure 18: Farming Households Using Good Agricultural Practices by Well-being Status, 2012



Sources: ELEP 2012; and authors' calculations.

III. Guinea's Growth Performance

93. Volatile macroeconomic performance is one the factors behind the slow rate of poverty decline in Guinea. In fact, historical growth trends in the country are marked by three economic cycles. These cycles have been influenced by an atypical post-independence history, a difficult political transition, significant political and economic instability, and a recent democratic transition whose hopes were curbed by the Ebola epidemic and low commodity prices. Although it employs half of the workforce, the primary sector accounts for less than 20 percent of GDP (17.6 percent in 2015), and it too is affected by low productivity. Economic growth has generally been driven by increased factor accumulation (labor and capital). However, negative total factor productivity (TFP) has hindered growth in recent decades. In comparison to Sub-Saharan Africa, the sectoral structure of the country has changed only marginally, indicating the low level of structural transformation.

3.1 Growth Trends¹⁵

94. Guinea has had persistently low, declining, and volatile growth rates. The country's GDP growth rate averaged 3.3 percent between 1987 and 2016, below the Sub-Saharan Africa average of 3.7 percent, as well as the averages for low-income countries (3.6 percent) and IDA countries (4.3 percent). The gap between Guinea and its comparators has widened over the past 20 years. For example, from 1998–2016, Guinea's growth rate declined to 2.7 percent from 4.3 percent in 1987–1997, whereas the rate for Sub-Saharan Africa and middle-income countries (as defined by the World Bank) increased to 4.6 percent and 5.2 percent, respectively. When converted into per capita terms, Guinea averaged a very low 0.6 percent in 1998–2016, about 1.2 percentage points lower than that of Sub-Saharan Africa, and 3.3 percentage points lower than that of middle-income countries. Guinea's economy is very vulnerable to changes in terms of trade and volatility with respect to global commodity and metal prices (Figure 19 and Figure 20).

Figure 19: Real GDP Growth

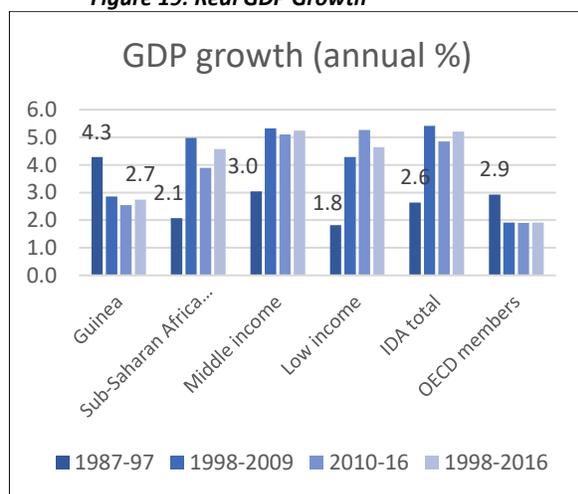
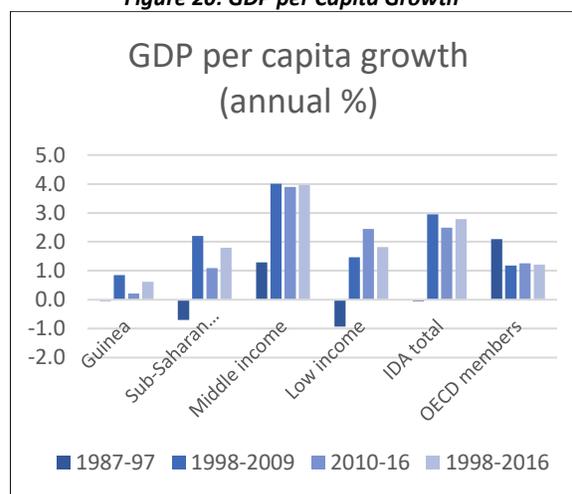


Figure 20: GDP per Capita Growth



Source: Calculations based on data from World Development Indicators.

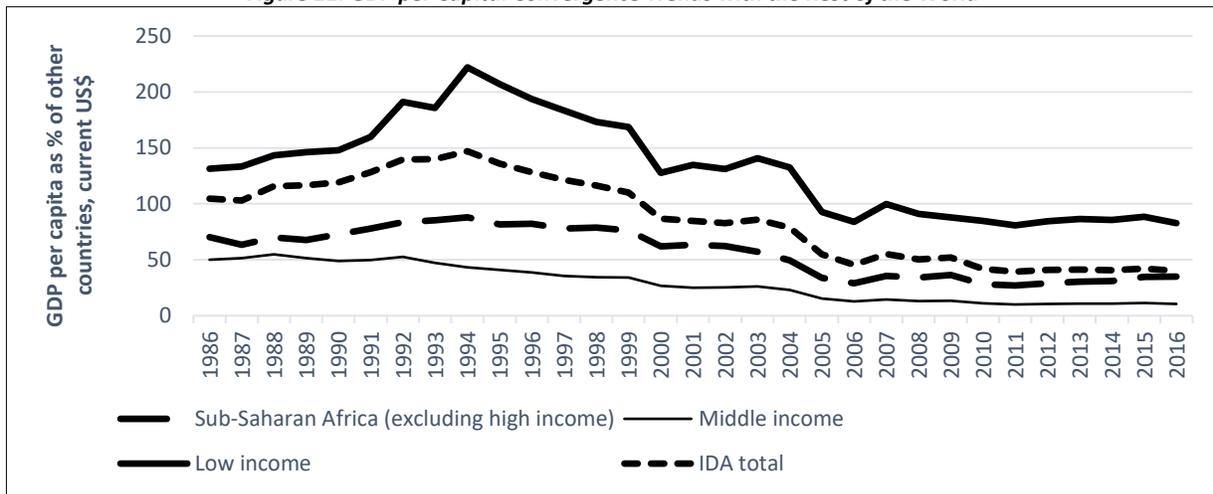
Box 2: Revision of the National Accounts Data

The National Accounts have been revised for 2006–15 following a change in the 1968 UN Systems of National Accounts (SNA) using the 1993 SNA methodology. This revision leads to an average upward adjustment of nominal GDP by 40 percent. However, the macroeconomic indicators used in this report will remain based on the old GDP series because this SCD covers a longer period than 2006–15. GDP rebasing is ongoing, with the transition to the 2008 SNA. The new household survey in 2018 will allow for the change in the base year.

¹⁵ Although the National Accounts data have been recently revised, the macroeconomic indicators used in this chapter are mainly based on the old series (see Box 2).

95. Guinea’s low GDP per capita growth has resulted in a divergence from Sub-Saharan Africa and middle-income countries. In 1986-1994, Guinea made strides in converging with other economies in Sub-Saharan Africa as well as with low-and middle-income countries (Figure 21). In 1994, Guinea’s GDP per capita income (in US\$ current terms) was equal to 43 percent of the average for middle-income countries and 88 percent of the average for Sub-Saharan Africa. In 2016, the same indicators decreased to 11 percent and 35 percent, respectively. Relative to low-income countries (as defined by the World Bank), Guinea has failed to achieve income convergence. In 1994, Guinea’s per capita income was 2.2 times higher than the average for low-income countries, and by 2016, it had declined to 0.8. Thus, rather than converging with the wealthier countries or even the low-income countries, Guinea has been diverging from them since 1994.

Figure 21: GDP per Capita: Convergence Trends with the Rest of the World



Source: Calculations based on data from World Development Indicators.

3.2 A Historical Perspective on Growth

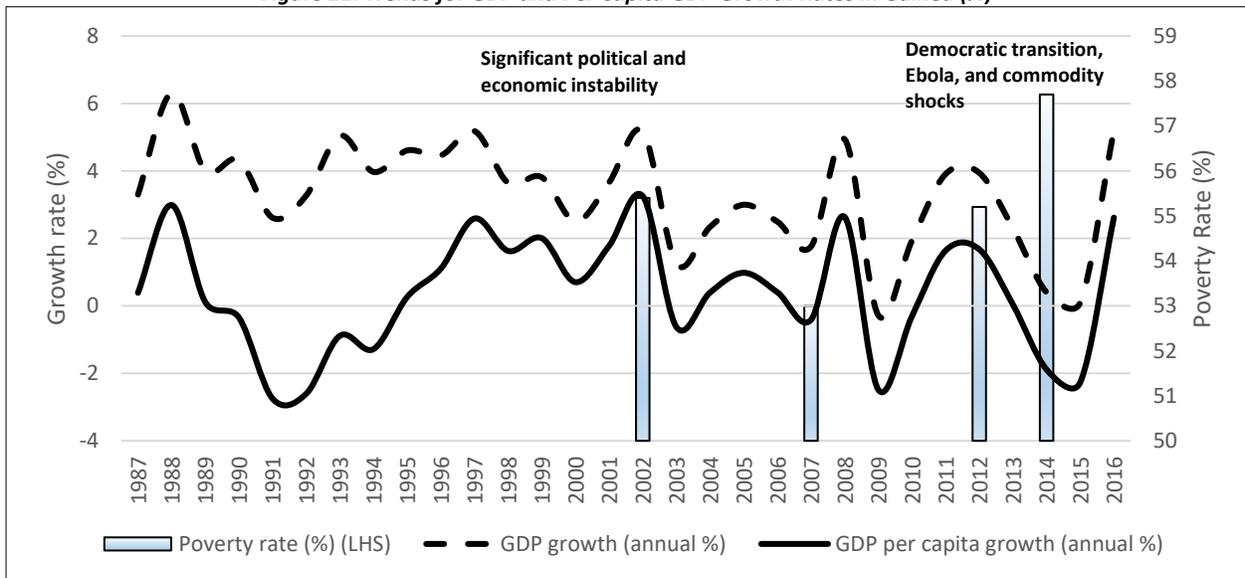
96. The country’s historical legacy provides a background for understanding the growth trajectory and fragile context of Guinea. France’s acrimonious departure left Guinea with a shortage of government staff, a lack of institutional memory and financing shortfalls. The regime of Sékou Touré lasted 25 years, beginning with Guinea’s independence from France in 1958 and lasting until 1984. These first decades of Guinea’s history as an independent country were marked by economic stagnation and an increasingly repressive one-party state. When the first national political fights emerged between the teachers’ union and the Touré government in 1961 (Pauthier 2016), the one-party state became increasingly controlling, embarking on a series of arrests and incarcerations. In the Guinean hinterland, this created fears and undermined any large-scale social movements for political change. This turbulent past left a fragile foundation for Guinea’s political and socioeconomic development.

97. The legacy of this period is still noticeable today because of its impact on Guinea’s institutions. Single party rule prevented the emergence of strong independent institutions, especially with respect to the bureaucracy and the judiciary. Touré merged the Democratic Party of Guinea and the government, creating a complex institutional structure with high levels of state interference, including a nation-building project with a socialist twist. The economic isolation which occurred after the French departure and the inadequate levels of Soviet and Chinese aid meant that Guinea’s socialist economy never attained high levels of productivity, and its economic development was rather sluggish (Camara and others 2014, 10). Poverty rates remained high at more than 70 percent in the early years.

98. After the downfall of the Touré regime, Guinea’s economy witnessed three cycles, coinciding with various political and economic reforms. The first growth cycle spanning from 1987-1997 was characterized by major economic and institutional reforms associated with an average GDP growth of 4.3 percent. Following a three-year-long difficult political transition, President Conté laid out his vision for the country’s reform agenda, focusing on currency devaluation, the creation of private commercial

banks, the dismantling of price controls, the implementation of initial privatization measures, and public administration reform. Civil service reform led to a halving in the number of civil servants from about 110,000 to 55,000, which helped to reduce public spending and the country's fiscal deficit. On the political front, a new constitution was approved in a referendum held on December 23, 1990, and the first multi-party presidential election held since independence took place on December 19, 1993 — albeit amid a major controversy.¹⁶ In the early 1990s, the government launched a decentralization process with the creation of rural development communities. All of these reforms, accompanied by favorable external events, contributed to a higher GDP growth over the period 1987–1997. Guinea reached a peak of GDP growth of 6.3 percent in 1988. As a result of the reforms, poverty declined, reaching close to 60 percent by 1995.

Figure 22: Trends for GDP and Per Capita GDP Growth Rates in Guinea (%)



Source: Computed based on data from the World Development Indicators.

99. The second growth cycle (1988-2009) was marked by significant political and fiscal instability, a slowdown in economic reforms, and lower growth. Guinea's average GDP growth fell to 2.9 percent during this period. In fact, it had experienced a gradual relaxation of fiscal balances since the late 1990s following President's Conte's death. In the early 2000s, the size of the public sector started to increase, with the number of civil servants exceeding 90,000 in 2009. As a result, the public-sector wage bill rose to 5 percent of GDP. A food crisis then added to the political tensions, as illustrated by the riots of May 2006 in Conakry over the price of rice and fuel. These riots result in about 20 deaths as security forces repressed the popular uprising. The share of military wages and salaries rose from 18 to 27.3 percent in the short period from 2007–2009. Following the President's death, Guinea went through a military regime led by Dadis Camara that took power in December 2008. The new regime abandoned fiscal control by mid-2009, leading to stagnant revenues and rising expenditures. The overall fiscal deficit rose to a cumulative 21.1 percent of GDP over the years 2009–2010, financed mostly by central bank and commercial bank credit. The Government also incurred external debt arrears. Inflation increased, international reserves fell, and the exchange rate depreciated rapidly. On September 28, 2009, opposition party members demonstrated in Conakry, demanding that Dadis Camara step down. The demonstration was repressed, claiming about 157 lives. In response, several regional and international organizations imposed sanctions on Guinea, which further isolated the country. During the last decade of this period, poverty was stagnant, ranging from 55.4 percent in 2002 to 53 percent in 2007 (Figure 22).

100. Guinea started its third economic cycle with the first democratic presidential election in 2010. This period opened a new window of opportunity for economic reforms. In 2010, Alpha Condé was elected President of Guinea for a five-year term. Several economic reforms were introduced by his

¹⁶ http://www.iri.org/sites/default/files/fields/field_files_attached/resource/guineas_1993_presidential_election.pdf

government, including the adoption of a new mining code in 2011, which clarified the “rules of the game” in the mining sector, thereby contributing to the attractiveness of Guinea by foreign investors. Macroeconomic reforms were undertaken under the International Monetary Fund (IMF) Extended Credit Facility (ECF) program. The country reached the Highly-Indebted Poor Country (HIPC) completion point in September 2012, which led to significant reductions of its external debt level and servicing costs. This in turn helped to create the fiscal space for pro-poor spending. Debt servicing payments exceeded 4 percent of GDP in 2008, but have fallen to below 1 percent of GDP since 2013. Likewise, following the HIPC completion point, Guinea started receiving budget support from its development partners. Condé’s regime also undertook reforms to boost the infrastructure and agricultural sectors. New roads were built across the country, and a new investment program for subsidized agricultural inputs was initiated. During this time, GDP steadily increased from a negative growth rate -0.3 percent in 2009 to almost 4 percent in 2012.

101. The promising economic recovery was abruptly interrupted by the multiple shocks of Ebola and falling global commodity prices. The combined impact of these shocks was brutal. Initially, political unrest in the context of legislative elections contributed to a decline in GDP growth from almost 4 percent in 2012 to just 2.3 percent in 2013. Then, the 2014–2015 Ebola pandemic had a strong impact on Guinea’s economy, leading to a loss of more than US\$600 million. This translated into zero real GDP growth in 2015, or 0.1 percent, as compared to a pre-Ebola forecast of 4.0 percent. The ensuing decline in commodity prices, including the price of Guinea’s main exports (bauxite, gold), further aggravated the negative impact of the Ebola crisis on the economy. In sum, the combination of purely domestic factors (political unrest) and unfavorable external factors (the Ebola crisis and declining commodity prices) delayed a promising recovery initiated in 2010 and supported by reforms. Poverty has worsened relative to 2002 levels, reaching 55.2 percent in 2012 and 57.7 percent in 2014 in the wake of the various commodity price and Ebola shocks.

102. The regional context is another key factor in understanding Guinea’s economic development path. Guinea has not been well integrated into West Africa’s regional economies. Its largest trading partners are outside the zone, with less than 10 percent of its exports going to neighboring countries. However, there are large informal cross-border links with neighboring countries. In this regard, the transmission of shocks from these countries, whether from Ebola or refugee populations, has been amplified in Guinea. Although it is not a member of the African Financial Community (CFA) franc zone, Guinea adheres to the five-slabs Common External Tariff (CET) of its neighbors. The potential for regional integration is substantial. Indeed, Guinea represents the natural gateway to the Atlantic Ocean for landlocked Mali, with the shortest distance between the port of Conakry and Bamako (about 1,000 km) as compared to other routes (for example, Dakar-Bamako is about 1,400 km). The main challenge to its regional integration has been poor transport and a lack of harmonization of customs systems with bordering countries. As a member of the Economic Community for West African States (ECOWAS), Guinea was a part of the Economic Partnership Agreement signed with the European Union (EU) in 2014. The Agreement allows for a market access concession of 75 percent tariff liberalization to Niger’s exports, and a 20-year transition period for the remaining share. Over time, if Guinea succeeds in diversifying its economy and ensuring the competitiveness of its exports, it will benefit from greater regional and global integration into the world economy.

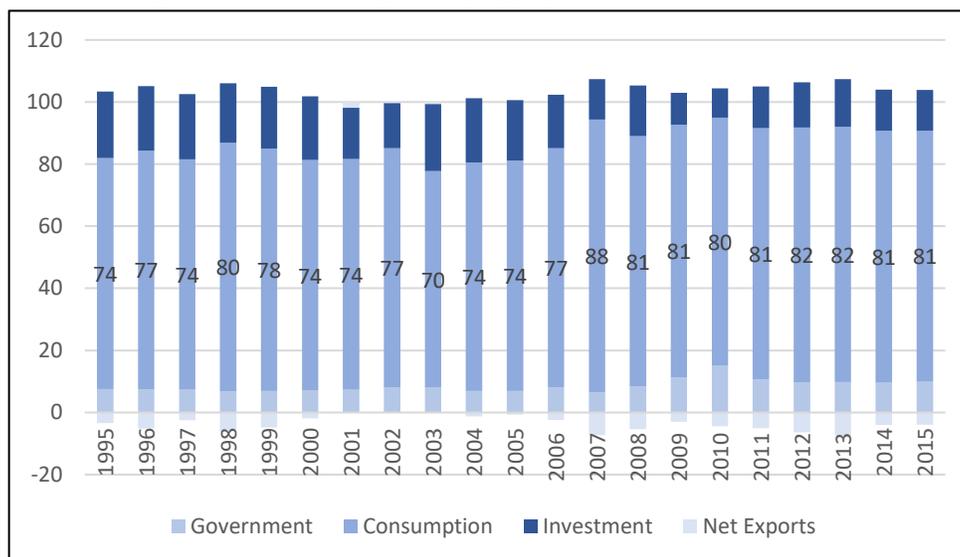
3.3 Growth Decomposition

103. On the demand side, private consumption has been the main driver of growth in Guinea (Figure 23). The share of private consumption has accounted for about 81 percent of GDP since 2008, an increase from 74 percent in 1995. Meanwhile, the contribution of net exports is low — despite its substantial mining exports. This is because the economy is heavily reliant on imports of food, capital goods for mining and non-mining, and consumer durables. The share of investment has been extremely low and declining from 21 percent to 13 percent of GDP growth during the same period.

104. The investment rate (gross capital formation) is very low in Guinea. In 2010-15, the investment rate was 14 percent, well below the 20 percent average for Sub-Saharan Africa (Figure 24). Total

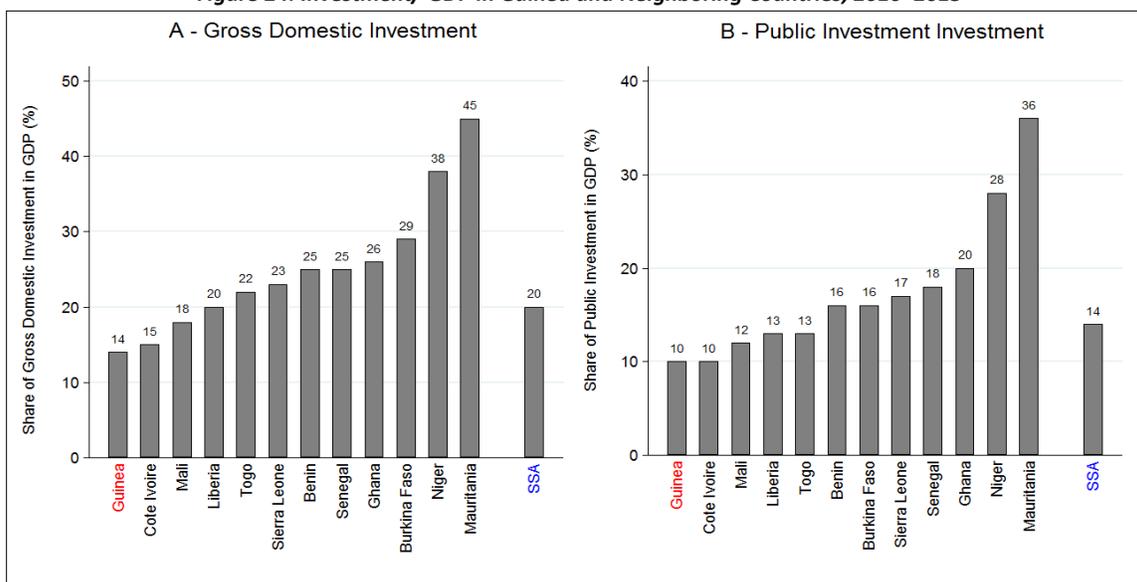
investment, defined as gross capital formation as a percentage of output, has been driven by public investment. Moreover, foreign direct investment outside of the extractives industry has been limited. One factor that explains the low investment rate is Guinea's domestic savings rate, which has declined from 5.7 to -9.7 percent of GDP, respectively, between 2008 and 2015.

Figure 23: GDP as a Component of Aggregate Demand, 1995–2015 (%)



Sources: Guinea National Statistics Institute; and World Bank calculations

Figure 24: Investment/ GDP in Guinea and Neighboring Countries, 2010–2015



Source: World Development Indicators

105. Mining, agriculture and services are key sectors for the Guinean economy. In 2015, the service sector accounted for 55.4 percent of GDP, followed by the industrial sector driven by mining (27 percent, including 10.6 percent for mining), and the primary sector (17.6 percent) dominated by agriculture (9.6 percent)¹⁷. Over the past two decades, the relative shares of agriculture and mining have remained roughly constant. However, they have been adversely impacted by external shocks, such as commodity prices and the Ebola pandemic.

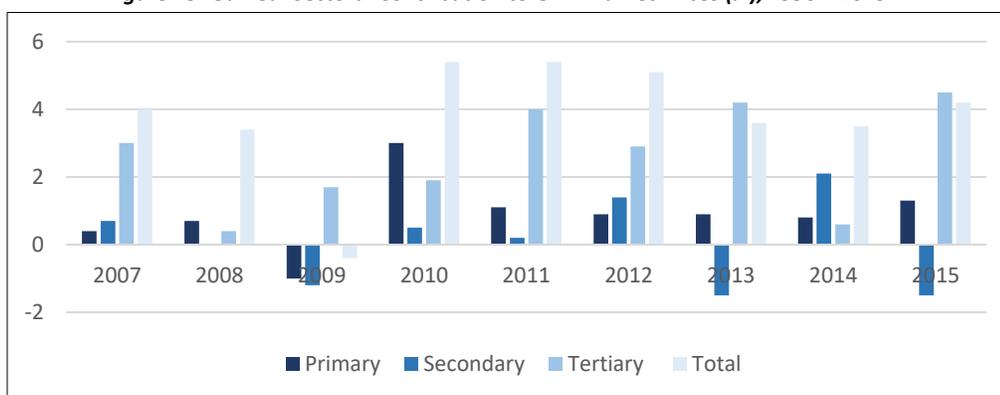
106. Guinea's mining sector is vital for its economy, serving as an important driver of output growth and exports. Mining generates 80 percent of export earnings, but employs less than 200,000 people (if artisanal mining is included). The country is a major exporter of bauxite, as well as gold and diamonds.

¹⁷ This is based on the Guinean Government's old GDP series.

Guinea’s bauxite export price declined from close to US\$40/ton in the early 1990s to less than US\$20/ton in the mid-2010s. Processed aluminum accounts for about 60 percent of Guinea’s exports and generates close to a fifth of its tax revenues. Despite the country’s enormous mineral wealth, the recent tightening of international raw materials prices and the proliferation of exemptions have led to a fall in mining revenues. Guinea’s potential for raising revenues from its mineral wealth increased with the 2011 mining code and stronger enforcement capacity of the authorities.¹⁸ Over the next decade, the country expects to attract more than US\$1 billion in foreign direct investment (FDI) inflows, especially in bauxite and gold.

107. Agriculture accounts for 10 percent of exports and 50 percent of employment, which underscores the potential role of the sector in boosting growth and improving the livelihoods of the population in rural areas. Its main subsistence crops are rice, manioc, sweet potatoes, and tams, with a limited number of cash crops, including bananas, pineapples, coffee, and coconuts. The manufacturing sector is very small, and includes food processing, manufactured goods and beverages. The sector accounts for less than 9 percent of GDP. Most manufacturing is concentrated around the capital. Finally, the service sector is a large and growing segment of the economy, with a focus on retail trade, construction, telecommunications, and finance.

Figure 25: Guinea: Sectoral Contribution to GDP Market Prices (%), 1996–2015



Source: Guinea National Statistics Institute.

108. Factor accumulation has been the main driver of growth since the mid-1980s. The growth accounting decomposition methodology allows for the differentiation of whether growth was achieved due to increases in factors of production (labor and capital) or whether it was due to a more efficient combination of resources to produce more output for a given input level. Figure 25 shows the decomposition of GDP growth into three sources: labor, capital stock¹⁹, and total factor productivity.²⁰ Labor, adjusted by education, has been the largest contributor to growth over the past 30 years. This is consistent with the expansion of the working age population. Capital accumulation has also played an increasingly important role over time.

¹⁸ In 2016, no bauxite exports have been processed into aluminum in Guinea. As an example of bauxite conversion, in 2014, Indonesia decided that its bauxite mineral production would no longer be exported as raw material; instead, it would be processed as alumina.

¹⁹Capital stock is calculated using the “perpetual inventory method”. Estimated annual capital stock is based on information regarding gross fixed capital formation (GFCF) and the depreciation rate of capital, where the initial capital stock was estimated using data on the initial GFCF, that is, a “steady-state” growth rate of output and rate of depreciation of capital. The average rate of depreciation of the capital stock was set equal to 3.6 percent per year based on data from the Penn World Tables— Version 9.0 (PWT 9.0). Data on total output, labor, and the GFCF come from the World Development Indicators. However, given the fact that the GFCF data from the WDI only span 2006-2015, the team extended the data backwards using the growth rates for GFCF from the UN National Accounts Database.

²⁰Following the conventional approach to growth accounting in low-income economies, the team set the income share of capital at 30 percent. However, the main conclusions from this analysis proved to be robust when using different values for capital’s output share.

109. The contribution of total factor productivity is declining, and reached negative levels from 2000-2015.²¹ In the 1990s, of the roughly 3.8 percent real GDP growth, labor and capital accounted for roughly 2.6 percentage points and 0.6 percentage points, respectively. TFP growth contributed 0.7 percentage points. However, negative TFP growth hindered economic growth during the 2000s and early 2010s by -0.7 and -1.4 percentage points, respectively. The dismal TFP growth in 2010-2015 was partly due to a sharper decline in TFP in the mining sector relative to the non-mining sectors. During the 2010s, TFP represented a drag on growth, although at a lesser rate when excluding the mining sector from the decomposition (Figures 26 and Figure 27). The decline in TFP attributed to mining partly reflects the sharp slowdown in investment in the mining sector that ensued after the unprecedented plunge in the prices of Guinea’s major export commodities, notably bauxite and iron ore.

Figure 26: Guinea: Sources of Growth

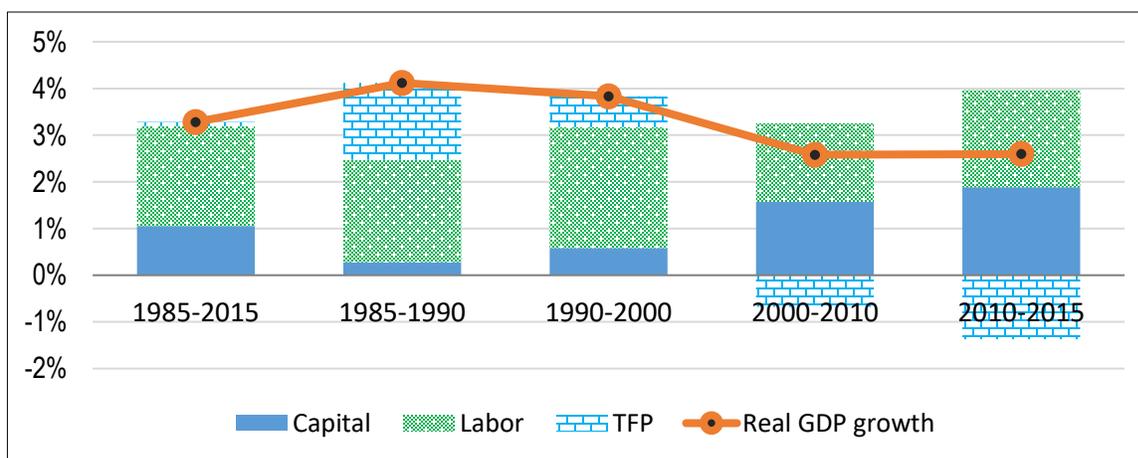
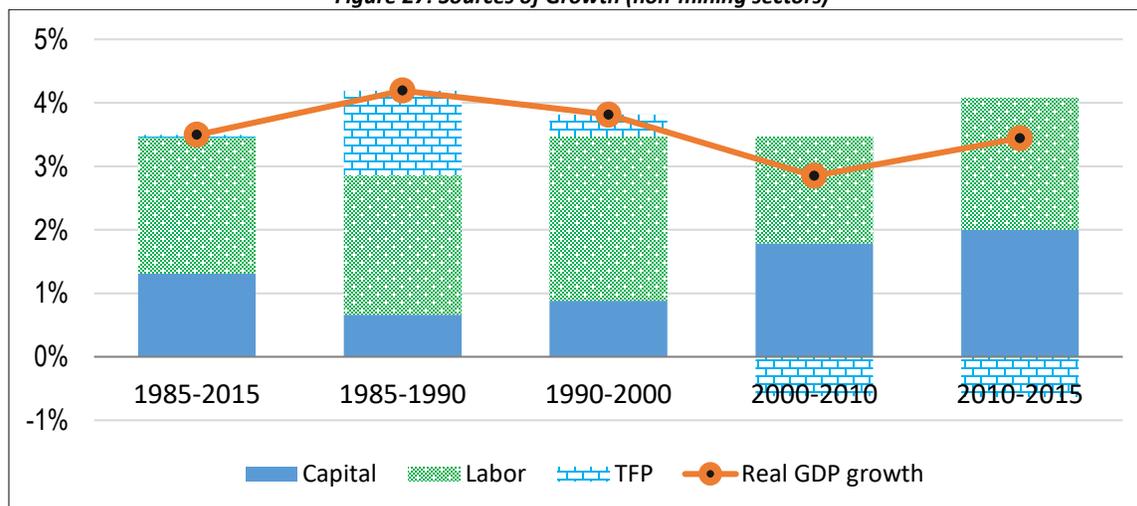


Figure 27: Sources of Growth (non-mining sectors)



Sources: WDI and Guinea National Statistics Institute.

3.4 Labor Productivity and Structural Change: 1994-2015

110. Compared to most countries in Sub-Saharan Africa, Guinea experienced only limited changes in its employment structure. However, the shift in its output structure was even less pronounced. Agriculture’s share of GDP was 21 percent in 1994 and 17.6 percent in 2015, with small fluctuations in the intervening years. The industry’s share of GDP accounted for 27 percent in 2015, and services for 55.4 percent. In terms of employment, agriculture’s share of total employment declined. Much of the

²¹This is consistent with the findings of Doumbouya and Camara (2007) that TFP growth was an important contributor to growth in the late 1980s and 1990s. Doumbouya, S., and Camara, I. (2007). “Explaining Economic Growth in Africa: The Case of Guinea.” In Benno J. Ndulu, Stephen A. O’Connell, Jean-Paul Azam, Robert H. Bates, Augustin Kwasi Fosu, Jan Willem Gunning, and Dominique Njinkeu, eds., *The Political Economy of Economic Growth in Africa, 1900-2000*. vol. 2. Cambridge: Cambridge University Press.

workforce shed by the agriculture sector ended up working in low-productivity and largely informal trade and distribution services. Guinea diverged from the well-trodden path of development (industrialization first and then deindustrialization in favor of services), and is now pursuing a distinct path whereby services play an increasing role in the economy. However, manufacturing has remained stagnant during this early stage of development.

111. Overall, the modest growth per capita was driven by labor productivity growth and favorable demographic changes. However, the lower employment rate constituted a drag on growth. Labor productivity, as measured in output per worker, grew by a total of 10 percent in the past two decades. Using disaggregated data, the Shapley decomposition of GDP per capita growth quantitatively examines the role of productivity growth within sectors and productivity gains between sectors (structural change) in accounting for aggregate labor productivity growth and GDP per capita growth.²² Labor productivity growth was driven for the most part by the *static* structural change and, to a lesser extent, by the within-sector productivity growth.

112. At the sectoral level, agriculture and industry experienced considerable productivity growth. However, labor productivity plunged in the services sector. This suggests that the marked expansion in the employment share of services was followed by a decline in the already low level of productivity. Productivity slowed in the mining sub-sector. Specifically, mining, finance, and transport posted the largest levels of labor productivity. Guinea's economy is generally characterized by the sheer absence of labor movement into the high-productivity and dynamic sectors. The sector with the lowest labor productivity, agriculture, saw the largest relative loss in employment. However, labor predominately moved to the low-productivity service activities.

113. A more detailed sectoral decomposition using employment data for 2010-2015 shows low productivity findings. However, a significant productivity gap across sectors indicates the potential for growth through structural change. Agriculture typically has the lowest labor productivity (Figure 28). Productivity in manufacturing is roughly 15 times higher than productivity in agriculture, and productivity in construction is almost 8 times larger. Workers specialized in finance, on average, produced 25 times more than their agricultural counterparts. Productivity gaps across these sectors indicate the presence of allocative inefficiencies that reduce economy-wide productivity. However, these can be turned into a key engine for growth through the enactment of productivity-enhancing structural change. In this regard, the manufacturing-agriculture productivity ratio in Guinea is much higher than the African average of about 2.3 (McMillan and others 2014).²³

114. In general, labor productivity growth in Guinea has been mostly due to static structural change and, to a lesser extent, to within-sector productivity growth. Figure 29 disaggregates labor productivity growth into within-sector productivity changes and structural change (as well as its static and dynamic subcomponents). Static structural change contributed approximately 12 percentage points of the 10 percent labor productivity growth during 1994-2015, and within-sector productivity changes accounted for -1.2 percentage points. However, disaggregation by sector reveals that the overall negative within-sector productivity growth was mostly due to the sharp productivity decline in services activities. Other sectors, notably industry and agriculture, registered stronger productivity gains. Economic growth in

²² The Shapley decomposition first computes the marginal effect of per capita growth on output. It utilizes the sequential elimination of each of the contributory factors, and then the growth contribution of each factor is derived as the average of its marginal contributions in all possible elimination sequences. In other words, the growth contribution of a variable is interpreted as its impact on output per capita growth — had the remaining contributing factors remained unchanged. The data used value added and employment data covering 1994 and 2015 for the major sectors (agriculture, mining, industry, and services). The value-added data come from the World Bank's African Development Indicators, and the data on sectoral employment were obtained from the National Statistical Office of Guinea.

²³ Economic growth occurs due to either productivity improvements within-sectors or resource reallocation from low- to high-productivity level activities or both. Whereas the first case requires a steady accumulation of fundamentals (physical capital, skills, and institutional capabilities) and technological change, the second requires a reduction of allocative inefficiencies through the speedy movement of resources to sectors operating at higher productivity levels. It is noteworthy, however, that both processes are not mutually exclusive and can reinforce each other. See Rodrik (2014).

Guinea was driven by productivity growth and favorable demographic changes — although the lower employment rate constituted a drag on overall growth.

Figure 28: Labor Productivity by Sector (2010 versus 2015)

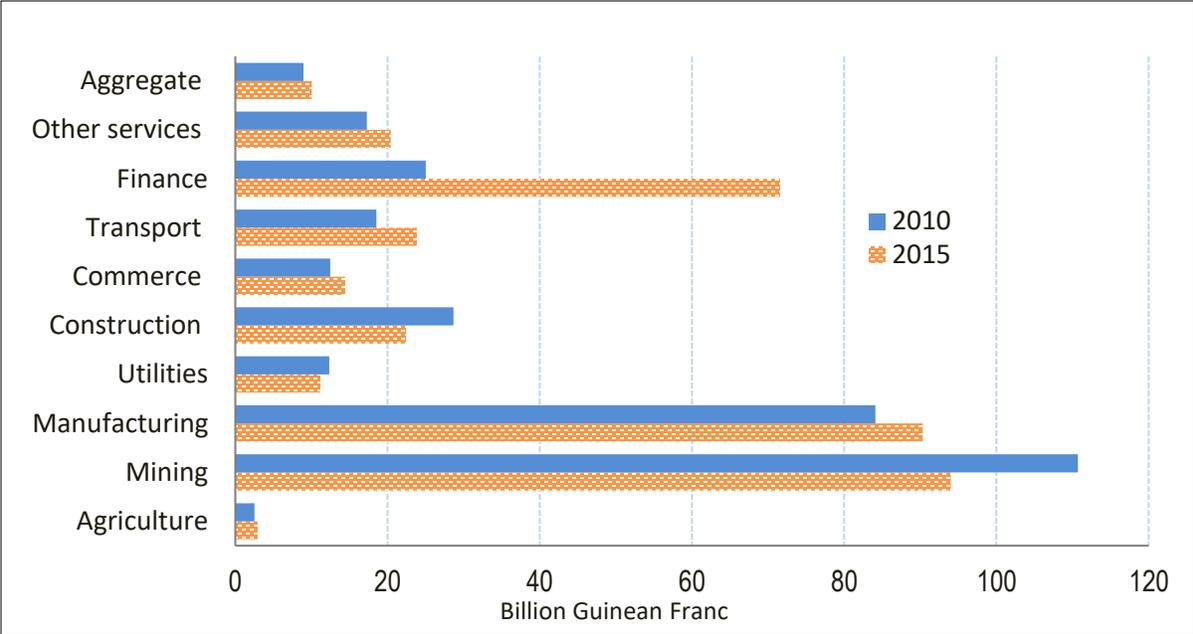
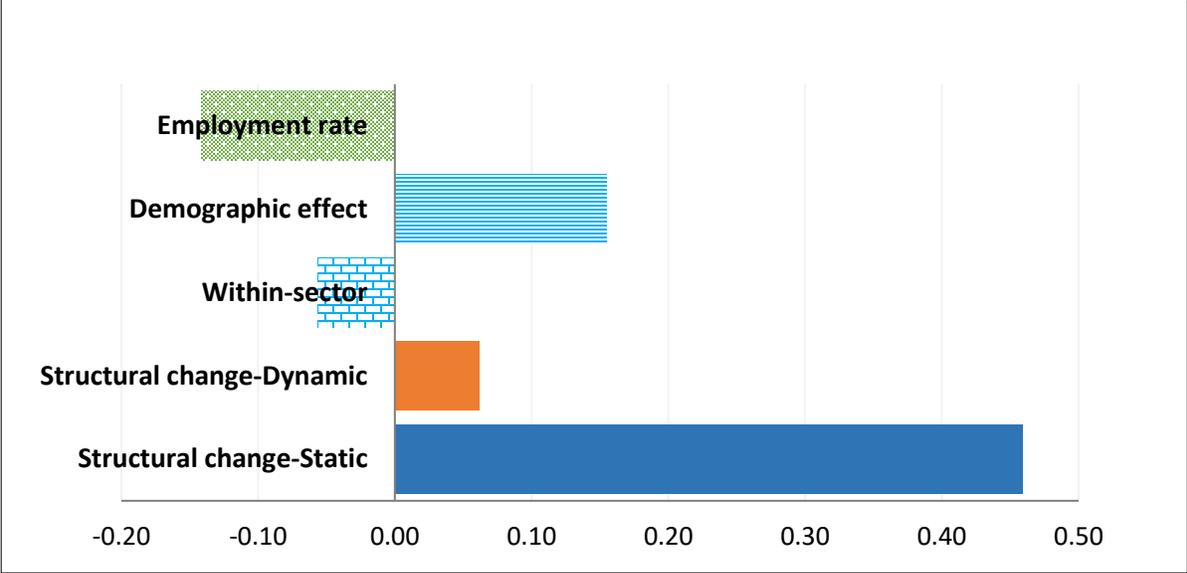


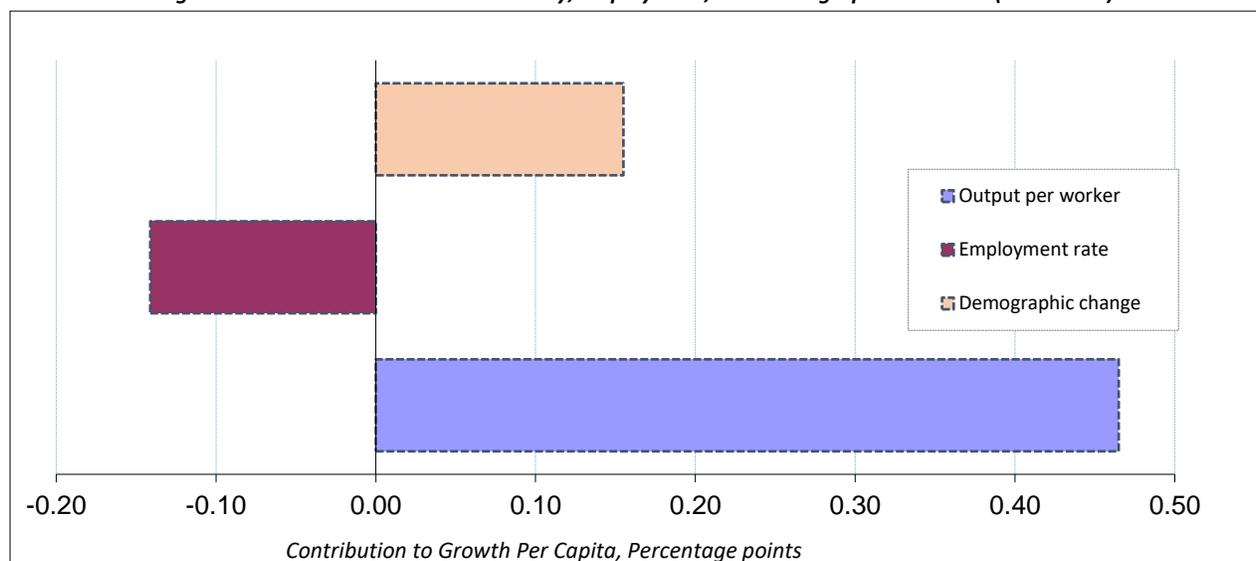
Figure 29: Shapley Decomposition of GDP per Capita Growth, percentage points (1994-2015)



Sources: WDI and Guinea National Statistics Institute.

115. Real GDP per capita growth is linked with changes in labor productivity, the employment rate, and the country’s demographic structure (Figure 30). The results indicate that about 97 percent of the roughly 11 percent increase in GDP per capita during 1994-2015 can be accounted for by increased labor productivity. Demographic changes made a strong contribution, with about 32 percent of the observed growth, suggesting that fewer dependents per working age adult (lower dependency ratio) led to an increase in output per capita growth. These gains were offset by a negative impact from the lower employment rate, implying that the moderate economic growth in the last decade was ‘jobless’.

Figure 30: Growth in Guinea: Productivity, Employment, and Demographic Structure (1994-2015)



Source: WDI and Guinea National Statistics Institute.

3.5 Future of Guinea’s Growth

116. To determine whether Guinea can continue on its path of accelerating growth, a long-term growth model (LTGM) was built in collaboration with the World Bank’s Development Economics (DEC) Vice Presidency. The model was developed by DEC’s Research Group to analyze alternative GDP growth trajectories and their effect on the poverty headcount rate. The growth model, developed in the spirit of Solow (1956) – Swan (1956) growth models, analyzed alternative public investment, GDP growth trajectories, and poverty impact. The extended version of the model captures the growth-investment-poverty link. It also allows for the identification of the required public investment rate (investment to GDP ratio) to achieve a target GDP growth, given the TFP growth rate and other growth fundamentals. The model finds that it will be important for Guinea to accelerate the pace of its public investment.

117. Six simulated scenarios in two categories were conducted. The first and second category of simulations were run under the assumptions of a 5 and 7 percent constant headline GDP real growth rate by 2020, respectively. For each category of simulations, a baseline and two alternative scenarios were considered, depending on the TFP growth rate. Across all alternative scenarios, the paths of the poverty rate were identical because the assumed growth rates are identical. Moreover, for all simulations, the human capital growth rate was assumed as constant at one percent.

118. The results of the simulations reveal several findings. First, in the baseline scenarios with a stagnant TFP, the required investment to achieve the targeted GDP growth rates increases substantially and becomes unrealistically high. This suggests that without an increase in TFP growth, achieving either a 5 or 7 percent GDP growth rate would be difficult given the required investment. Second, different GDP growth rates would generate different paths toward determining the poverty headcount rate. A constant 5 percent GDP growth rate would generate a reduction of the poverty headcount rate (defined

at US\$1.9 per day, 2011 purchasing power parity [PPP]) from 36 percent in 2015 to 33 percent in 2020. Over the same period, maintaining a constant 7 percent GDP growth would reduce the poverty rate from 36 percent in 2015 to 29 percent in 2020.

119. Overall, the simulation results suggest that given the current situation of the Guinean economy, the most plausible scenario is the one that would require a 15 percent investment rate for achieving a 5 percent GDP growth rate by 2020. Indeed, by 2020, Guinean authorities are planning to undertake several infrastructure projects that would generate, on average, about 15 percent of annual public investment, A similar result has been found in a recent paper prepared by IMF staff in the context of the Article IV review for Guinea (Chary and others 2016).²⁴ The government has prioritized the electricity sector, and discussions for the construction of the Souapiti hydropower dam (450 MW) are well advanced. Dam construction is expected to be completed by 2021.²⁵

²⁴ The paper applies to Guinea. The model developed by Buffie and others (2012) analyzes alternative public investment trajectories and their effects on growth, debt sustainability, and fiscal adjustment. One of the paper's conclusions is that Guinea would benefit from a scaling-up of public investment (about 2-4 percent of per capita GDP growth for a 15 percent of public investment rate over the period 2017-21).

²⁵ An Engineering, Procurement and Construction (EPC) contract was signed in January 2016 between a Chinese company, China International Water and Electric Corp (CWE), and the Government of Guinea to build the Souapiti dam. Under the terms of the EPC contract, CWE is responsible for the engineering, procurement and construction activities, and will hand the project back over to the Government of Guinea at the end of the project. The Souapiti project amounts to US\$1.382 billion, of which 15 percent of the financing would come from the Government in the form of equity. The remaining 85 percent would be funded through a commercial loan from China's EXIMBANK. The equity component would be funded from a sale of the State's stake in Kaleta (a 240-MW hydroelectric dam constructed by CWE in 2015), possibly to CWE. Preliminary discussions on the terms of the 85 percent remaining financing include a 20 year-maturity, 2 percent interest rate and 5 year-grace period, with a 22.7 percent grant element.

IV. Analytical Framework for Identifying Constraints

120. This SCD addresses the question of key constraints faced by Guinea in sustainably accelerating progress in poverty reduction and shared prosperity. Given that growth was low and volatile during the past two decades, resulting in stagnant or even increased poverty, answering this broad question requires a country-specific response to the following three interlinked sub-questions:

- i) What are the main challenges that prevent Guinea from achieving substantial economic growth and escaping from its low equilibrium growth stasis?
- ii) How should it make economic growth sufficiently inclusive even in the absence of a high growth rate? and
- iii) What factors could jeopardize a sustainable process of economic growth and poverty reduction?

The analytical framework (Figure 31) provides the basis for a diagnostic of growth and poverty reduction in Guinea. In this context, the SCD uses a six-step process to identify binding constraints.

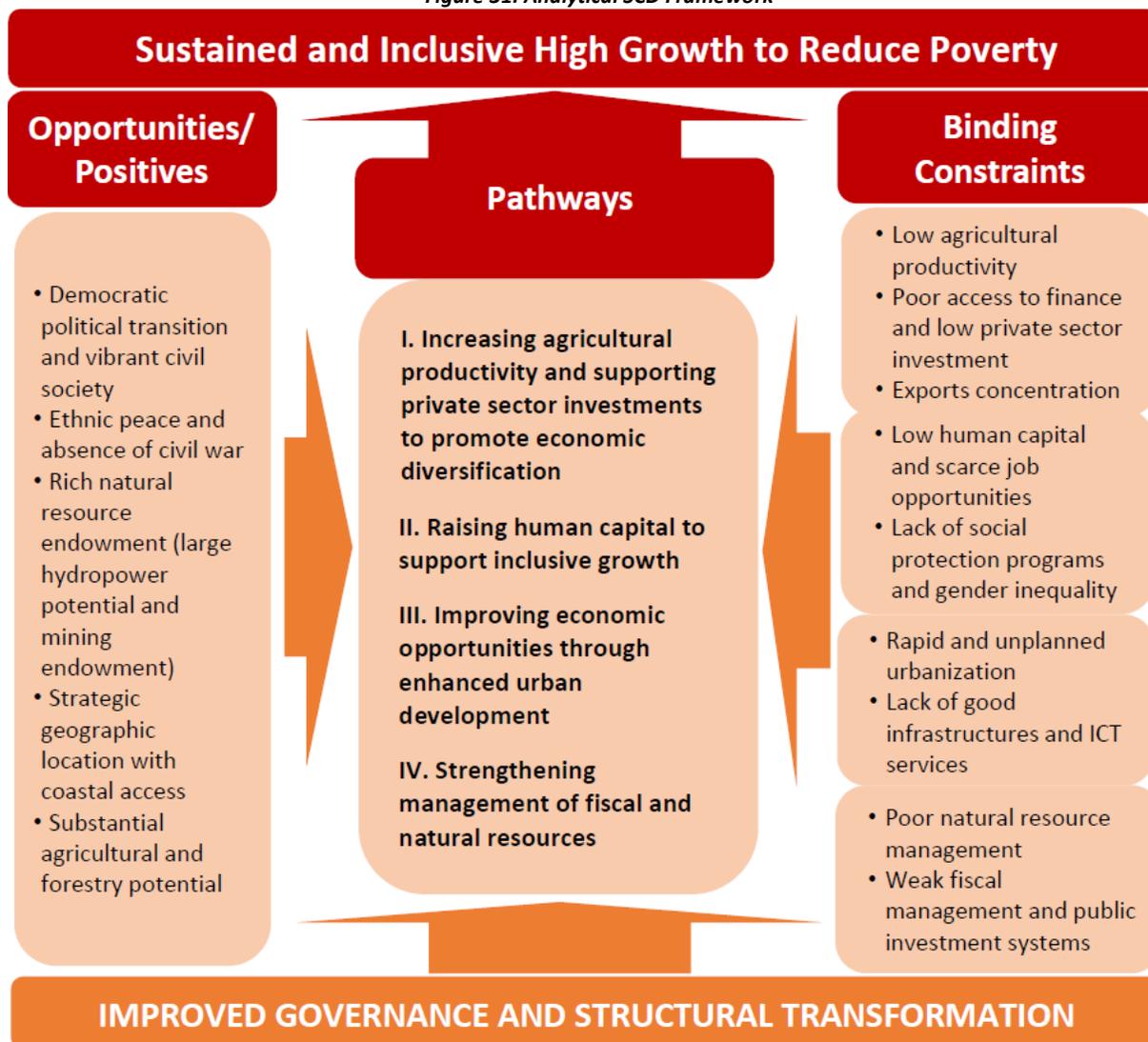
1. A **broad range of constraints to economic growth** was identified based on analysis of the macroeconomic story, HRV growth analytics, expert views, and available empirical evidence.
2. A parallel exercise was conducted to determine the general **constraints to inclusion and sustainability** using poverty analysis and a fragility assessment.
3. **Two central explanations** anchored the constraints based on a deep analysis into the key areas.
4. These explanations were tested through **stakeholder consultations** and field visits to two cities – Labe and Kindia.
5. A **cross-country benchmarking exercise** followed with a group of comparators to be able to gauge where the country's differences lie.
6. Pathways were defined, and reforms prioritized based on their impact on growth and inclusion, stakeholder views, and technical and political feasibility; these were then consolidated into **four critical pathways**.

121. The overview of Guinea's context and diagnostic suggests that despite major opportunities — including hydropower potential, large mining endowments, and significant potential in the agriculture and forestry sectors — various constraints may have impeded growth, inclusion, and sustainability. This is underpinned by the fact that growth has been very low due to the weak development of the private sector. Growth has also been unsustainable because of the high volatility caused by the poor political economy performance, along with internal and external shocks. The incidence of poverty has remained high and concentrated in the agricultural population, with steady growth in the number of poor in both the urban and rural areas. Moreover, rural-urban migration has resulted in a transfer of the poor to the cities, with a rate of increase in the number of urban poor that is now twice as high as that of the rural poor. To overcome extreme poverty and promote shared prosperity, it will be necessary to address not only the constraints to growth, but also the main constraints that prevent growth from becoming more inclusive and sustainable. To achieve this objective, two hypotheses emerge will be examined.

122. The first explanation is that poor political and economic governance is at the center of Guinea's development difficulties, leading to mismanagement of natural resources, institutional fragmentation, and low and ineffective public investment. This hypothesis is partly derived from growth and institutional theories that underline the critical role of institutions in development. In fact, the absence of sound institutions has been evidenced as a major cause of Africa's slow economic growth. Governance indicators also suggest that Guinea is doing poorly based on international comparisons. Indeed, inclusive economic institutions proved to be a great engine of prosperity, given their ability to create inclusive

markets, stimulate technological innovation, and improve education by investing in people.²⁶ Acemoglu, Johnson and Robinson (2001) showed the importance of the quality of institutions inherited from colonial powers as an element of a country's current development. More specifically, according to the authors, in former extractive colonies (that is, those rich in natural resources, such as Guinea), the former colonial powers developed weak institutions (weak property rights institutions, and an absence of checks and balance) to extract resources from these colonies.

Figure 31: Analytical SCD Framework



123. This explanation is rooted in Guinea's economic and political heritage. Not only was the country a former extractive colony, but the former colonial power left the country hastily. Such a departure meant that there was only a short transition time in which to build the basic institutions needed to master the system left by the former colonial power.²⁷ Moreover, the regimes that ruled the country until 2010 were authoritarian regimes that preserved their powers through allocation of public resources to their supporters— an obstacle to the creation of a true political multi-party system. Such a political and

²⁶ Acemoglu, D. and J. A. Robinson (2012), *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, Crown Publishers, New York.

²⁷ Moreover, the then French Governor of Guinea (later to become Prime Minister under de Gaulle), revealed that the country was deliberately abandoned to suffer the consequences of its decision of turning down the *Communauté franco-africaine* to pursue independence; he personally gave specific orders for the speedy withdrawal of all French personnel (within two months), and the re-routing of two rice cargo shipments and several billion newly-printed CFA francs from Conakry to Dakar. See Pierre Messmer, *Après tant de batailles* (Paris, 1992), pp. 240-2.

economic environment was unfavorable for private business growth. In effect, former Guinean governments delegitimized the country's institutions, including its political and economic systems, and never enforced clear rules of the game for foreign investors. Such a “social contract” still prevails despite efforts to modernize.

124. The second explanation is that the low levels of structural transformation²⁸ are affected by unproductive agriculture and poorly planned urbanization. This hypothesis combines the “pull” of the city with the “push” of agriculture to explain some of Guinea’s current malaise. The process of structural transformation usually involves changes in the agricultural sector. In fact, agricultural growth is expected to stimulate growth through higher productivity in non-farm sectors by driving structural transformation and industrialization.²⁹ Any resulting structural transformation may reduce structural heterogeneity by helping to narrow productivity differences between sectors.³⁰ Moreover, an inclusive structural transformation will enhance participation by the poor and vulnerable in the growth and development process, thereby fostering social inclusion. Despite the country’s high agricultural potential, such change has not taken place in Guinea. The sector still accounts for only 20 percent of GDP but involves over 70 percent of the population. Agriculture is largely dependent on rainfall and is of the extensive type, with low use of inputs, resulting in low agricultural productivity. Leveraging agriculture would help improve health and nutrition through crop diversification. Beyond achieving Sustainable Development Goal 2, which aims to “end hunger, achieve food security and improved nutrition, and promote sustainable agriculture,” this pathway is important in achieving many other SDGs. Once transformation is accompanied by an improvement in human capital, it will increase opportunities for poor people to generate greater farm as well as non-farm incomes.

125. Sustainable urbanization has, thus far, not been a vehicle for economic and social transformation.³¹ Urbanization may well have a potential number of positive implications, including sustainable social, economic, and environmental transformation. However, this potential will materialize only if “the transition of rural to urban landscapes structure both the rural and urban economy, the ecology, and ultimately society in ways that reward the present generation with higher quality of life without endangering and diminishing the living standards of future generations.”³² By contrast, the negative implications of the rapid and unplanned urbanization seen in Africa—including Guinea—take the form of rising unemployment, rapid increases in the number of the urban poor, unsustainable land development, and increasing vulnerability and insecurity.³³

126. This SCD draws on a wide range of recent analytical work to assess Guinea’s future economic prospects. The report uses various World Bank sector studies, analytical pieces, and reports. It is also based on background analyses commissioned by different sectors. It is also in conformity with the latest Government development plan. This diagnostic draws on a wide array of data and analytical sources. These include household surveys, agricultural census surveys, formal and informal firm surveys, impact evaluation data, third-party indicators of policy performance, aggregate outcome data, press reports, sector-specific indicators, reports, research, and interviews.

²⁸ Structural transformation is the process by which an economy shifts from producing low-productivity, low-skilled goods to producing high-productivity, high-skilled goods through technology. It can achieve this by learning from fast-growing countries and introducing niche products.

²⁹ Lin, J. Y., Monga, C., and S. Standaert (2016), “The Inclusive Sustainable Transformation Index,” NSE WP Series No 1.

³⁰ UNCTAD (2014), *The Least Developed Countries Report 2014. Growth with structural transformation: A post-2015 development agenda*, United Nations, New York and Geneva.

³¹ UN-Habitat (2016), *Structural Transformation in Developing Countries: Cross-regional Analysis*, United Nations Human Settlements Program, Nairobi.

³² UN-Habitat (2016), *Urbanization and Structural Transformation*, United Nations Human Settlements Program, Nairobi.

³³ Cobbinah, P. B., Erdiaw-Kwasie, M. O., and P. Amoateng (2015), “Africa’s urbanisation: Implications for sustainable development”, *Cities*, 47: 62–72.

Box 3: Cross-Country Benchmarking and Diagnostic Framework

One important element of this SCD is the benchmarking process designed to provide greater rigor to the approach. The SCD will shortlist priority areas where action over the next 4–6 years can support faster eradication of extreme poverty, as well as the quicker promotion of shared prosperity. Benchmark countries that mirror conditions in Guinea will be selected according to a pre-determined set of structural variables. To evaluate Guinea's performance relative to countries with similar natural endowments, the SCD utilizes five tentative peer countries as comparators.

Burkina Faso, Mali, Nepal, Senegal, and Zimbabwe were chosen based on the following characteristics: Low-income and low Human Development Index (HDI); agricultural dependence; population lower than 40 million; high commodity share of GDP; and a minimum level of exports. It removed countries that had less than 16 percent exports with the world (that is, at a very low rate and showing no integration). A further benchmarking involving a comparison with Guinea's current performance against its own historical performance will be undertaken.³⁴

³⁴ The indicators are derived mainly from the WDI, the WGI, and World Economic Outlook (WEO) databases in combination with the Find-My-Friends tool developed by Faya Hayati.

V. Constraints to Achieving Shared Prosperity and Poverty Reduction

127. The growth performance diagnostic indicates that poor political and economic governance lie at the center of Guinea's development difficulties. Governance issues largely help to explain why growth has stagnated so much, while poverty rates have not improved during the past decades. In fact, this major constraint has led to ripple effects that have prevented the country from achieving sustained economic growth and poverty reduction. These also include the fragile political and social compact, and ineffective public investment. However, governance may have impacted structural transformation. Various factors — including unproductive agriculture; low investment in the private sector; weak human capital; lack of access to basic services; poorly managed urbanization; and poor fiscal and natural resources management — have all prevented structural transformation from taking place. Several binding constraints — including, but not limited to, the low use of agricultural inputs, a lack of infrastructure, poor skills, and low access to finance — also help to explain the lack of structural transformation.

5.1 Cross-Cutting Issue: Governance

5.1.1 How poor is the governance?

128. Weak governance is a cross-cutting constraint that hinders Guinea from achieving sustained inclusive growth. All stakeholders interviewed for this SCD unanimously pointed out to weak governance as a key developmental constraint in Guinea. This is confirmed when ranking Guinea against comparator countries and the average for Sub-Saharan Africa across various governance indicators, such as the Mo Ibrahim Index of African Governance, the Worldwide Governance Indicators (WGI), and the Country and Policy Institutional Assessment (CPIA). According to the Mo Ibrahim Index of African Governance, the country's overall score of 43.3 in 2016 is significantly below both the West Africa regional average (52.4) and the Sub-Saharan Africa average (50). In many key categories, it is lower (Figure 32). Low CPIA scores on public sector management and institutions show that progress toward achieving the country's development objectives and the delivery of public services in Guinea is hampered by the public administration's limited capacity. Specifically, this refers to "property rights and rule-based governance", and "transparency, accountability and corruption in the public sector". Guinea ranked below the 25th percentile for all Worldwide Governance Indicators, except for political stability and absence of violence or terrorism. The indicators of Rule of Law, Government Effectiveness, and Control of Corruption are ranked below the 15th percentile, indicating major challenges in these areas. Among these dimensions of governance, at least two have been related empirically to growth according to international studies. One governance dimension concerns Control of Corruption, generally defined as "the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests".³⁵ The other dimension is Government Effectiveness, which is the quality of public services, the degree of independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. This score declined to the 9th percentile (from the 11th percentile) in 2012, before improving again in 2015 to the 12th percentile.

³⁵ Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi. "The Worldwide Governance Indicators: Methodology and Analytical Issues." *Hague Journal on the Rule of Law* 3.2 (2011): 220-246.

Figure 32: Mo-Ibrahim Index of African Governance, 2016

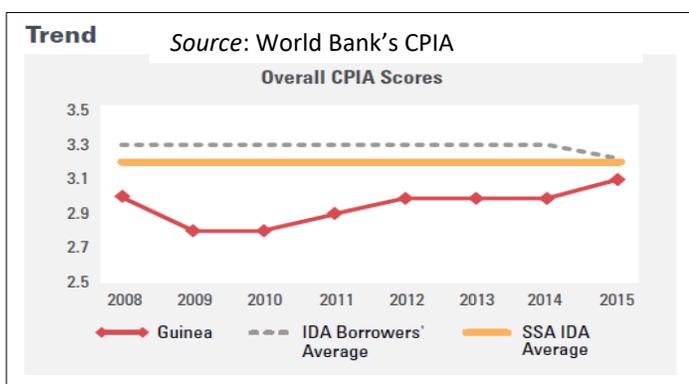
SAFETY & RULE OF LAW	PARTICIPATION & HUMAN RIGHTS	SUSTAINABLE ECONOMIC OPPORTUNITY	HUMAN DEVELOPMENT
SCORE/100 49.5	SCORE/100 47.6	SCORE/100 30.8	SCORE/100 45.3
AFRICAN AVERAGE 52.1	AFRICAN AVERAGE 50	AFRICAN AVERAGE 42.9	AFRICAN AVERAGE 55
CHANGE SINCE 2011 -0.2	CHANGE SINCE 2011 -1.3	CHANGE SINCE 2011 -2.4	CHANGE SINCE 2011 +2.3
RANK /54 36	RANK /54 32	RANK /54 43	RANK /54 46

Source: Mo-Ibrahim Index of African Governance

129. When governance is measured using the CPIA, Guinea ranks below the average for Sub-Saharan Africa and all IDA countries.

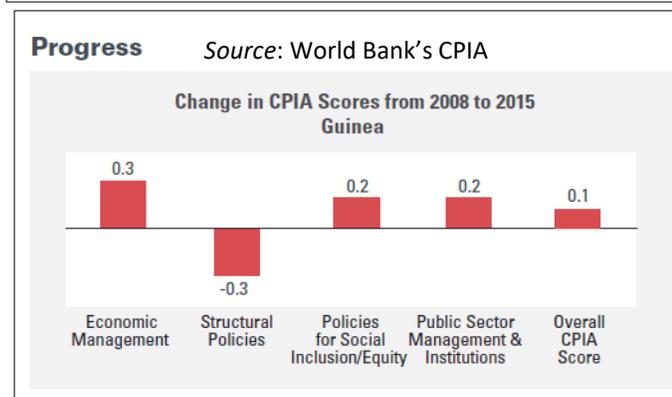
Between 2008 and 2015, Guinea’s CPIA score improved by 0.1 to reach 3.1 in 2015 (Figure 33). The overall score has been increasing over time. Guinea’s CPIA score is particularly low on financial policy, which has an overall adverse impact on the country’s structural policy score. Similarly, relatively low scores on gender equality, social inclusion and equity show that obstacles to the goal of shared prosperity still need to be overcome.

Figure 33: Country and Policy Institutional Assessment (CPIA) 2008-2015



130. Guinea’s governance problems are present at both the upstream and downstream levels of governmental functions.

Public sector performance problems are very likely detrimental to achieving development outcomes.³⁶ As shown in Figure 33, bottlenecks are found at both levels and are cross-sectoral in nature. In particular, the areas of public financial management (PFM), public investment management (PIM), procurement, human resource management of civil servants, and state-owned enterprises (SOEs) have deficiencies that affect service delivery across various sectors (for example, education, health, electricity).



131. According to the Transparency International – Corruption Perception Index 2016, Guinea has a score of 27/100³⁷, and ranks 142 out of 176 countries.

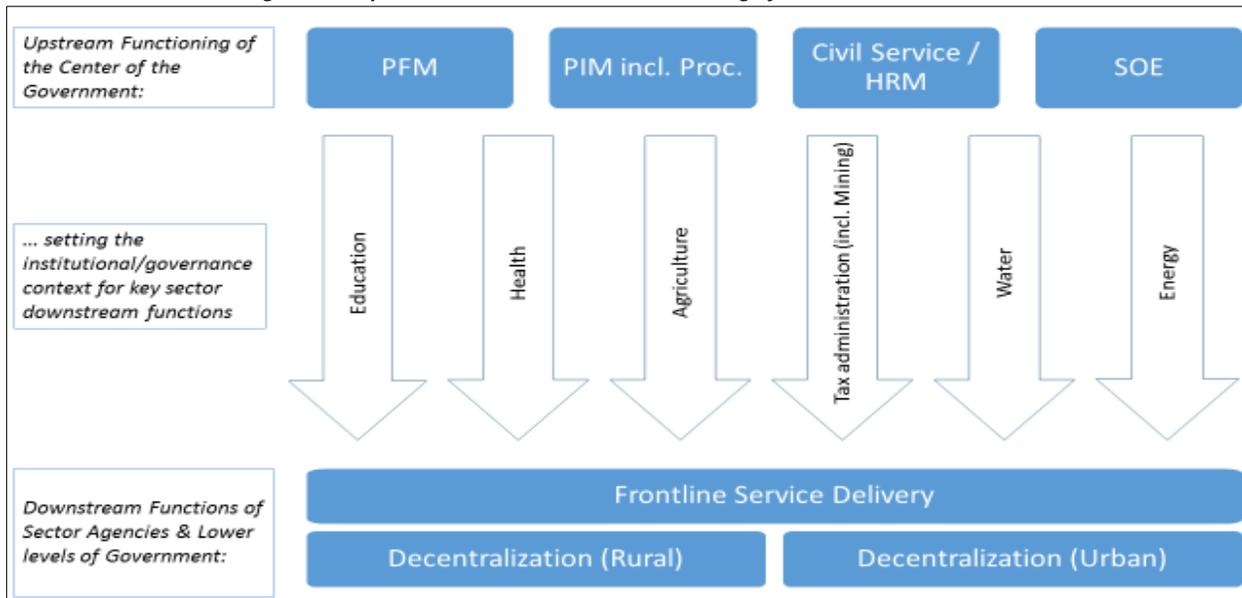
The global average score is 43, and Guinea is placed well below a desirable outcome. According to the authors of this index, “The lower-ranked countries in our index are plagued by untrustworthy and badly functioning public institutions like the police and judiciary. Even where anti-corruption laws are on the books, in practice they are oftentimes skirted or ignored. People frequently face situations of bribery and extortion, rely on basic services that

³⁶ The World Bank’s Approach to Public Sector Management 2011-2020: “Better Results from Public Sector Institutions,” Washington DC, 2012.

³⁷ On a scale of 0 (highly corrupt) to 100 (very clean).

have been undermined by the misappropriation of funds, and confront official indifference when seeking redress from authorities that are on the take.”³⁸ According to the last round of the Afrobarometer perception survey, in response to the question: "In your opinion, over the past year, has the level of corruption in this country increased, decreased, or stayed the same?", 29.1 percent of respondents said that it has “increased a lot”, followed by 22.7 percent who said that it had “decreased somewhat”.³⁹ Another 42.8 percent of respondents perceived that “most of” or “all of” tax officials, such as Ministry of Finance officials or local government tax collectors, are corrupt; 39 percent believe that at least “some of them” are involved in corruption. With regard to the perception of corruption among governmental officials, 43.7 percent of respondents believe that some of those officials are involved in corruption, whereas 31.8 percent claimed that “most of them” or “all of them” are involved in corruption. By comparison, local government councillors and traditional leaders are perceived as less corrupt. Nonetheless, 48.8 percent of respondents believe that some of the local government councillors are involved in corruption, and 39 percent believe that some traditional leaders are also corrupt. Religious leaders are believed to be less corrupt, but 33 percent of respondents believe that some of those leaders are corrupt as well.⁴⁰ With regard to the office of the Presidency, 31.6 percent of respondents believe that officials are mostly or all corrupt, and 37.7 percent believe that some of them are involved in corruption.⁴¹

Figure 34: Upstream and Downstream Functioning of Governance in Guinea



Source: Adapted from the World Development Report, 2017.

132. Poor governance in Guinea has had broad ripple effects on the economy across at least three dimensions: (i) a fragile social compact exists due to institutional weaknesses and fluid political settlements; (ii) poor natural resource management, especially for mining, water and energy; and (iii) weak fiscal management and public investment systems. In each of these interrelated areas, poor governance has had a pernicious impact on development outcomes and attendant popular support.⁴²

³⁸ Transparency International, Corruption Perception Index 2016, published January 2016. Link: https://www.transparency.org/news/feature/corruption_perceptions_index_2016#table

³⁹ Afrobarometer, Guinea Afrobarometer R6 2014/2015, The online data tool. Link: <http://afrobarometer.org/online-data-analysis/analyse-online>

⁴⁰ Ibid.

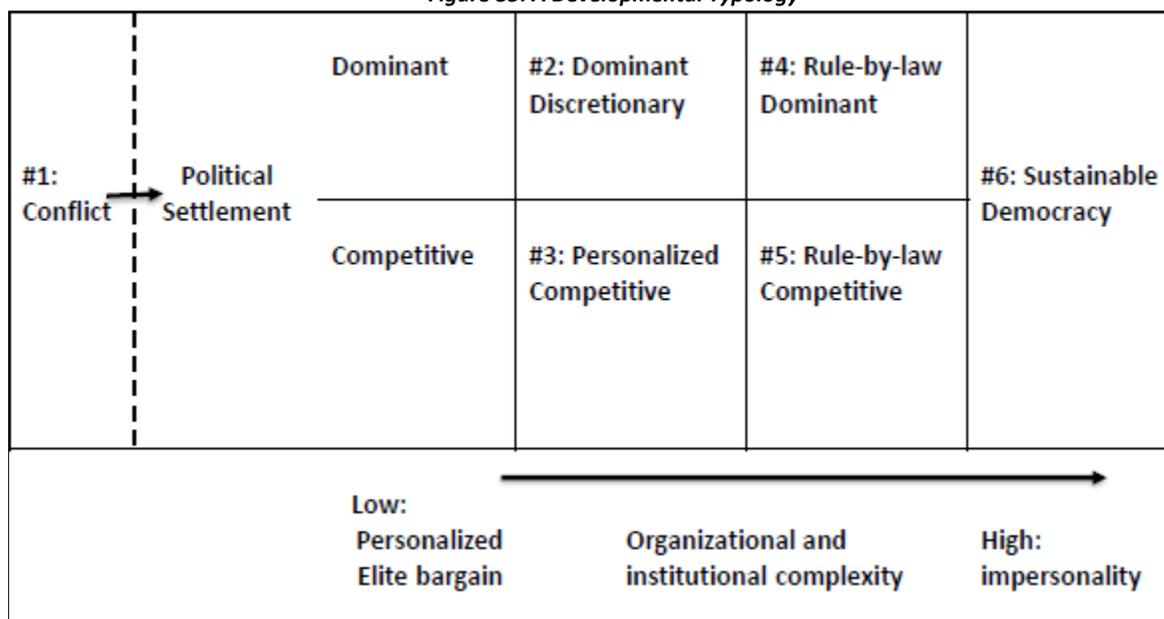
⁴¹ Ibid.

⁴² In the last round of Afrobarometer’s surveys (Round 6, 2014-2015), 54.6 percent of the respondents claimed not to be not at all satisfied or not very satisfied with the way democracy works in Guinea. However, 40.9 percent of the

5.1.2 The Fragile Political and Social Compact

133. Despite ongoing formal attempts to undertake change and transformation, Guinea is in what Levy defines as a “personalized competitive” country-typology (See Figure 35), that is, a state “where politics is competitive, but the rules of the game governing both the polity and the economy remain personalized”.⁴³ In this case, public institutions are weak to the extent that the public administration functions in an ad hoc way, or according to arbitrary actions, by the political leadership and the bureaucracy. Such a settlement is maintained by clientelism. In personalized settings, the discretionary allocation of rents “is the glue around which [the] polity is organized”.⁴⁴ In the same vein, it is important to acknowledge that in some settings, the discretionary conferral, and threat of withdrawal or access to these rents might create a platform of stability for the country. Therefore, some caution should be used not to prematurely replace personalized arrangements with impersonal rules of the game that might threaten the country’s social and political stability without the support of the majority of the stakeholders.⁴⁵

Figure 35: A Developmental Typology



Source: Levy (2014)

134. Since his first mandate in office, President Condé has tried to consolidate and extend the political settlement through intra-elite bargaining, as well as through bargaining between the elite and the society more widely. At the elite level, the President has integrated and won over influential leaders, such as opposition leader Sidya Touré and military heavyweights such as Claude Pivi and Tiegboro Camara. Both military figures were charged with crimes against humanity during the September 2009 massacre, and bore significant authority over different factions among the armed forces. The President has also eased relations with the main opposition party, the Union of Democratic Forces of Guinea (UFDG -*Union des Forces Démocratiques de Guinée*) and opposition leader Cellou Dallein Diallo, with whom a political agreement was signed in 2016. At the same time, the regime started balancing the elitist rent distribution system with a greater attention to elite-society relations. Toward this end, the government addressed some of the main popular grievances and pushed donors to invest in infrastructure (especially

respondents were "fairly satisfied" or "very satisfied".

⁴³ Levy, B. (2014). *Working with the grain: integrating governance and growth in development strategies*. Oxford University Press.

⁴⁴ Levy, 2014.

⁴⁵ North, D. C., Wallis, J. J., and Weingast, B. R. (2009). *Violence and social orders: a conceptual framework for interpreting recorded human history*. Cambridge University Press.

electricity), wealth creation and quick wins to improve the legitimacy of the regime and the state. The President managed to launch a Security System Reform that contributed to the retirement of 3780 members of the military in 2011 and saw thousands of soldiers return to the barracks in the interior of the country. Previously, during the National Council for Democracy and Development (CNDD) regime, a disproportionate number of the armed forces had been stationed in the capital city, where they were seen as a threat to daily security. Progress has also been achieved regarding the creation of a more effective and independent judicial system — although there is still much room for progress and impact at the citizen level.⁴⁶

Box 4: The Changing Role of Guinea's Army

Since Guinea's independence, the role of the army and the security forces have varied from one regime to another. Sékou Touré, a civilian leader, established and developed a hard authoritarianism tinged with Marxist ideology by using and politicizing a distrusted army. Lansana Conté, who was a military leader, made the army one of the main pillars of his preservation of power. Moussa Dadis Camara, who came to power by a military coup, quickly used the armed forces to establish his regime and subdue the political opposition, as well as civilians.⁴⁷ When this latest government imploded in 2010, a transitional government was established with the promise of security services reform, as stated in the Ouagadougou Accord.⁴⁸ During his transitional government, General Sekouba Konate created the basis for the reform of the security sector, which was later pursued by the current President, Alpha Condé, in 2011.

The ambitious reform of the defense and security sector is contained in various strategic documents. The Condé government articulated a policy declaration drawn up in December 2012, laying out the vision of the Head of State with regard to the strategic orientation of reforms. Under the ambitious reform strategy, the defense and security forces are subject to democratic and legally established civil authority, and must now devote themselves to their role in protecting people and property. With the support of technical and financial partners, namely the United Nations System and the European Union, the reform has enabled: (i) the demilitarization of Conakry; (ii) the elaboration of a law for military planning for 2015-2020; (iii) the biometric census of the armed forces; (iv) the retirement of more than 3,000 soldiers engaged between 1952 and 1975; (v) the establishment of the Senior Management of the national gendarmerie and the Directorate of Military Justice; (vi) the establishment, training and operationalization of military justice; (vii) the lifting of almost all of the territory of non-conventional control dams; and (viii) the creation of anti-crime brigades, commonly known as BACs, which have strengthened the traditional anti-crime mechanisms.⁴⁹

These reform achievements must be consolidated and lead to a greater improvement in civilian-military relations in order to facilitate the process of national reconciliation. Some issues remain. Guinea's army remains oversized and subsidized. In February 2011, President Condé increased the militaries' salaries by 50 percent, fulfilling a promise that General Conté had made during his transitional government as a possible trade-off for the reform of the security sector.⁵⁰ Recent data on the size of the Guinean Army are not available; however, in 2012 a European Union report noted that: "Guinea has around 45,000 troops for a GDP of US\$4.5 billion."⁵¹ Since then, Guinea's budget allocation has increased. In 2014, Guinea's government allocated 14.4 percent of total government spending to the military. This is more than double the average of all of the Sub-Saharan countries in the same year (at 6.6 percent), and well above other comparator countries.

135. The Guinean political settlement is heterogeneous and dynamic, and Guinea's elite coalitions are built from blurred, unsteady, and flexible political, ethnic, and economic networks. There are a range of elites including political, military, bureaucratic, and commercial elites. The political elites have changed with the regime in power. However, the bureaucratic and commercial elites have been more

⁴⁶ Evaluation de la fragilité en Guinée, République de Guinée and UNDP 2016.

⁴⁷ Bangoura, D. "La transition vers une Gouvernance démocratique en Guinée" in Bryden, Alan, and Fairlie Chappuis. *Gouvernance du secteur de la Sécurité : Leçons des expériences ouest-africaines*. Ubiquity Press, 2015.

⁴⁸ World Bank Group, "Country Partnership Strategy for Guinea, for the period FY2014-17," Report No 76230-GN, September 4, 2013. Link:

<http://documents.worldbank.org/curated/en/833761468257936671/pdf/762300CAS0P115000OU0900Box379823B0.pdf>

⁴⁹ *Ibid.*

⁵⁰ Mamadou Hassimiou Souaré "Armée guinéenne : le président Condé annonce une augmentation des soldes..." *Africaguinee.com*. Link: <http://www.africaguinee.com/~archives/index.php?monAction=detailNews&id=8908> [Accessed on Mar 14, 2017].

⁵¹ Barrios, C. "Addressing state fragility in Guinea-Conakry: A European success story?" FRIDE Policy Brief 124 (2012).

long-standing, and the web of relationships is complex. They are more often based on situational estimations of political opportunity rather than fixed positions and antagonisms. The example of Sidya Touré, the long-term opponent who recently became the high representative of the country's head of state, shows that political coalitions can change quickly in Guinea. Although exclusive elite networks exist — including certain influential families that have steadily established themselves within ministries and key state institutions — such elites are not hermetically sealed off from the rest of society. Instead, elite networks extend into Guinea's middle class and compete for regional support networks across the country. Notably, this also occurs across ethnic, regional, generational, and class divisions. Exclusion and inclusion dynamics oscillate in Guinea, which makes political positions and alliances inherently unstable.

136. Conté's *laissez-faire* regime (1984 – 2008), together with economic liberalization, introduced new levels of freedom, which opened Guinea's political space and changed the society. The historical product of this change is Guinean civil society: a vibrant, pluralistic, and uncensored force that shapes innovative perspectives on politics. In the 2013 elections for the National Assembly, 31 political parties competed for the seats and 15 were finally elected and represented⁵². During the 2015 presidential elections, 8 candidates ran for the position.⁵³ Guinea's civil society is very dynamic, although sometimes a clear-cut line between what is purely civil society and political elite is unclear.⁵⁴ Civil society actively intervenes on human rights issues and, more specifically, on electoral processes and national reconciliation. There are several associations of victims and human rights groups that have been mobilized and are playing a major role in the country. Civil society engagement has been fundamental to pressuring the leadership of the former military regime to transition to a democratic system — although there are concerns that some elements in civil society may sometimes have been captured by certain interests, such as public-sector unions or the business community.

137. Trade unions play an important role in the system and can be a check on executive power. There are eight main trade unions in Guinea, the most powerful of which is the National Confederation of Workers of Guinea (CNTG). It established at the time of independence and has more than 50,000 members. The trade union movement is particularly dynamic in the country, and has played a fundamental role in the country's political transition since independence. It is important to note that Sekou Touré, the first president of Guinea after independence, was a trade unionist. Moreover, trade unions have served as channels for advancing democracy in response to pressing demands from the civil society under Lansana Conté, who ultimately established a democratic constitution in 1991. Moreover, trade unions have been at the center of unrest in 2007 and 2009, advocating that a democratic government be elected in Guinea. These unions organized strikes on a regular basis to demand better living and working conditions. During the elections, some unions sometimes took positions in favor of certain candidates. Conversely, it is common for political formations to join forces with trade unions.

138. Institutional fragmentation has hindered Guinea's governmental efficiency. Aside from the nature of the political settlement, Guinea's institutional fragmentation can sometimes lead to an inadequate checks and balances in the political system. In many areas, there are a multiplicity of agencies, with considerable overlap. There are more than 50 ministries, including three education ministries and several ministries in charge of urban oversight. The executive is powerful, and separation of powers is weak. Indeed, there is evidence of strong executive involvement in major areas, such as public procurement and mining contracts — without adequate legislative oversight. Many of the institutions responsible for the oversight of public finances, such as the Parliament and the Court of Auditors (*Cours de Comptes*), are not properly exercising their functions. The role of the Guinean Central Procurement Agency (AGCP) (closely linked to the Presidency) in the procurement process is under

⁵² http://www.ipu.org/parline-f/reports/1131_E.htm.

⁵³ <http://www.jeuneafrique.com/261460/politique/guinee-huit-candidats-a-presidentielle/>.

⁵⁴ There are five principal umbrella organizations: National Council of Civil Society Organizations (CNOSC), the Platform of United Citizens for Development (PCUD), the National Coalition of the Civil Society (CONASOC), the Convention of non-state actors of Guinea (CANEG), and the Coalition of women and girls of Guinea (COFFIG), "Consultations Nationales sur la Réconciliation en Guinée - Rapport Final" - <http://guinee7.com/wp-content/uploads/2016/07/ici.pdf>.

examination, and the functioning of some Republican institutions – such as the Economic and Social Council – is still unclear.

139. Judicial independence is still considered weak, and the prosecution rate for abuse cases is low.

The 2013 indictment of government minister Claude Pivi for his role in the September 2009 stadium massacre and rapes could have been a sign of judicial independence. Throughout its existence, the autonomy of the Guinean judiciary system has been compromised. Executive interference and the perception of corruption have plagued the system. Most Guineans have little confidence that the judiciary is impartial. In one survey by the government's own National Institute of Statistics, only 20.5 percent of Guineans expressed confidence in the judicial system, and 18.1 percent in the Supreme Court.⁵⁵ Officeholders who benefit illegally from their positions are perceived as getting away with their crimes without consequences, which increases citizen incentives to disregard the law. President Condé is perceived as being still beholden to many of the interest groups who helped him into power. Consequently, he is seen as either uninterested or unable to punish them for illegally enriching themselves. However, the situation now seems to have improved since the time of President Conté (1984 – 2008) and the CNDD junta (2008 – 2010).⁵⁶

140. The sustainability of growth may be impaired by the risk of fragility in the country, resulting in political instability.

Unlike other fragile countries that have previously experienced widespread violent conflicts and have definite conflict lines, Guinea's overall instability is based on a variety of interdependent drivers of fragility, both internal and external. The World Bank's Risk and Resilience Assessment report identifies four specific drivers of fragility: (i) exposure to external shocks and high food prices; (ii) underemployed urban youth;⁵⁷ (iii) mistrust of state institutions; and (iv) the political instrumentalization of ethnicity⁵⁸.

141. One of the key drivers of fragility in Guinea is poor service delivery and public mistrust of state institutions.

Whether in health, education, security, electricity or water provision, the administration is notoriously underfunded, insufficiently trained, and accordingly inefficient. This represents a profound structural deficit, which dates from a long history of personalized and politicized state systems in Guinea, including the French colonial regime, Sékou Touré's politicized one-party state, and Lansana Conté's personalized regime. Based on these previous regimes, Guinea's *raison d'état* today is marked by an implicit understanding that state institutions are in fact manipulated for gains by different elites. Indeed, as confirmed by multiple surveys, clientelism and corruption have become characteristics of the contemporary Guinean state system.

142. To conclude, Guinea presents an unfinished political transformation from authoritarian rule to a more open and competitive system.

While changes are visible in specific sectors, including civil society, the legacies and continuities of previous personalized regimes remain intact and hard to overcome within the overall political system. For instance, lines between the state and the political parties remain blurred.

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ Urban young men have played a key role in Guinea's protests. In this context, certain violent-prone and politicized youth milieus continue to pose a critical risk to political stability. Demographics have emerged as a political risk in Guinea since 2007, when protests and revolts started to become a frequent and regular means in the struggle for political power. Since then, young men from Conakry's urban margins, particularly along the Route Le Prince in Conakry's Ratoma district, have routinely constituted the bulk of violent protesters.

⁵⁸ In Guinea, there has been a remarkable social cohesion across ethnic groups. For as much as politics tend to accentuate ethnic divisions to mobilize constituencies, trans-ethnic networks interconnect Guinean society in everyday life. Some of these networks date back to precolonial times. Traditional authorities, for instance, steadily remind Guineans of their common history and their ancestors' interethnic pacts. As such, they have successfully de-escalated critical situations involving ethnic violence. The *sanankounya*, a joking kinship that links individuals and groups across ethnic lines by a quasi-kinship alliance, allows joking kin to tease each other abundantly — but forbids them to be angry with one another. People across Guinea and the overall region widely practice relaxing conflictive situations in everyday life. Finally, Islam provides an important spiritual, normative, and cultural framework that most Guineans can commonly relate to. Socio-economic mechanisms of sharing among families and relatives constitute another important reservoir of resilience. (Source: Republic of Guinea Risk and Resilience Assessment: World Bank, 2017).

For instance, one can observe large numbers of civil servants joining the Presidential party, the RPG (*Rassemblement du Peuple de Guinée*) and seeking promotions in public job placements. RPG militants and supporters have been rewarded with positions in the National Assembly, public administration and government — with little attention given to requisite skills. Party politics continue to remain largely couched in terms of ethnic belonging, and ethnic-political networks permeate the administration. This means that one's kin is more likely to be trusted and promoted than members of other ethnic groups, creating inter-ethnic mistrust and antipathy at the very foundation of the state. Finally, economic corruption and rent seeking, especially in the mining sector, remain significant. Indeed, several scandals have shaken Guinea in the past decade. Until recently, the government's reactions to these shortcomings were arguably too soft to have any deterrent effect. However, the democratic transformation is consolidating among Guinea's vibrant civil society. In addition, its critical and uncensored press has found innovative ways of performing some of checks and balances functions that many official institutions are still under-equipped or hesitant to play. Finally, the state reforms in the security and justice sectors, as well as President Condé's achievements regarding electricity supply, are outstanding and encouraging.

5.2.3 Ineffective Public Investment and Poor Public Procurement Practices

143. The impact of governance on economic performance is evident in the area of public investment.

Poor public investment remains one of the weak points of Guinea's economy, leading to undesirable economic outcomes and a waste of public resources. As in many other developing countries, the effects of bad procurement and corruption on the economy can be severe, including: a misallocation of scarce resources; a reduction in the quality of public services; increased costs of doing business; discouraging foreign investment; as well as shrinking government tax revenues. Public investment has fluctuated sharply during the last decade, from a high of 10 percent of GDP in 2015 to a low of 4.7 percent of GDP in 2011. Nonetheless, the development impact has been lacking. Despite public investments in infrastructure, schools, and clinics, the actual impact has not been strong. Governance challenges related to budget planning and setting poverty reduction goals are partly responsible for the lack of public investment impact.⁵⁹

144. Guinea's public investment system has many weaknesses. Many of the current weaknesses in Guinea's PIM system are a product of the country's troubled history. Public investment was negligible before 2009. Consequently, many government agencies had developed little design, implementation and oversight capacity. The rapid expansion of investment spending in the last few years has overburdened a PIM system that was not prepared for it. Building adequate PIM capacity to support increased expenditures is one of the most critical challenges facing the current government.

145. One of the major challenges for Guinea is reforming its very inefficient and corrupt public procurement system that relies on costly and inefficient single sourcing, frequently bypassing existing rules. This has the effect of reducing quality and of leading to inflated costs of public investment. The procurement system has the following dysfunctions: lack of competitive bidding; lack of ex-post monitoring and inspection of projects; delays in the preparation of tender dossiers; multiple delays in the procurement process; and long delays along the entire expenditure chain. (See Box 5). In recent years, the Government has adopted a series of measures aimed at ensuring the adoption of international standards. The revised Public Procurement Code, which was approved in 2012 and came into force in June 2014, was designed to address the excessive use of single-source contracting as opposed to a competitive tendering process.

⁵⁹ From 2010–2015, the average execution rates were 42.7 percent and 51 percent, respectively, for externally and domestically financed public investments. The top two execution rates for domestically financed public investment occurred in 2013 (77.6 percent) and 2014 (74.4 percent). Using the overall Public Investment Management Index (PIMI) as a proxy for gauging public investment efficiency, the data show that Guinea performs poorly in this area. Indeed, Guinea's overall PIMI score is 1.13 (out of a maximum score of 4.0), and the country is ranked 53rd of 71 countries, placing it below the average performance of Sub-Saharan African (SSA) countries, ECOWAS, and lower-income countries (LICs).

146. The public investment system has imbalances, with insufficient resources going to the regions and limited administrative support at the local level. More than 80 percent of public investment is spent in the urban areas, with less than 20 percent going to the regions. Currently, administrative structures do exist and extend across the national territory. However, the effectiveness of investment outside the capital is compromised by graft, inefficiency, and a lack of equipment and operating budgets. Despite the responsibilities devolved to them by law,⁶⁰ Guinean municipalities are not fully effective due to the lack of legal acts to enforce them ("*décret d'application*"), as well as a lack of resources, both human and financial. In 2013, they accounted for only 0.8 percent of total public expenditures, and only 0.2 percent of the national GDP. Therefore, local government expenditures represent a very low share of GDP. These difficulties arise partly from a mismatch between the government's stated priorities (primary education, public health, and road maintenance) and concrete expenditure allocations.⁶¹ Officially, the Government has adopted a policy of decentralizing expenditures to the subnational level, with the aim of improving service delivery through greater local control.

Box 5: A Case Study of Guinea's Procurement Practice

One prominent example of poor public investment involves the recent guarantee scheme. In 2014 and 2015, at the request of the Ministry of Finance, the central bank (Banque Centrale de Guinée - BCRG) issued guarantees to local and foreign banks on behalf of 12 local and foreign private companies executing public works contracts to help them secure commercial bank loans. The total value of the public works contracts is equivalent to 15.2 percent of GDP (US\$1.017 billion), of which 85 percent benefited from central bank guarantees, most of which are in foreign exchange.

A recent external audit of 68 public procurement contracts awarded between 2013 and mid-2015 found strong evidence of irregularities. These included the continuing widespread use of single sourcing (92 percent of all single-source contracts were not justified based on existing public procurement texts), a lack of documentation (25 percent of contracts could not be audited because information was lacking), and the use of government guarantees that could not be justified by any of the existing public procurement laws.

There was no formal bidding process, and no on-site monitoring of the projects by the authorities. The consensus is that the projects were wasteful. As a result, and under pressure from the IMF and the World Bank, by end-December 2015, the Government indicated that the total amount permissible under the scheme had been reduced by about a third, thus reducing planned spending for 2016–2018. Despite these reforms, single sourcing continues to present a challenge.

Source: World Bank Public Expenditure Review (2017).

5.2 Constraints to Improving Agricultural Productivity and Fostering Investment in Private Sector Growth

5.2.1 Significant Agricultural Potential, but Low Productivity

147. Guinea's agricultural potential is significant and unique in West Africa. First, Guinea is one of the wettest countries in the West Africa sub-region. The country is divided into four natural regions (Lower, Middle, Upper, and Forest Guinea), with different climatic, hydrological, and ecological characteristics. The potential for arable land is estimated to 6.2 million hectares, of which only 25 percent is farmed. Although the lack of water is not a constraint, irrigation potential is estimated at 364,000 hectares, of which less than 10 percent is currently developed. Sunshine and natural conditions remain favorable to the cultivation of a varied range of products, including fruits, vegetables, coffee, and cocoa.

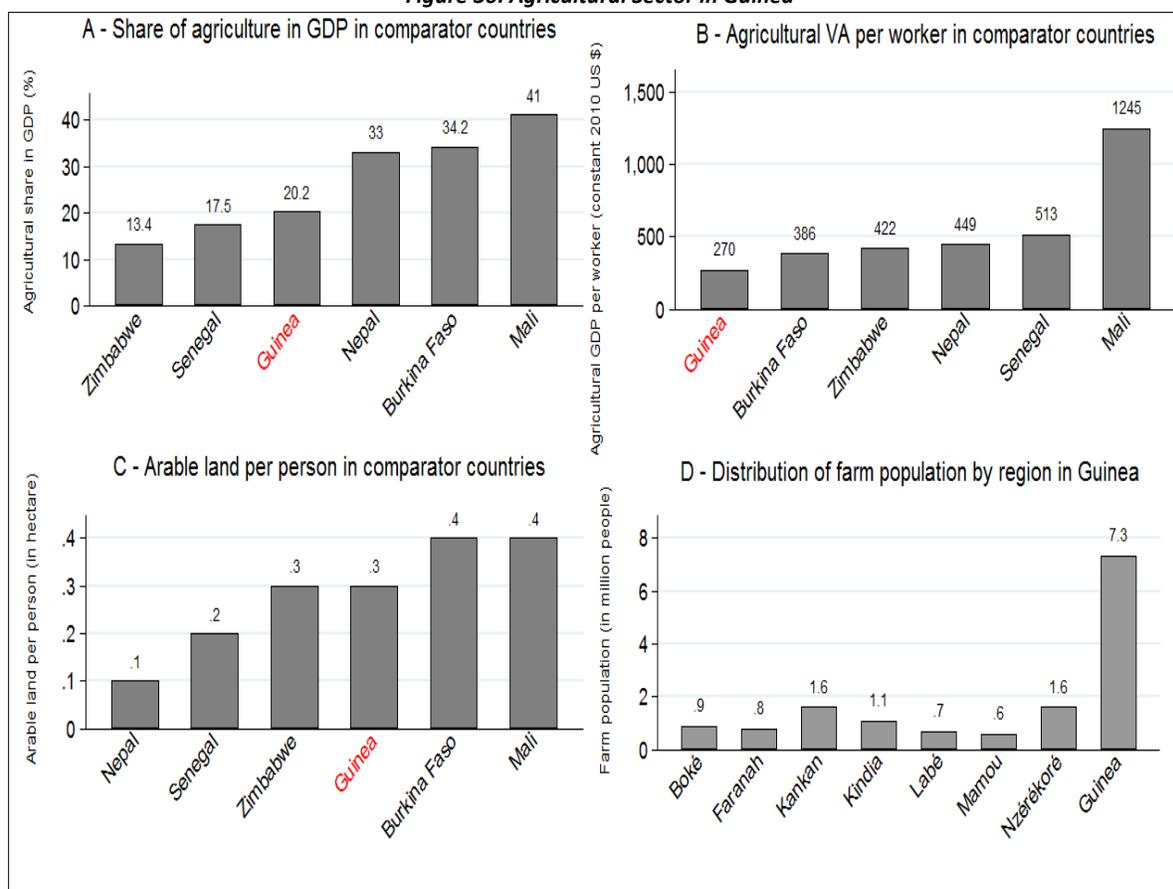
⁶⁰ The main responsibilities for subnational governments are outlined in the Local Governments Code. These responsibilities cover administrative services management (registry services, local police and safety); infrastructure and transport (roads maintenance, sewerage management, and so on); urban management ; environment, hygiene and sanitation (potable water provision and distribution management, environmental protection, and so on); social services (literacy campaigns, development of cultural services, health centers building and maintenance, primary schools building and management); economic services (building and maintenance of municipal markets and tourists sites) ; local development and urban planning. "Guinea – Country report," a Joint-Study of United Cities and Local Governments (UCLG) and the Organization for Economic Co-operation and Development (OECD), October 2016.

⁶¹ "Guinea – Country report," joint-study of UCLG and OECD, October 2016. Retrieved from: <http://www.oecd.org/regional/regional-policy/profile-Guinea.pdf> [

Finally, droughts are rare and, when they occur, their possible adverse effects are compensated for by the diversity of agro-climatic conditions across the nation.

148. The agricultural sector remains a key factor for accelerating inclusive economic growth in Guinea. Figure 36 presents a picture of the key aspects of the sector. Agriculture (crops, livestock, fisheries and forestry) accounts for more than 20 percent of the country’s GDP. This sector occupies nearly 70 percent of its working population, and agriculture remains the main source of income for 57 percent of rural households. Since this sector’s growth is naturally shared by a large part of the population, it is capable of accelerating economic growth on a more equitable basis — especially given the fact that it will remain, for many years, the main activity of the majority of the population. Guinean agriculture suffers from low labor productivity and low input use per worker. In this context, successive regimes in the country’s history have not provided a good input policy for farmers. Sectoral productivity analysis finds that productivity in manufacturing is roughly 15 times higher than productivity in agriculture, and productivity in construction is almost 8 times as high. The manufacturing-agriculture productivity ratio in Guinea is much higher than the African average of about 2.3 (McMillan and others 2014). Agricultural productivity per worker in Guinea is half that of Senegal, and one-fourth that of Mali. Cereal yields in Guinea have been flat for many years, and the country continues to import rice.

Figure 36: Agricultural Sector in Guinea



Sources: Census 2014 and World Development Indicators.

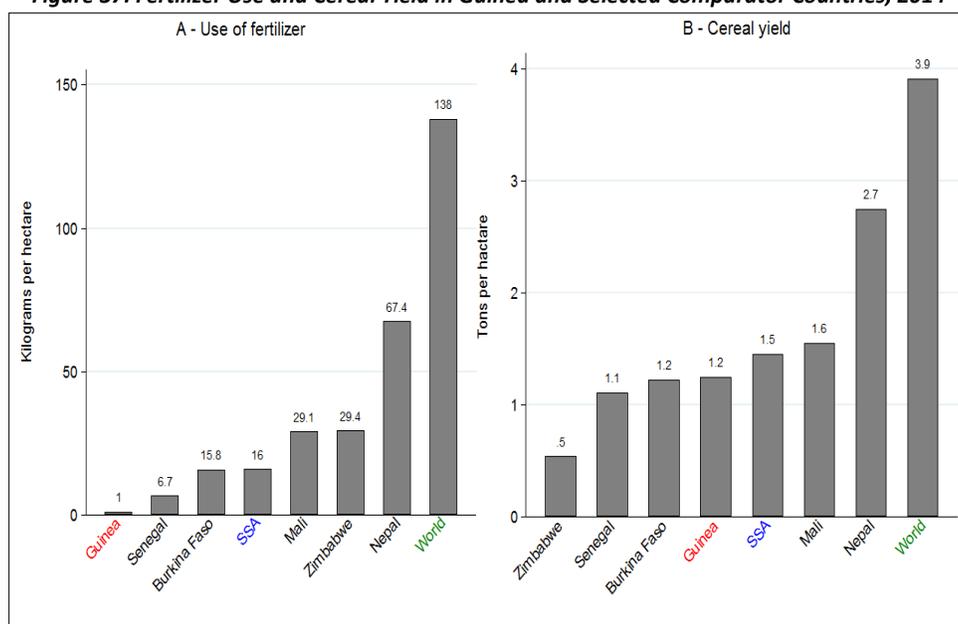
i) Low use of inputs and good farming techniques is a concern

149. The lack of access by smallholders to inputs and equipment, especially fertilizer, seeds, and machinery, is a key constraint to a potentially more vibrant and transformative agriculture sector. Cross-country comparisons confirm the low use of inputs. Indeed, compared with several selected countries with similar agro-climatic conditions as well as the SSA average, Guinean households use very little fertilizer. Guinean farms use an average of one kilogram per hectare as compared to almost 30 kilograms in Mali and Zimbabwe, and more than 67 kilograms in Nepal (Figure 37). Thus, cereal production per hectare remains relatively low, although the country’s hydrological and ecological

potential could help outpace some countries that are using more fertilizers (Burkina Faso, Senegal, and Zimbabwe). Both survey evidence and focus group discussions during cross-country consultations in two provinces suggest that there is considerable pent-up demand among both subsistence farmers and relatively richer farmers for better-quality inputs. They also cite the lack of such inputs as a constraint to their productivity.

150. The extensive agricultural input and equipment subsidy program for producers, undertaken by the Government of Guinea from 2011 to 2017, did not produce the expected results. A 2016 study of the National Agricultural Statistics Agency (ANASA), assessing the impact of this subsidy program on farmers, revealed that about 60 percent of beneficiaries were not satisfied with the input scheme, and found that the identification of needs had not been done properly. Despite the subsidies, rice imports increased from 118,000 tons in 2011 to 535,000 tons in 2015. The main findings of the impact assessment study of agricultural input subsidies are presented in Box 6⁶².

Figure 37: Fertilizer Use and Cereal Yield in Guinea and Selected Comparator Countries, 2014



Source: World Development Indicators.

Box 6: Assessing the Impact of an Agricultural Input Subsidy Program in Guinea

The study revealed that about 60 percent of beneficiaries were not satisfied with the input scheme and found that the identification of the needs had not been done properly. Since there is no targeting, subsistence farmers do not have access to the subsidy. Therefore, they must pay 50 percent of the cost in cash. Moreover, most of the farmers still find prices too high despite the subsidy. Also, the quantity (around 18,000 per year) and quality (fertilizer not adequate for most soils and crops) are inappropriate to achieve a sufficient impact. In addition, fertilizer alone is not efficient because best results are obtained when the certified seeds are also included in the scheme. Finally, beneficiaries of the subsidies do not have access to extension services, and the survey indicates that many of them did not apply the fertilizer adequately. In fact, only 17 percent of beneficiaries have used the fertilizer according to the extension agent's advice.

Source: ANASA (2016)

151. Guinea's great potential for agricultural development remains also largely underexploited because good farming practices have not yet been adopted. Farms are family-run and account for 95 percent of cultivated areas. The type of production system practiced in the country is extensive agriculture, dominated by a traditional farming system using very few agricultural inputs. Relatively few Guinean households are using good farming techniques, with significant differences between regions (see Table 2). Moreover, the sector is heavily dependent on rainfall for 95 percent of cultivated areas.

⁶² ANASA, *Rapport final de l'étude approfondie sur le profil des producteurs ayant reçu l'appui du Gouvernement en intrants et équipements agricole*, Ministère de l'agriculture, République de Guinée, novembre 2016.

Production is mainly intended to meet the household’s food needs. This situation may be partly related to the human capital issue. For instance, the poor technical skills of most farmers may explain in part the low use of modern technologies and inputs, especially since technical knowledge is not updated periodically and extension services are limited. Despite the existence of agricultural schools and professional training centers, few farmers have the right skills, and few graduate students from agricultural schools/centers work in the agricultural sector. Farmers also have limited knowledge of business, and decisions are made mostly based on the family’s subsistence needs rather than a broader business model. Furthermore, the lack of skills prevents farmers from obtaining information on markets and entering into business relationships with big clients (such as hotels and restaurants), leaving them at the mercy of traders.

Table 2: Proportion (%) of farming households using good practices by region in 2012

Regions	Use of hitched of mechanized farming	Use of fertilizers	Use of pesticides	Use of manure	Access to irrigation
Boké	8.0	8.1	0.3	7.5	0.7
Conakry	21.4	34.3	11.2	28.1	10.6
Faranah	22.2	16.4	16.4	6.7	10.5
Kankan	33.4	47.5	43.2	8.2	0.6
Kindia	7.5	19.0	1.6	24.7	6.6
Labé	2.8	14.0	2.2	52.6	1.1
Mamou	5.1	18.0	2.9	48.8	1.3
Nzérékoré	2.5	14.0	11.5	8.8	0.6

Source: ELEP 2012.

- ii) The low development of value chains hampers agricultural growth

152. The agriculture supply chain is poorly developed. Producers work in silos with no coordination among different stages of their activities. The connections between actors in production, transformation, storage, commercialization and exports are weak or nonexistent, and value chains are poorly structured and organized. In addition, *farmers’ groups* are organized by crops (potatoes, for instance) and stage (exporters), but not by supply chain. The agricultural sector is primarily focused on crop production activities, and the means for processing, storage, packaging, and effective transport of produce are basic and limited. One of the main concerns also expressed by Guinean farmers is the capacity to store the harvest at times of surplus and low prices (harvest period). The lack of a reliable electricity supply, training, equipment, and organization limits opportunities for Guinean farmers in maximizing their farming profits, as well as their ability to process their crops into value-added products. Finally, the transport capacity for agricultural produce remains very weak in Guinea. Box 7 presents the main constraints to Guinea’s agribusiness development.

153. Guinea’s agribusiness is a prominent example of an industry that has faced the twin challenges of finance and transport. According to the Diagnostic Trade Integration Study (DTIS), its proximity to Europe should have given Guinea a significant competitive edge in marketing perishable goods such as fruits and vegetables. However, this has not been the case. Despite this natural endowment, fruit and vegetable exports collapsed during the 1970s. While Guinea used to be a major producer and exporter of bananas and pineapples in the early 1960s, the volume of exports of both fruits was close to zero in 2012. This was partly due to the outflows of French private capital in the early years, and the post-liberalization closure of the large industrial firms that used to serve overseas markets. Unfortunately, there are no more plantations producing bananas for export. All that remains are a few smallholdings, that are now focused on the domestic market. Mango is the only crop that is still being traded on the international markets.⁶³ Interviews with private sector representatives confirm the triple shocks of bad

⁶³ United States Agency for International Development (2006) finds that mangoes from Guinea are competitive on the European market — and with a significant gross profit margin. Indeed, Guinean mangoes have a slight advantage over competitors from

finance, difficult roads and poor transport logistics, and obstacles at the port. In the critical transport corridors through which processed foods are exported, especially the Kindia-Conakry axis, roads are in poor condition and the logistics are costly. Port delays and costs make agribusiness exporters wary of successfully reaching the regional or global market. Agribusiness companies find it challenging to obtain the funding needed to export their products because banks seem to be reluctant to take high risks in this sector. Despite such potential and favorable endowments, Guinean agribusinesses, together with other exporters, are confronted with these infrastructure and financial hurdles.

iii) Agriculture development is also affected by governance issues.

154. Since independence, the efforts undertaken by the government to promote the expansion of agriculture have often been compromised by governance issues. After the failure of previous governments to achieve the goal of food self-sufficiency (see Box 7), the National Agricultural Investment and Food Security Plan 2012-2017 (PNIASA)⁶⁴ was approved by the Government in December 2012, with the goal of achieving 6 percent growth rate in the sector. However, the Government still needs to implement this Plan (currently being updated) with a vision to ensure food security, as well as to position Guinea as an exporter of agricultural products. In view of the cyclical problems of food insecurity in the country since 2008, the World Bank's programs have served to support the Government in its efforts to implement the first two priorities of the PNASIA⁶⁵. Since 2016, the Government has emphasized the promotion of export-oriented agriculture, including the development of the cashew, cocoa and palm oil sectors. The various issues include: poor public management of the agricultural sector, with almost no resources available to field-based staff to conduct their work; weak capacity of civil servants due to lack of resources, and; the absence of strong farmers' organizations in all regions except Middle Guinea (Fouta Region). In sum, there are no appropriate institutions to help promote agriculture. There is also no targeted investment promotional plan. In addition, there is a lack of market information coupled with poor institutional capacity to respond to queries from investors. Recently, the Accelerated Program of Food and Nutritional Security, and Sustainable Agriculture (PASANDAD 2016-2020)⁶⁶ has been adopted as a program integrated into the PNDES⁶⁷. It is aimed at improving food and nutrition and reducing food imports by accelerating agricultural production, and improving commercialization, storage and processing.

155. Weak governance in the agricultural sector also impacts land issues. Population growth, the extension of farmland, and growing numbers of livestock have increased conflict over land and natural resources.⁶⁸ Land administration is inefficient and cumbersome, and insecure land rights affect livelihoods and hamper urban planning, as well as investments in the private sector. There are four major

Côte d'Ivoire, Mali and Senegal as they arrive on European and North American markets one month earlier, that is, in March. However, exports to Morocco (by sea or air) are more profitable because of lower transportation costs and less stringent quality criteria.

⁶⁴ PNIASA identifies six priority investment programs: (i) sustainable development of the rice sub-sector; (ii) diversification for food security et population's nutrition improvement; (iii) promotion of agricultural exports and agro-business; (iv) integrated natural resources management (v) institutional capacity building and (vi) coordination of PNIASA's implementation.

⁶⁵ Under the West Africa Agricultural Productivity Program (WAAPP) and the Agricultural Sector Support Project (PASAG), World Bank funding in Agriculture mainly cover (i) productivity and production increase particularly for the rice value chain; (ii) capacity building of public institutions and farmers' organizations; (iii) some analytical work which, among others, include national master plans preparation on irrigation, feeder roads and pastoral spaces. The recently closed Emergency Agricultural Productivity Support Project also addressed productivity issues related to rice, maize, cassava and poultry. The gain on these commodities resulting from this project are planned to be scale up through the additional financing of the WAAPP-Guinea.

⁶⁶ This program targets, by 2020, an annual growth of the primary sector of 6.5 percent and a reduction in the food poverty incidence from 18.1 in 2012 to 9.1 percent. This is expected to be reached through:

- promoting the mechanization and intensifying the subsistence agriculture;
- strengthening the capacities of small farms;
- promoting the processing, storage and commercialization of agricultural, fishery, forestry and livestock products.

⁶⁷ The new Government's Strategy.

⁶⁸ USAID. "Guinea - Country Profile" October 2010. Retrieved from: <https://www.land-links.org/country-profile/guinea/> [May 2017]

characteristics of the land administration system in Guinea. First, the tenure system is dual (statutory and customary) and is covered by overlapping laws. Many of Guinea’s formal land laws and policies recognize customary land rights, but there remains a distinct gulf between statutory policies and customary practices. Most of Guinea’s land is unregistered, and is governed by customary law. As such, it is vulnerable to transfer by the state, or through privatization. Customary rights are recognized within sectoral policies to varying degrees, but are generally limited to *use-rights*.⁶⁹ Second, the capacity of land administration authorities is weak, and there are limited formal land rights because of unreliable information processing or data storage. Under the Land Code, rights must be registered, but state land administration institutions lack the capacity and resources to support registration or, in some cases, they have never been created.⁷⁰ This is a potential source of conflict. Third, many people, including displaced persons, refugees, and migrants to urban areas have limited access to land. This affects particularly women and former slaves who, despite their substantial role in agriculture, rarely gain ownership of lands because they depend on use-rights obtained through relationships with male relatives and former masters.⁷¹ Fourth, mineral resources, especially mining, are responsible for the widespread degradation of natural resources, including soil erosion, water pollution, and habitat loss.⁷²

Box 7: A Review of Pre- and Post-Independence Agricultural Policy to 2008⁷³

Before the 1950s, Guinea was the third largest rice producer in Africa, after Egypt and Madagascar (Portères 1966). Guinea was self-sufficient in rice and exported its surplus to other countries in West Africa. The spectacular results obtained by the colonial administration in the agricultural sector were the result of a political commitment by administrative authorities, producers' adherence to policies; and technical and financial support from agricultural services. Since then, the government's goal of self-sufficiency in food production was largely hampered by poor political governance and agricultural management.

Under the First Republic (1958-1984), poor governance was reflected in excessive nationalization and the systematic collectivization of production goods, expensive improvisations, and unjustified restrictions on the movement of products. During the Second Republic (1984-2008), poor governance was characterized by the systematic exclusion of individuals; impunity, corruption, and ethnocentrism; and the personal enrichment of civil servants.

Under both systems, the poor assessment of the interconnections between producers, intermediaries and urban consumers' interests had the effect of directing financial resources toward unproductive subsidies that were primarily geared toward satisfying urban consumers. Furthermore, the policy of agricultural mechanization established under these two systems, essentially based on the use of tractors, has resulted in a financial gulf— but without generating the expected increase in production. Finally, little attention has been given to the socioeconomic development of smallholder farmers. However, the authoritarian and autocratic nature of the exercise of power and the lack of regular alternations (State, associative structures) compromised the possibilities for new leaders to emerge — especially new leaders who would be willing to reform agricultural policy.

Source: Keita (2015)

iv) Other agricultural subsectors face several constraints

156. Livestock, which remains the second activity of the rural sector after agriculture, continues to face several constraints. The livestock subsector accounts for more than 280,000 stockbreeders and their families, allowing nearly 30 percent of the rural population to generate income. In 2014, the livestock population was estimated at more than 6 million cattle, 2 million sheep, 2.5 million goats, 100,000 pigs, 27 million poultry.⁷⁴ One of the constraints in this subsector remains the low level of technical knowledge of producers, which leads to the persistence of the traditional livestock system.

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Ibid.

⁷³ Keita M. (2015), *Autosuffisance alimentaire de la Guinée : une longue bataille, de 1958 à nos jours*, Harmattan-Guinée, Paris.

⁷⁴ Bureau de Stratégie et de Développement, Ministère de l'Élevage et des Productions Animales de Guinée.

There are other constraints, such as the low dairy productivity of the cattle breed and the absence of programs to expand production.

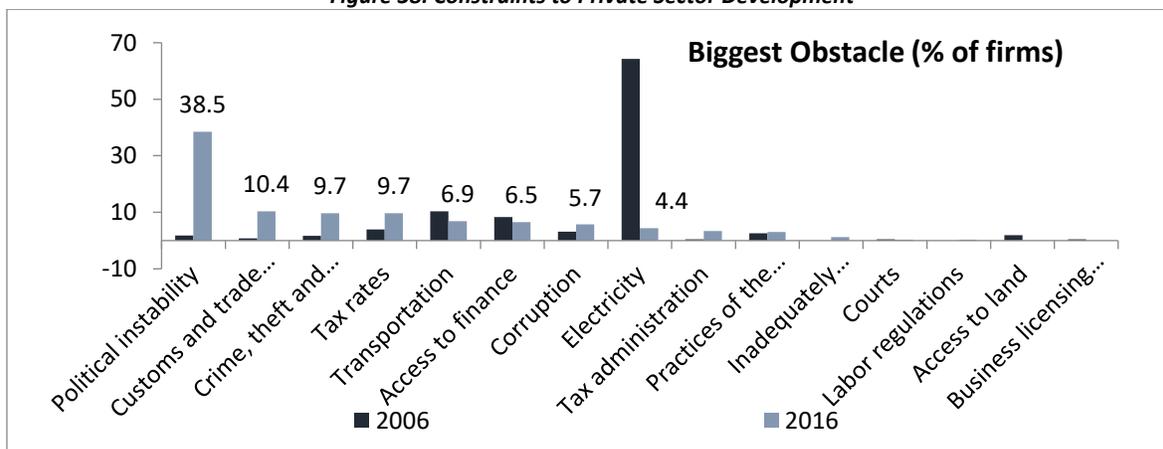
157. The fisheries subsector, which may also be a potentially important area for poverty reduction in Guinea, is endangered by illegal fishing. This subsector is ranked as one of the main economic activities in the country due to the number of jobs created⁷⁵, its contribution to food safety (13kg/per/year) — and to increasing foreign exchange earnings. The global fishing potential of Guinea’s waters is around 200,000 tons, according to the National Center for Fisheries Science of Boussoura (*Centre National des Sciences Halieutiques de Boussoura* - CNSHB). However, the assessment of fishery resources remains very difficult, particularly for pelagic species, shrimps and cephalopods. For instance, 246 industrial vessels were registered in 2001, an increase from 117 in 1995. Fishing activities have increased, however illegal fishing remains an issue. The Marine Resources Assessment Group (MRAG) has estimated that over US\$100 million in marine products are caught illegally in Guinean waters every year from Chinese, Spanish and South Korean trawlers.

5.2.2 Low Investment in Private Sector

- i) Poor infrastructure and logistics hinders private sector development

158. The private sector in Guinea is adversely impacted by bad governance in a multitude of ways. Guinea does not rank highly in many areas of the IFC’s *Doing Business* surveys. Its performance with regard to many indicators, especially the time required to execute a contract and the time required to register property are very high. According to a recent Enterprise Survey (2016), the main constraints identified by the private sector in Guinea are political stability, customs and trade regulations, theft and disorder, and tax rates (Figure 38). The process of setting up and managing a business is very lengthy, revealing heavy administrative procedures. Although it has improved slightly in the past five years, the institutional framework is not conducive to private sector development.

Figure 38: Constraints to Private Sector Development



Source: World Bank Enterprise Survey, 2016.

159. The country did not succeed in diversifying its exports. Guinea only exports a few mineral commodities, a tiny fraction of its known bauxite resources, and none of its iron ore. Its success in achieving export diversification has been limited (Figure 39). The number of exporting firms is limited and declining. Despite the new opportunities offered by the international economy as a result of the technological change, falling transport costs and the splitting up of production activities on a global basis, the data shows that Guinea has not taken advantage of global and regional value chains (Figure 37).

⁷⁵ This amounts to around 80,000 only for the direct jobs. It can be more than three times that rate when including related jobs.

Figure 39: Exporting Firms in Guinea



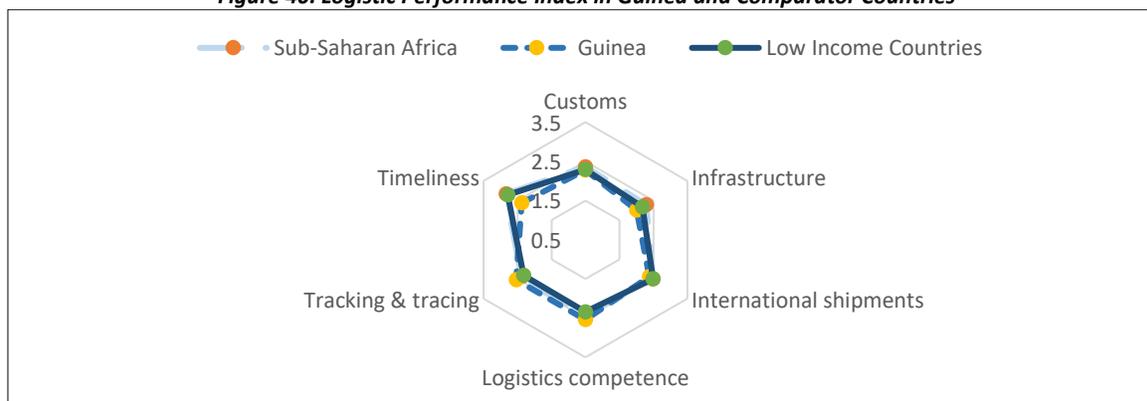
Sources: World Bank Enterprise Surveys, 2016.

160. One of the major barriers to private sector growth in Guinea is the lack of good transport infrastructure. Guinea’s road network is estimated at 45,360 km, including: 7,637 km of national roads, 15,878 km of prefectural roads, 19,845 km of community roads and about 2,000 km of urban roads.⁷⁶ Its national road density is lower than the average in Africa (6.84 km per 100 km²), Latin America (12 km per 100 km²) and Asia (18 km per 100 km²). Likewise, Guinea’s national roads density is lower than that of Ghana (6.2 km per 100 km²), and Cote d’Ivoire (5.1 km per 100 km²). Of the 7,637 km of national roads, only 2,261 (29.6 percent) are paved. At the same time, national roads bear 80 percent of traffic — suggesting that a large share of transport traffic is carried out on unpaved roads in Guinea. These roads have been deteriorating over time. According to available data, in 2004, only 35 percent of Guinea’s national paved roads were in good condition. This share declined to 25 percent in 2012, and to 16 percent in 2014. As for the national unpaved roads, in 2004, only 5 percent were in a good shape; and this share has declined to 1 percent in 2012. However, it improved to 14 percent in 2014. Overall, available data reported in Table 3 suggest that, at the national level, only 29 percent of roads (paved and unpaved) are in a good condition in Guinea.

161. Guinea’s railway infrastructure is inadequate and below the levels of its neighbors. The three railways currently operating are mainly devoted to mineral transport. A fourth one is planned as part of the Simandou-Forecariah project to build a railway of over 670 km and a new mineral port. However, delays in the Simandou project have led to setbacks in the building of the infrastructure. Another railway, which was suspended long ago, could be revived to build at least the first 36 km between Conakry and the dry port at Kagbelen.

⁷⁶ Guinea’s Transports Year Book, 2014, produced by the Ministry of Transport. National roads connect prefectures and capitals of regions, prefectural roads connect prefectures to sub-prefectures, and community roads connect sub-prefectures to municipalities.

Figure 40. Logistic Performance Index in Guinea and Comparator Countries



Source: World Bank Logistics Performance Index database.

162. The poor quality of infrastructure is confirmed by international metrics. First, the inadequate supply of infrastructure has been identified as the third most problematic factor for doing business in Guinea according to the *2015-16 Global Competitiveness Report*. It also ranked Guinea as the least performing country in terms of overall quality of infrastructure. According to the *2016 World Enterprise Survey*, although 37 percent of Guinean firms identified transportation as a major constraint to business, only 25 percent firms did so across Sub-Saharan Africa. Likewise, in 2016, Guinea's overall score for the Logistics Performance Index (LPI) was 2.36, and the country was ranked 129 out of 160 countries.⁷⁷ Guinea's overall score for the LPI was lower than that for SSA and low-income countries (Figure 40). In 2016, Guinea's score on the quality of infrastructure was 2 out of a maximum of 5, which was the lowest score of all the country's LPI components. Likewise, with a score of 2, infrastructure quality is the area where Guinea performs the poorest as compared to SSA and low-income countries.

163. Poor governance and weak enforcement of rules are the primary contributing factors to the deterioration of road condition in Guinea. Guinean roads are in poor condition as confirmed by the empirical data (Table 3). According to estimates provided by the Ministry of Public Works, roughly 7,300 km of roads are damaged due to road crossing works (trenches for electric cables, internet, drain pipes and water taps) in Conakry, and most road crossing works are carried out without complying with existing texts and regulations.⁷⁸ Likewise, axle load regulations are not fully implemented; consequently, trucks are overloaded, causing damages to roads. A number of factors have limited effective road maintenance and contributed to the deterioration of road quality in Guinea, including: (i) a poor managerial system; (ii) weak capacity; (iii) a limited number of qualified staff; (iv) a lack of use of modern equipment; (v) an ineffective public procurement system; (vi) a poor monitoring system; and (vii) an inappropriate funding limit for road maintenance activities. Long delays in public procurement of road maintenance services are observed, and the monitoring and evaluation system of the quality of road maintenance is not effective. Financing road maintenance is also challenging. The annual cost for road maintenance is estimated at GNF 800 billion (about US\$ 80 million). However, Guinea mobilizes only GNF 200 billion through its road maintenance funds. Adding to this is the bad condition of rural roads and the feeder network. Since the late 1980s, in the context of one of the World Bank's projects in Guinea (*Programme National d'Infrastructures Rurales*, PNIR 1), about 20,000 km of road feeders were identified for rehabilitation. However, currently about only 5,000 km have been rehabilitated. Based on updated information, about 50,000 km feeder roads need rehabilitation.⁷⁹ The poor condition of feeder roads has in turn created barriers for farmers' access to markets.

⁷⁷ The international LPI is a summary indicator of logistics sector performance, combining data on six core performance components into a single aggregate measure, ranging between 1 (low performance) and 5 (high performance).

⁷⁸ The economic cost of damaged roads due to road crossing works is significant as the reparation of 1 km road is estimated at about 8 billion GNF (about US\$ 800,000).

⁷⁹ For feeder roads activities, there are three potential sources of financing: the national budget, external financing (donors) and road fund (Fonds d'Entretien Routier, FER). The Ministry of Agriculture was supposed to receive 20 percent of the FER funds,

Table 3: Conditions of National Roads in Guinea (percentage)

Condition	2004	2012	2014
Paved roads (%)			
Good	35	25	16
Average	34	27	33
Bad	31	48	51
Unpaved roads (%)			
Good	5	1	13
Average	28	15	32
Bad	67	84	54

Source: Guinea's Ministry of Public Works.

164. Weak road transport services suffer from a pervasiveness of informal operators and lack of professionalism. The 2014 DTIS finds that roadblocks and illegal payments are still pervasive in Guinea.⁸⁰ It is unclear whether the “*tour de rôle*” system (operators effectively organizing in cartels, depriving the client of the right to choose a transport company) has actually been abolished. This system results in high transport prices, poor efficiency and a bad record of road safety performance. In Conakry, every day about 500 vehicles specialized in the transport of goods operate in the port, and can only travel a distance of 30-35 km, which is very inefficient. In addition, this volume of traffic contributes to a blocking of access to the port, thereby creating congestion in the city and its suburbs. Furthermore, most of the vehicle fleet is obsolete, and the few formal operators (mainly small and medium enterprises [SMEs]) are experiencing financial and operational deterioration. Although Guinea is a member of Organization for the Harmonization of Corporate Law in Africa (*Organisation pour l'harmonisation en Afrique du droit des affaires* - OHADA), no transport contract is enforced in the national legislation. Except for peak periods (during harvest), operators struggle to find cargo because no initiative has yet been taken to establish a “*bourse de fret routier*” (freight exchange). As a result of poor infrastructure and services, about 20 percent of Guinea's agricultural products are spoiled and never reach markets.

165. The port of Conakry, the country's main gateway, has also experienced a variety of problems. The port is the source of 45 percent of total fiscal revenues, 98 percent of customs revenues, and more than 10,000 jobs. The port is in good condition, but its draft is shallow (DTIS 2016). Its smooth operation is hampered by management flaws, whereas competition in the region for maritime traffic and transit is rising. An excessive number of parties are involved in its operations and levy taxes. The various levies amount to US\$1,330 for a 20 feet container and US\$2,080 for a 40 feet container, thereby placing the port of Conakry among the most expensive ones — even above other ports in the region, such as Abidjan, Dakar and Nouakchott. Other major issues include the following: the port is congested with an occupancy rate of above 70 percent for all berths but two. It is located in the city, resulting in huge traffic jams. Also, there is no traffic master plan, or priority rules regulating its access. Only half of the trucks operating in the port are in good condition. Port fees in Conakry are also higher than other West-African counterparts for all types of vessels. Finally, not only is Conakry the most expensive port in the region, but its procedures are also cumbersome.⁸¹

which are constituted of GNF 250 collected by liter of oil products (excluding kerosene for households' consumption). Through such mechanism, a total of GNF 200 billion (about US\$20 million) are collected per year for roads maintenance, while the annual maintenance budget is estimated at GNF 800 billion.

⁸⁰ According to a survey on the corridor between Mali and Guinea in July 2014, there were 13 check points on the Guinean part of the corridor leading to the payment of illegal fees totaling US\$250 for livestock and delaying traffic for more than one hour at each roadblock. 44 percent of the illegal payments went to customs officers and one quarter respectively to the military police and the municipality (Permanent Interstate committee for drought control in the Sahel/USAID, *Rapport sur les Tracasseries Routières sur les produits agricoles en Afrique de l'Ouest*, July 2014).

⁸¹ The DTIS finds that excluding tariffs and taxes paid outside the port, an importer must first pay US\$1,330 for a 20 feet container (US\$2,080 for a 40-feet container) and US\$216 for a car. A refundable guarantee of US\$570 per container and possibly, demurrage fees, will apply if the container is not picked up within the 10 days of free time. In addition, there are informal

166. The poor port infrastructure and railroad system are major constraints to the development and expansion of bauxite and iron ore resources, as well as general cargo in the country. Inadequate policies and practices have led to a significant rise in the costs of their development, delaying the implementation of potentially transformative projects, such as the Simandou project. Guinea has yet to adopt an ancillary mining infrastructure development master plan. In addition, it has yet to put into place the legal, regulatory, and institutional frameworks to facilitate the optimal operation of railroads and port facilities and ensure access by all users and for multiple purposes. The country will soon address the implementation challenges of the multi-user port and railroad sharing agreement in the Kamsar-Sangaredi corridor. In this context, it will need to demonstrate its ability to appropriately manage competing demands if it is to convince other prospective investors to follow the otherwise sound approach of infrastructure sharing.

167. Information and Communications Technology (ICT) infrastructure still lags. The ICT sector is a major contributor to fiscal revenues in Guinea, and its development has sped up the modernization of the economy. Although mobile penetration increased spectacularly in recent years, internet and broadband users are almost nonexistent. Moreover, although mobile banking experienced a surge and there are now more registered accounts than commercial bank and microfinance depositors, only 6 percent of these mobile accounts are active. Overall, despite these recent developments, the ICT sector faces many challenges, particularly in terms of coverage and fiscal pressure. For instance, coverage in rural areas is non-existent or of poor quality. Fiscal pressures on mobile operators have forced them to put an end to investment in rural areas. In addition, taxation is reflected in retail prices, and the use of some services has been directly affected, including SMS (text) use and internet connectivity for businesses. Finally, mobile broadband service penetration — that is, 3-G mobile services — is underperforming compared to the wider SSA region.

Box 8: Mobile Money in Guinea

Two mobile operators launched mobile financial services a few years ago: Orange in 2012 and MTN in April 2014. Orange has the largest market share, with 600,000 active accounts (with at least one transaction within the past 90 days) out of 1.4 million accounts. MTN has 20,000 active accounts (with at least one transaction per 30-day period). In terms of volume, Orange Money handles an average of 210,000 transactions per day for an amount of 5 million Euros (about US\$ 6.1 million). Mobile Money (MTN) counts on average 75,000 transactions per month for a total amount of US\$1.2 million per month.

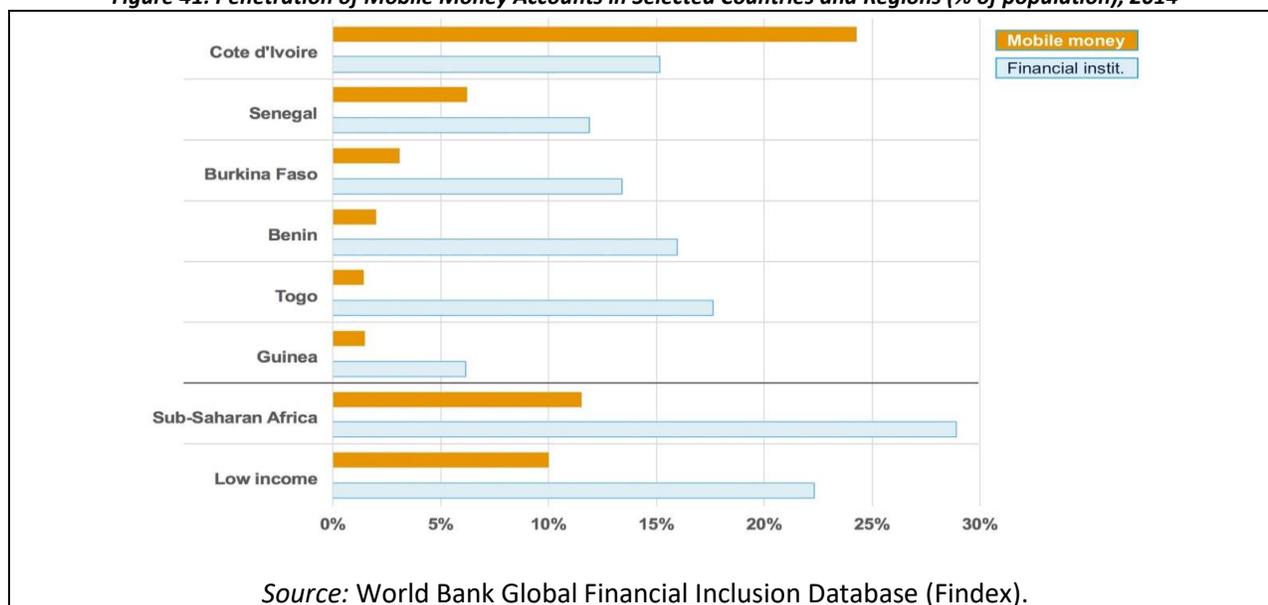
Despite these encouraging figures, Guinea still lags far behind other West African countries. It has one of the lowest mobile money account penetration rates (1.5 percent), as well as one of the lowest financial institution account penetration rates (6.2 percent). Several neighboring countries such as Benin, Burkina Faso, Côte d'Ivoire, Senegal, and Togo have financial institution accounts that are two to three times higher; with a mobile money account penetration rate of 24.3 percent, Côte d'Ivoire is one of the few countries in Sub-Saharan Africa where more adults have a mobile money account than a financial institution account. When compared to country aggregates, Guinea also lags behind the SSA region (developing countries only) and the low-income country aggregate (Figure 41).

168. The development of mobile money services in Guinea has improved, but the industry is still facing constraints (Box 8). First, mobile operators agree that illiteracy is the main factor slowing the uptake of mobile services. To address this issue, operators are developing voice-based services in local languages. Second, both mobile operators, Mobile Money (MTN) and Orange, mention the lack of reliable identification as another critical factor preventing the rapid development of financial services over mobile devices in Guinea. The World Bank, along with EU and the United Nations Children's Fund (UNICEF), are coordinating their efforts to support the Government's strategy on identification (Digital ID). Third, many geographical zones in Guinea are poorly covered and do not offer the signal quality necessary to ensure secured financial transactions. In addition, operators have recently mentioned the very high fiscal pressure, which is hindering their investment plans, especially for a nascent service where

payments, which could reach US\$85 per unit. The total amount is approximately US\$2000 for a 20-foot container. As many as 10 operators intervene in the port and have asked for payments in 11 different locations.

margins are still very narrow. To address this, it will be necessary to operationalize the Universal Access Fund.

Figure 41: Penetration of Mobile Money Accounts in Selected Countries and Regions (% of population), 2014



ii) Low access to finance is also a constraint.

169. The absence of financial intermediation is a constraint for the development of the country.

Guinea’s financial sector is of modest size and lower than comparators, which limits access to finance for private investment in the country. Whereas the average lending interest rate is 22 percent in Guinea, it is about 7 percent in WAEMU countries, including comparators such as Mali and Senegal. Collateral requirements are very high. Guinea’s formal financial sector comprises 14 active commercial banks, 6 insurance companies and 17 microfinance institutions (MFIs), and all are regulated by the Central Bank of Guinea (BCRG). Most commercial banks are owned by foreign private investors.⁸² Most of the recent data (2014) suggest that the proportion of adults holding bank accounts in formal financial institutions is 8.5 percent for men and 3.8 percent for women. Most banking activities are concentrated in Conakry, with a few branches available outside the capital. Long-term financing is virtually unavailable in the country, and mobile banking is at a rudimentary phase — although it has significant potential.

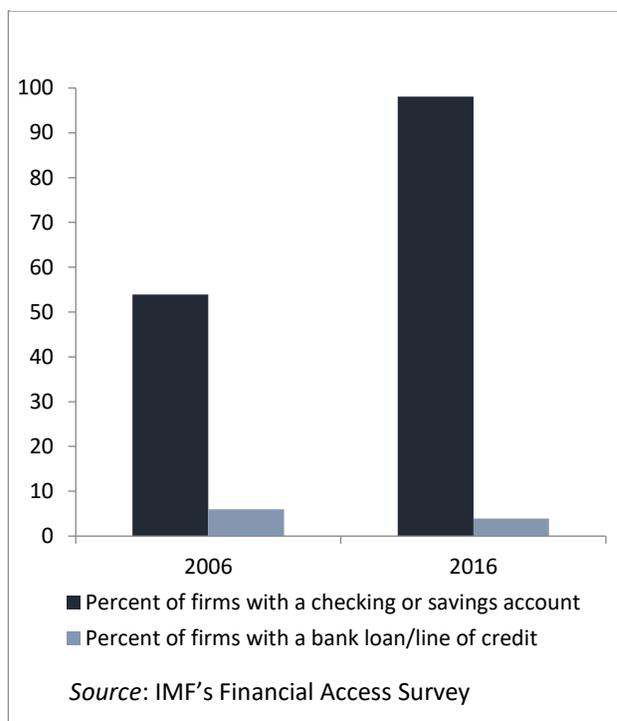
170. Access to finance is ranked as the most problematic factor to doing business. According to the Global Competitiveness Report 2015-16, when respondents were asked to select the five most problematic factors (from a list of factors) for doing business in their country and to rank them from 1 (most problematic) to 5, Guinean respondents ranked access to finance as the most problematic factor. Likewise, the 2016 World Enterprise Survey data provides evidence that large firms have difficulties in accessing finance. SCD consultations with the private sector in Labe and Kindia confirmed the capital scarcity for nascent firms. There is a large demand for more credit, as evidenced by the strong demand for microfinance by commercial and agricultural enterprises in recent years. However, because of governance issues, there is no integrated credit scoring system for governments to identify viable enterprises. The country also has no formal credit registries.

⁸² In 2013, the 14 commercial banks had 109 branches, and total assets of GNF11,469 billion (US\$1.65 billion), an increase from GNF9,957 billion (US\$ equivalent) in 2012. Three banks (Ecobank, SGBG, and BICIGUI) dominate the sector with about 73 percent of total assets. Five institutions dominate the microfinance sector: Credit Rural de Guinée (CRG), Pride, Yete Mali, CAFODEC Finances and Finadev. Together, they account for about 98 percent of loans, and CRG and Yete Mali also account for around 88 percent of deposits.

171. The cost of finance, as measured by interest rates, is an indicator of the difficulties of accessing finance by private entrepreneurs.

The cost of finance is higher in Guinea than in comparator countries, with the average lending interest rate reaching 22 percent in Guinea as compared to 7 percent in WAEMU countries. According to the *Global Competitiveness Report 2015-16*, respondents ranked access to finance as the most problematic factor for doing business in the country. Likewise, the *2016 World Enterprise Survey* data provide additional evidence (Figure 42). Compared to SSA countries, in Guinea, fewer firms offer a bank loan/credit line (3.9 percent of firms in Guinea compared to 22.8 percent in SSA). In addition, Guinea’s firms are asked to submit collateral for 100 percent of loans, on average, whereas in SSA countries, a collateral is requested for only 85 percent of loans. Furthermore, the proportion of rejected loan applications is slightly higher in Guinea than in SSA countries (14.8 percent in Guinea versus 14.2 percent). The use of bank loans for working capital and investment is lower in Guinea. Consequently, the proportion of investment that is internally financed is higher in Guinea (92 percent) than in SSA (74 percent). Overall, there is limited use of formal lending products in Guinea, and credit to SMEs and households represents, respectively less than 25 percent and 10 percent of the total credit outstanding with commercial banks.

Figure 42: Guinea Firms and Credit



172. Guinea’s firms need finance to expand their activities, but face difficulties in accessing finance.

Enterprises of all sizes lack funding to expand their activities, and most do not rely on bank loans (Figures 43 and 44). According to a survey conducted by a World Bank team, about 95 percent of Micro, Small and Medium Enterprises (MSMEs) in Guinea have plans to expand their business activities in the coming years. The most common vision for growth developed by these businesses involved the purchase of more inventory. As such, 60 percent of MSMEs say that their greatest financing need is working capital. Another 18 percent of MSMEs mention the desire to add a new line of product. This often involves the desire to sell a different type of product, for example, wanting to sell clothes instead of cosmetics, or in the case of food retailers, many mentioned the desire to start a farm in order to market their own products, rather than purchasing inventory from farmers.

Figure 43: Guinea Firms Access to Finance (%)

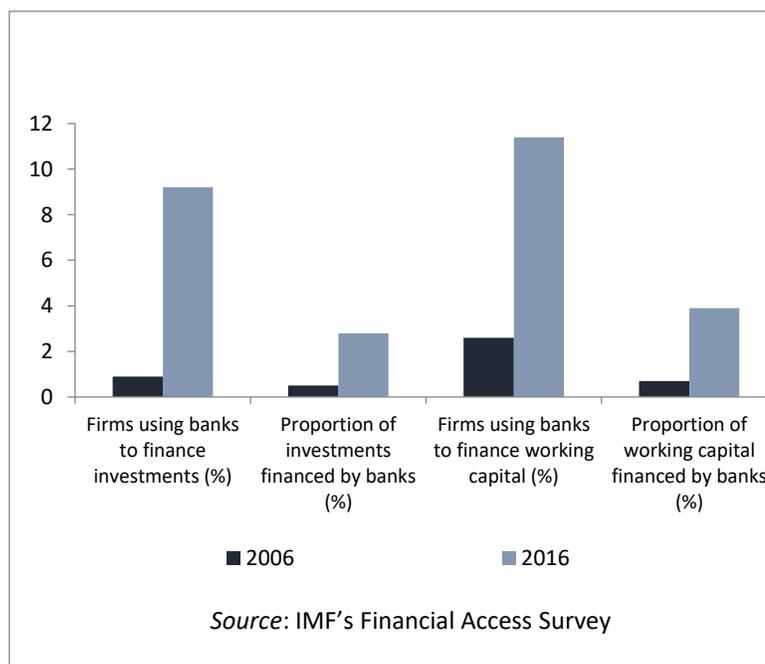
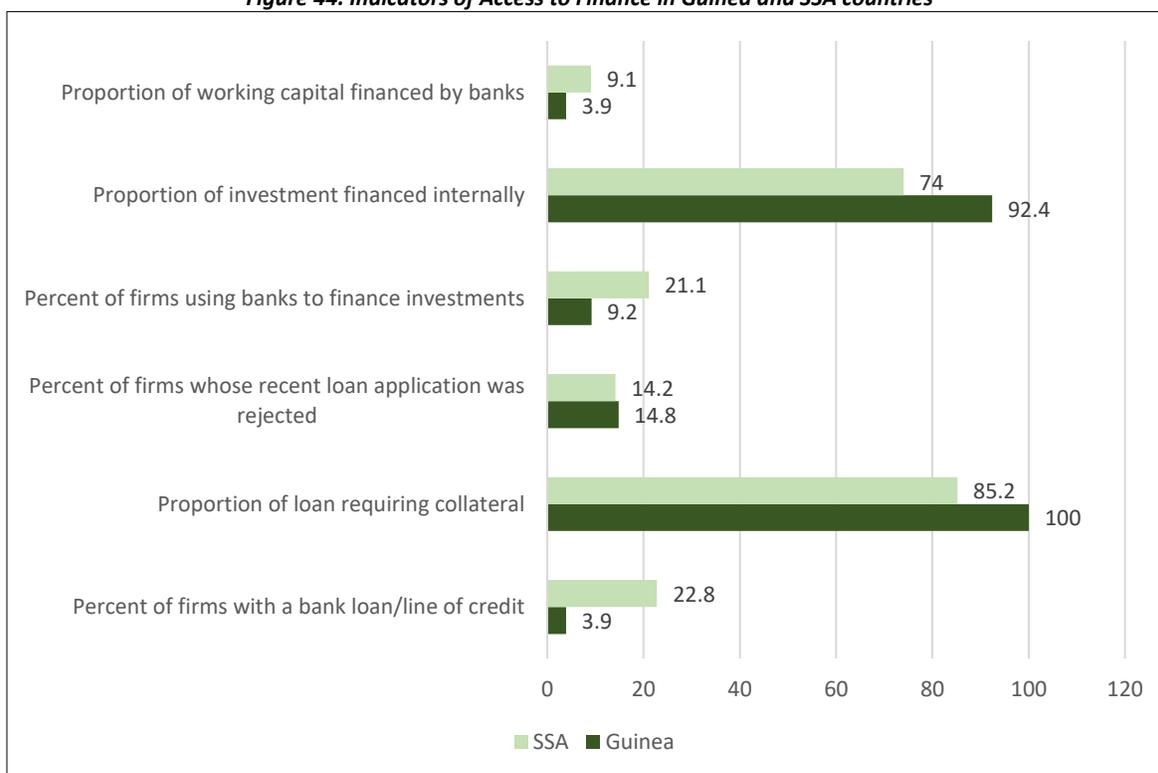


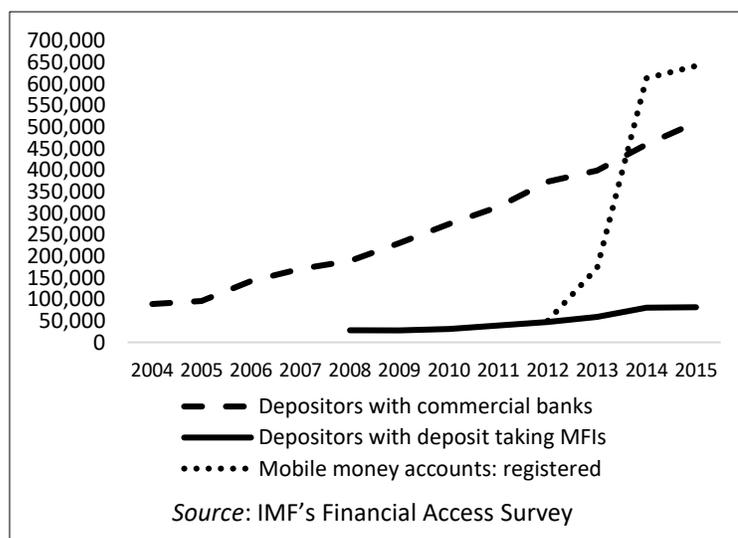
Figure 44. Indicators of Access to Finance in Guinea and SSA countries



Source: World Enterprise Survey data (most recent data).

173. Microfinance institutions (MFIs) represent potential channels through which MSMEs could potentially access both urban and rural finance. However, there seems to be competition from both commercial banks and mobile money services (Figure 45). There are fewer than 100,000 microfinance depositors.

Figure 45: Guinea Finance



Mobile banking witnessed a surge, and there are more registered accounts than commercial banks and MFI depositors. Microfinance institutions face several challenges. Consequently, they serve only a small fraction of the demand for services from the low-income population, and offer few microfinance products. The surge of Non-Performing Loans (NPL) is one of the challenges facing the microfinance industry in Guinea. The Ebola crisis has devastated the microfinance sector, particularly the smaller institutions. In the affected areas, all the smaller MFIs have greatly reduced their interface with clients since August 2014, ceasing both collections and advances. The current volume of lending of the largest MFI, CRG, recently stood at US\$11.4 million compared to a target of US\$15.4 million, NPLs rose to 14 percent of the portfolio (US\$1.6 million). This trend is expected to affect both CRG's bottom line and equity in the short-medium term. The NPLs recorded are attributable to small agriculture players.

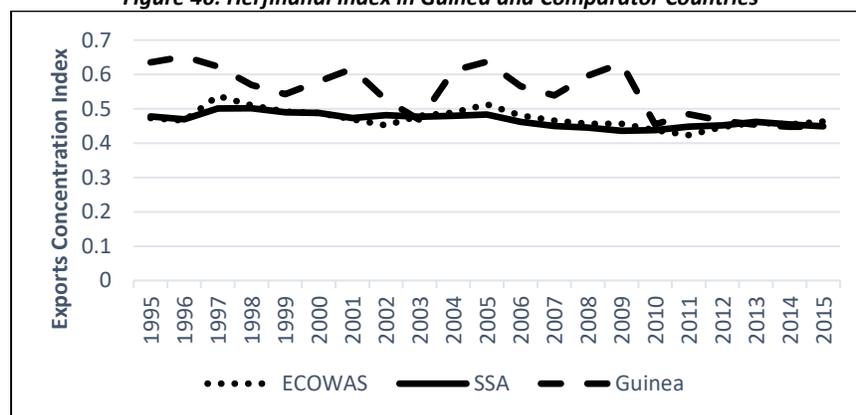
174. The Guinean microfinance sector is affected by poor governance, especially in relation to rural finance. A recent analysis of the MFI sector, which is an important provider of financial services to low and middle-income people, concluded that many institutions face significant prudential risks (mainly due

to regulatory deficiencies and supervisory practices stemming from the last 10-15 years). Most lack adequate reporting systems, have a weak performance and require well-coordinated efforts by the authorities and the MFIs themselves to address their shortcomings — and to achieve their potential. Guinea’s microfinance sector is in a precarious state because most MFIs, including *Crédit Rural de Guinée* (CRG), do not seem to be financially sustainable. CRG’s financial statements indicate that about 80 percent of its balance sheet is on suspense accounts, and only 10 percent of its assets are income generating. In fact, the capital base of many MFIs has been continuously eroded by persistently negative results. The reported solvency ratio for the microfinance industry decreased from 11 percent in 2013 to 2 percent in 2015. These losses resulted mainly from loan delinquency and inadequate cost management.

175. Rural finance has been particularly affected by the lack of financial depth and poor governance. Most of the banks are focussed on urban clients, as is the pattern in other sub-Saharan African developing countries. In Guinea, savings, insurance, and mobile money programs are relatively new for rural households, which have traditionally relied on informal lending systems and family or friends for loans. Although access to new financial products has the potential to benefit farmers and other rural populations, for historical and cultural reasons, they have not expanded. Crop insurance, which can lower risks for farmers due to extreme weather events, has not been tried. Furthermore, health insurance is not available to rural farmers. Microfinance works marginally in rural areas.

176. Many factors, including poor logistics and financial access, account for the high concentration of Guinea’s exports in a small number of low-productivity goods. To assess a country’s export diversification level, the Herfindhal index is widely used in the economic development literature. The Herfindhal index ranges from 0 to 1, with lower values indicating a greater diversification in export earnings. In the case of Guinea, the Herfindhal index ranges from 0.4 to 0.6, suggesting a high concentration in the country’s exports. Guinea’s export concentration is higher than the average for SSA and West African countries (Figure 46). However, the country’s Herfindhal index has been declining since 2009, a change driven more by declining commodity prices than by a significant increase in the number of the country’s exports. Moreover, Guinea’s exports are concentrated on a small number of primary goods. In 1995, Guinea’s top 5 exports were all primary products (mining, minerals, and agricultural products) and represented 90 percent of the country’s total exports. Twenty years later, the situation has not significantly changed. Indeed, Guinea’s top 5 exports are still primary goods, accounting for 86 percent of the country’s exports.⁸³

Figure 46: Herfindhal Index in Guinea and Comparator Countries



Source: Calculated using data from the United Nations Conference on Trade and Development (UNCTAD) trade database.

177. The key to ensuring sustainable economic growth lies in export diversification beyond extractives and non-tradable services to the more productive sectors. Available data on the structural composition of exports reveals that Guinea lost ground in terms of manufactured product exports, while

⁸³ In the period 2010–2014, petroleum oils figure in the list of Guinea’s top 5 exports. However, this should be represented as re-exports since Guinea is not an oil-producing country.

the country's primary product exports increased over time. In 1995–1999, manufactured products accounted for 82 percent of Guinea's total exports as opposed to 48 percent in 2010–2014. Thus, Guinea's export sophistication declined over time, which may be explained by several factors, including inappropriate subsidy policies.⁸⁴ Given the country's socialist economic history, until the late-1980s, there was a high level of public subsidies for manufacturing production. Most of these subsidies went toward the basic processing of the country's bauxite, as well as production of processed crops.

178. An interesting product space developed by the IFC's analytical team provides some perspective on future export drivers of the Guinean economy. Currently, although extractive industries comprise Guinea's largest exports, other products such as fish, rubber, cashews and telecommunications also contribute significantly. In the analysis, Guinea scores in the top 50 percent of countries in the fish industry in terms of competitiveness, and there is potential for strengthening sustainable fish production to help develop Guinea's stock. This could offer future opportunities and encourage stable growth. Frozen sardines and tuna also offer opportunities for diversification in the fish industry because they grow faster than the global average and are exported competitively in relatively large volumes. Other products, such as plastics, rubber, and cashews also have important export potential. Finally, on the services side, the IFC analysis finds three potential areas for expansion — including telecommunications, audiovisual services, and freight transport services.

5.3 Constraints to Improving Human Capital and Enhancing Access to Basic Services

5.3.1 Job Opportunities are Lacking despite the Growing Labor Force

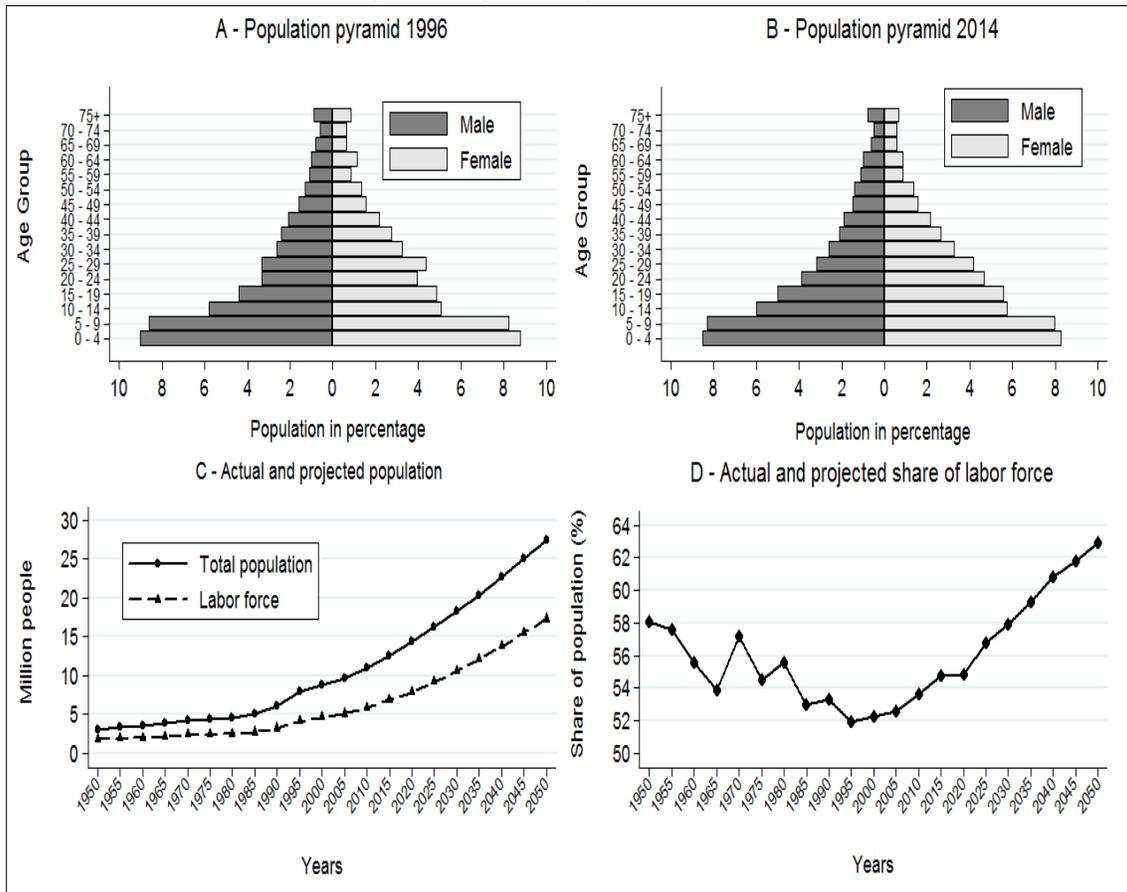
179. Guinea's population is quite young. Figures 45A and 45B show that the Guinean population is very young. Although the proportion of under 15-year-olds appears to have decreased slightly between 1996 and 2014, the number of young adults aged 15 to 34 years has increased. Figure 47C and 47D document the changing trends. It is expected that the labor force⁸⁵, which has increased by nearly 70 percent over the past 20 years, will exceed 17 million people by 2050. The proportion of this labor force, which was at its lowest level in the mid-1990s with about 52 percent, is expected to rise to more than 60 percent by 2050.

180. The pattern of labor force employment has changed significantly during the past two decades. The agricultural sector continued to employ 70 percent of the labor force in 2014, with a slight female predominance in the sector. However, there has been an evolution compared to 1996 where the sector mobilized close to 75 percent of the labor force. In this regard, there has been a shift in employment from the primary to the secondary and tertiary sectors. The share of the labor force allocated to these two sectors increased by 8 and 15 percentage points, respectively (see Figure 48). This transformation was more pronounced among women, whose share in the secondary sector neared 11 percent in 2014, compared to a marginal level of 1 percent in 1996. Notably, women have also entered the service sector, with an increase of nearly 19 percent points.

⁸⁴ The DTIS 2016 finds that volatility among exporting firms is high. Out of the 395 firms that were exporting in 2012, more than half (215) were exporting for the first time and represented a mere 9 percent of total export value. These “one-time” exporters are found in any product (mostly though in agri-food and gold) and to any destination, including OECD countries. As a consequence, between 2007 and 2012, an average exporter is active less than three years, not long enough to build an export strategy. The one-time exporters could be related to the low rate of survival of would-be exporters, an “infant mortality” that is prevalent in other countries in Sub-Saharan Africa as well (Cadot, Iacovone et al. 2013).

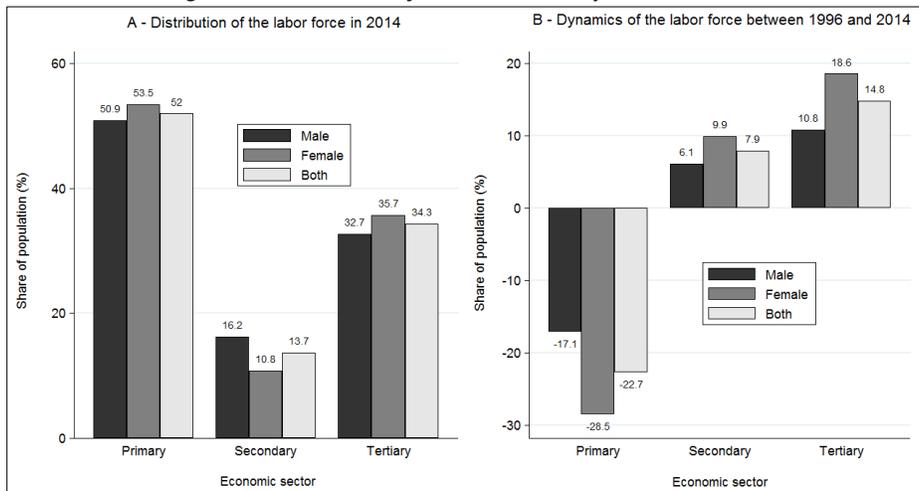
⁸⁵ The labor force includes all people aged 15 to 64 years.

Figure 47: Population Dynamics in Guinea⁸⁶



Sources: Censuses for 1996 and 2014; UN projections; and authors' calculations.

Figure 48: Distribution of the Labor Force by Economic Sector



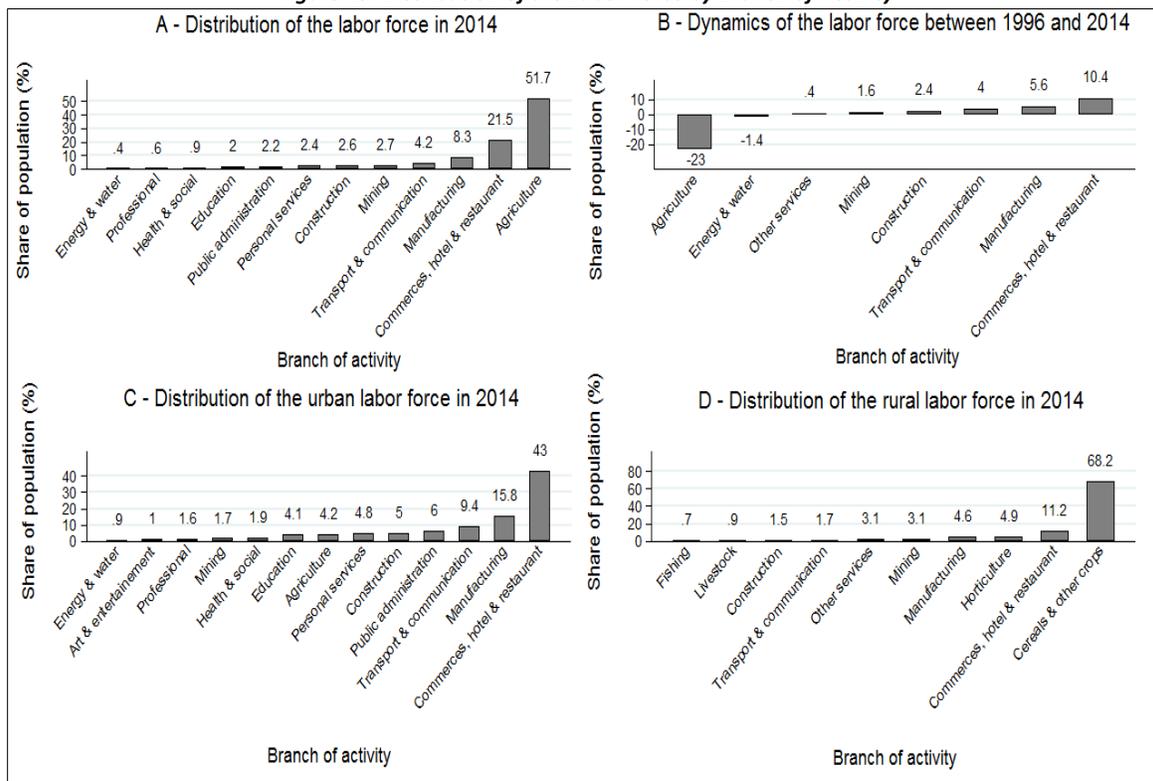
Sources: Censuses for 1996 and 2014, and authors' calculations.

181. A more detailed breakdown is provided in Figure 49. Figure 49A shows that, with the exception of agriculture, most job creation occurred in commerce (22 percent), manufacturing (8.3 percent), transport and communications (4.2 percent), mining (2.7 percent) and construction (2.6 percent). The intra-branch dynamics reveal commerce as the winner at the expense of agriculture, followed by manufacturing, transport and communications and, to a lesser extent, construction and mining (Figure 49B). Employment patterns also differ by place of residence. In urban areas, commerce is predominant

⁸⁶ Although a new census was conducted in 2014, some demographic data used in this study are based on the UN projections used in the 1996 census. This helps to maintain consistency with many other socioeconomic indicators that are based on these same projections.

with 43 percent, followed by manufacturing (16 percent), and transport and communications (9 percent). In rural areas, agriculture is unsurprisingly the main sector. In fact, cereals and others crops account for 68 percent of labor force, followed by commerce with 11 percent. Horticulture also proves to be important with roughly 5 percent (Figure 49C and 49D).

Figure 49: Distribution of the Labor Force by Branch of Activity



Sources: Censuses for 1996 and 2014, and authors' calculations.

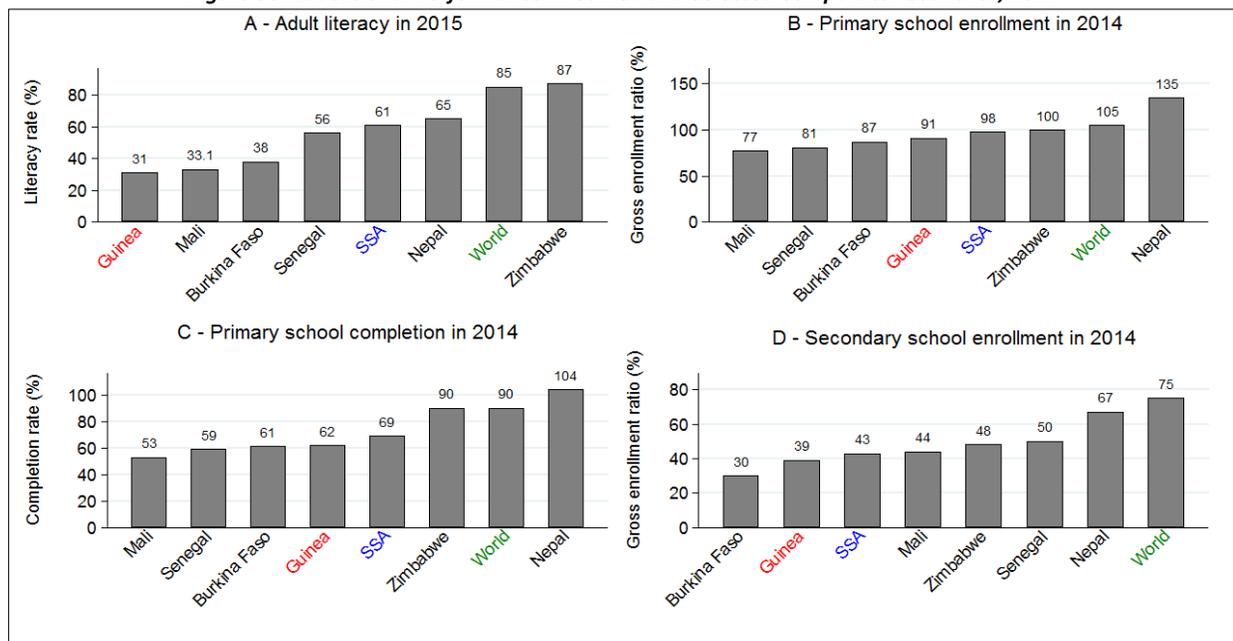
182. The low level of human capital is reflected in the weak healthcare and educational systems. As the economy grows, Guinea faces a major deficiency of skilled personnel in many important sectors, including healthcare, education, and business. This low level of human capital was identified in the poverty analysis as a major driver of poverty in Guinea. In the mining sector, operators are often unable to recruit skilled Guineans who graduated from professional and technical/vocational schools (for example mechanics, welders, and so on), thus forcing them to rely on expatriate labor.

5.3.2 Low Skills Development is an Important Issue

183. The Guinean educational system, which is generally weak, remains characterized by a low level of schooling, and a relatively poor education performance. Guinean adults remain among the least literate in the region, with a rate of only 31 percent as compared to double that of the SSA average (Figure 48A). Regarding other indicators such as enrollment and completion rates (Figures 50B, 50C and 50D), the levels are also relatively low — and still below the SSA average.

184. There are some spatial inequalities in access to education in Guinea. If 53 percent of households in the country do not include any adult member with at least a primary level of education in 2014, this rate may vary from 16 percent in Conakry to 74 percent in Mamou. At the national level, about 57 percent of households include at least one school age child member who is not attending school in 2014. This is relatively low for Conakry with 32 percent, but very high for Kankan with 80 percent. This is a significant downside result of the development of artisanal mining in that region, where children drop out of school to work in the mining sector.

Figure 50: Educational Performance in Guinea and Selected Comparator Countries, 2014



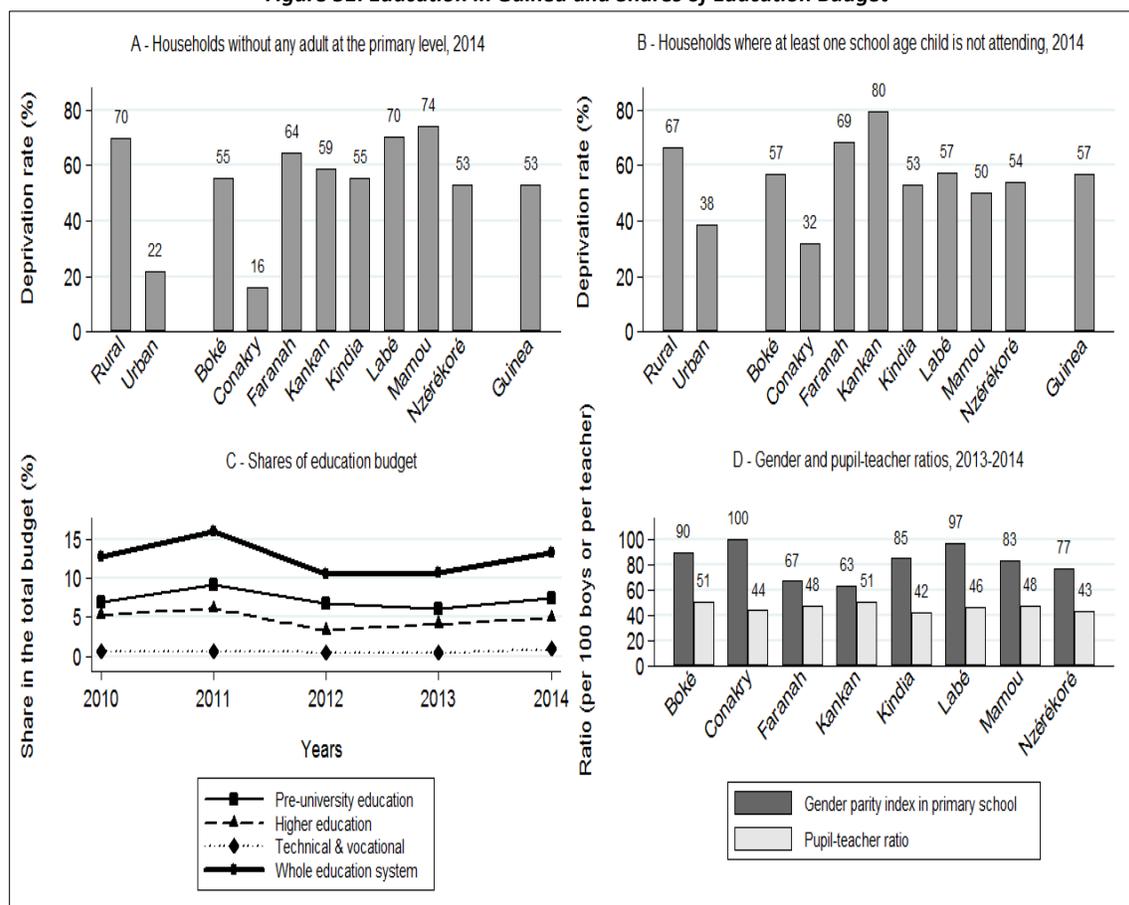
Source: World Development Indicators.

185. The education sector remains plagued by inadequate financing, uneven access to and distribution of teachers, weak teacher competencies, deteriorating infrastructure, and insufficient planning. Government spending on education in Guinea is around 2.6 percent of GDP (2014), which is lower than the mean for Sub-Saharan Africa (4.6 percent) and low-income countries' (4.2 percent). About 30 percent of children of school-going age have never attended school, a figure that rises to 60 percent in rural and hard-to-reach areas. Guinea continues to suffer from teacher shortages, particularly affecting schools outside Conakry. During and after the Ebola epidemic, there were no new recruitments of teachers. Schools closed in Guinea for almost a year during the peak of the Ebola outbreak, from March 2014 until January 2015. Approximately 1,850 children lost at least one parent during the outbreak, making the costs associated with educating these children even more prohibitive. Thus, it became even more important in the wake of the Ebola pandemic to increase teacher deployment in rural Guinea.

186. Education and skills shortages are a constraint on growth, employment, and productivity. Figure 51 details the situation of the educational sector. Problems with skills development can be traced to the educational and training system, starting from early childhood development and continuing through the school and post-school system, as well as ongoing workplace professional development. Together with skills, the constraints on education include: (i) low technical efficiency of spending; (ii) insufficient and dilapidated infrastructure and educational facilities; (iii) an inadequate curriculum; (iv) lack of technical and vocational training; and (v) a lack of financial resource management. Investments in primary education, adult literacy, and training at higher levels of education are urgently needed. Social protection is also weak and requires stronger governmental support in terms of the provision of social safety nets.

187. Guinea's labor force at all levels lacks the skills to increase productivity and competitiveness. The low quality of education and vocational training has led to skill shortages, thereby constraining growth, employment, and productivity. In the health sector, health care workers are frequently not equipped to handle complex demands in the field. In the education sector, teachers are often underqualified and need additional training. Farmers lack the knowledge and ability to grow higher productivity crops. In addition, they often lack the necessary knowledge to use agricultural inputs effectively, sometimes resulting in crop losses. The lack of skills is also reflected in the limited entrepreneurial culture, which predisposes the economy to slow private sector development.

Figure 51: Education in Guinea and Shares of Education Budget



Sources: Census 2014, INS (2016); and authors' calculations.

188. The public administration faces a skills deficit as it suffers from a lack of administrative skills. In fact, unlike in the other West African French-speaking countries, the school administration is absent, even until recently. As in other Francophone African countries, in recent years, the civil service has performed sub-optimally. First, there has been a large brain drain of skilled professionals to the private sector or to the West, as well as the departure of key mentors. Second, despite donor attempts to build capacity and increase salaries, the civil service remains demotivated and operates in a difficult environment. Their skills in terms of technical, financial, accounting, and human resource (HR) management have eroded. Third, beneath the formal rules, there has been an increase in informality and rent-seeking behavior. To successfully undertake reforms, Guinea needs to invest in building the skills of its civil servants.

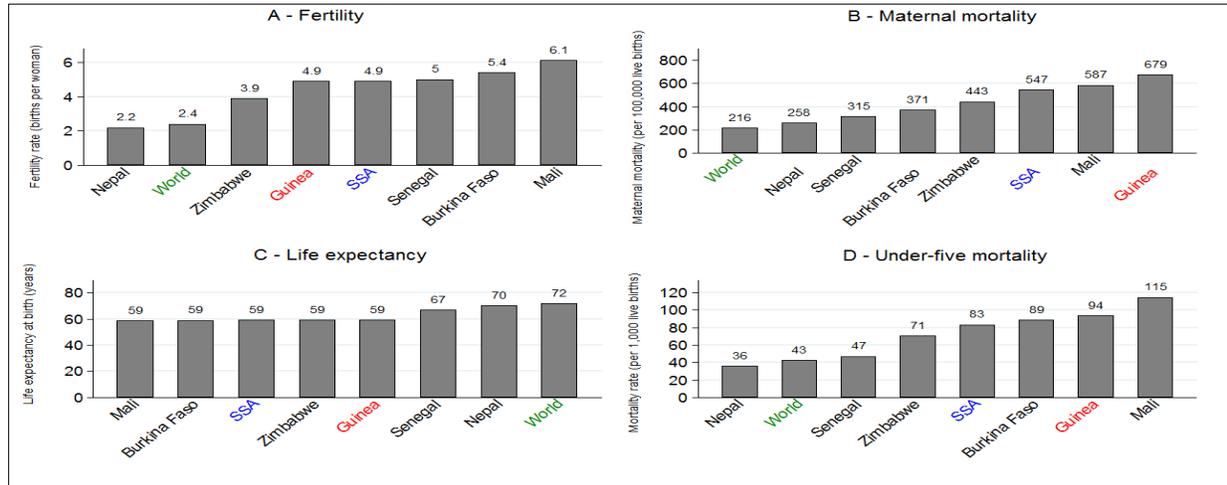
5.3.3 The Public Health System is Weak

189. Guinea's health system is weak and contributed to a worsening of the Ebola crisis situation. Although there has been an improvement since the 1990s, the country remains among the lowest performers in the region in terms of health outcomes. The maternal mortality rate is among the highest in the world, and the fertility rate remains relatively high, with an average of five children per woman (Figure 52A and 52B). This rate is behind only that of fragile and conflict-affected countries such as Liberia, Sierra Leone, and Somalia. Only 45 percent of births are attended by a skilled professional, lower even than many fragile countries in the region. The World Health Organization (WHO) found that maternal issues are among the primary sources of disease in the country. As shown in Figure 52C, the life expectancy at birth stands at the level of the SSA average (59 years), which is relatively low compared to Senegal (67 years), Nepal (70 years), and the world average (72 years). The under-five mortality also remains among the highest, with just under 100 deaths per 1,000 live births (Figure 52D).

190. The public health system is inaccessible, inequitable, inefficient, and unable to deliver even basic health services to the poorest and the most vulnerable. However, the most important constraint

is the lack of skilled personnel at all levels, particularly in rural areas. During the Ebola crisis, the Government prioritized updating healthcare workers and staff with standards and skills in infection prevention and control practices. This was done with the support of USAID, and helped to reduce the risk of the infection spreading to healthcare workers and their clients. As shown in Figure 53, access to health facilities in Guinea is difficult because of fees and distances, with important inequalities among regions.

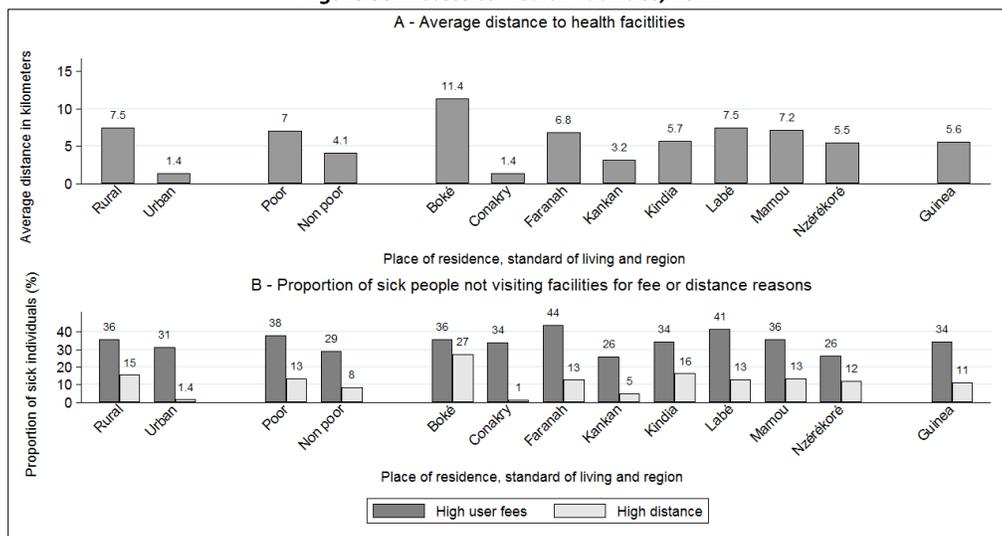
Figure 52: Health Performance in Guinea and Selected Comparator Countries, 2014-2015



Source: World Development Indicators.

191. The health system in Guinea suffers from underfunding and capacity constraints. The health sector has been traditionally underfinanced. Public health expenditures accounted for only 1.9 and 2.6 percent of total expenditures in 2013 and 2014, respectively. A vital step in the post-Ebola plan for the health sector was to ensure the adequacy of funding for the deployment of healthcare workers and the provision of basic information, surveillance, and treatment of diseases. In this regard, the Government has committed to gradually increasing the share of the budget allocated to the health sector from 2.5 percent in 2015 to at least 6 percent by 2020. In addition to low financing levels, funding for health has been highly inequitable, largely benefitting Conakry. Only 17 percent of health professionals in the public sector are in rural areas, serving 70 percent of the population. The majority of the population depends on nursing assistants and community health workers rather than physicians, nurses, or midwives.

Figure 53: Access to Health Facilities, 2012



Source: ELEP 2012.

192. The Government remains committed to addressing the inadequacies of funding and staffing in the health sector. The post-Ebola Recovery Plan adopted in 2015 recognized the importance of

upgrading the health system. The plan envisions the recruitment of additional health care workers, the rehabilitation and new construction of hospital and health centers, and investments in medical equipment, medicines, and vaccines. Using competitive tests, the Government has recruited about 2,000 health care workers, including nurses, midwives, doctors, and health technicians. The recruitment process included conditions to assign newly-recruited staff to centers outside of Conakry. The successful candidates are assigned based on the centers where they took the test. Moreover, healthcare workers outside of Conakry will receive a monthly bonus of at least 10 percent of their wages. The Ministry of Health, in collaboration with local government officials, will also establish a monitoring system at the district level to ensure that healthcare posts are providing services with their assigned staff.

193. The key health sector constraints include the following: (i) the lack of public resources, resulting in low quality of services as reflected in the lack of facilities and skilled personnel, especially in rural areas; (ii) insufficient demand in health services, particularly in rural areas because of the low quality of services, the long distances between communities and points of care, and high user fees; and (iii) poor financial resource management and monitoring of the health system, highlighting again the governance challenges in this and other sectors.

5.3.4 The Social Protection Program is Inadequate and Gender Issues are Numerous

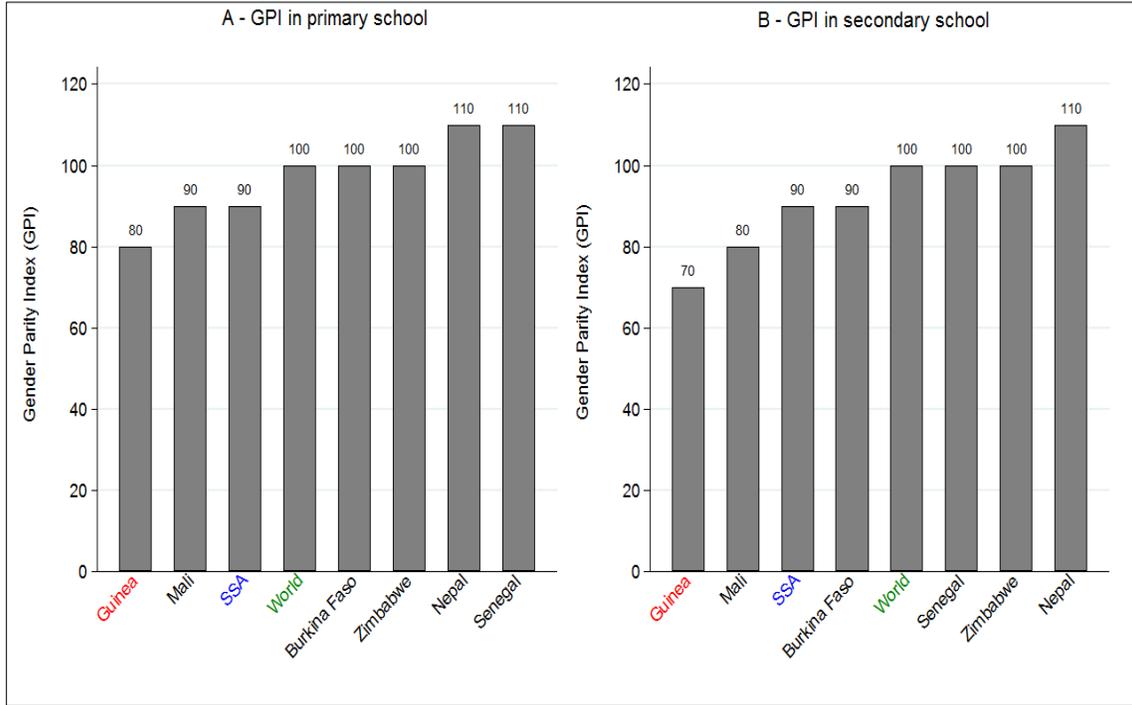
194. Guinea has just adopted a new national social protection policy. As noted in the vulnerability analysis, Guinean populations are often confronted with covariate shocks (political, economic and health crises) and idiosyncratic shocks related, but not limited, to poverty, gender issues, and disability. In this context, a national social protection policy has recently been developed to protect the most vulnerable people. The policy does so by establishing multiple mechanisms ranging from improving the services offered to promoting financial inclusion. The implementation of this national policy will make it possible to enforce some of the provisions of the Basic Law that clearly stipulate the right to social protection. Pending the effective implementation of the new provisions, gender disparities continue to occur in five key areas: the economy, education, health, law, and political participation⁸⁷.

195. In the context of high total fertility rates and associated population growth, gender issues become even more urgent. Human capital development (education and health) remains unevenly distributed across gender dimensions, and women lag in terms of economic activities (employment and access to finance, among others). Moreover, customary laws, tradition, religion and culture disproportionately favor men, leaving Guinean women disadvantaged in terms of empowerment — including practices harmful to their physical integrity.

196. Gender inequalities in education are higher than the African average. There is a large gender gap in school enrollment, which increases substantially once girls approach adolescence and the transition to secondary school. The ratio of female to male enrollment rates drops from an already low 80 percent at the primary level, to just 60 percent at the secondary level (Figures 54A and 54B). This gender inequality appears to be relatively high when compared to selected countries and the SSA average. Unsurprisingly, years of gender gaps in education have translated into a very large gender gap in adult literacy, with only 29 percent of women literate, compared to 38 percent of men. This gender differential has serious implications for women's welfare and their ability to contribute to poverty reduction, since it impedes women from fully participating in and contributing to the labor market.

⁸⁷ World Bank. *Évaluation de la situation du genre en Guinée*, Version finale 1, Octobre 2016.

Figure 54: Gender Parity Index in Guinea Compared to Selected Countries



Source: World Development Indicators.

197. Relatively few women participate in decision-making bodies, and their rights are generally violated. According to Afrobarometer, women are less likely than men to report participating in full-time or part-time work. Moreover, they are concentrated in the informal sector and the less productive sectors — and they face greater time constraints due to unequal domestic work burdens. Regarding empowerment, a variety of indicators suggest that women have very little agency at the household and community levels, making them less able to contribute to or benefit from development. This also puts women at greater risk in terms of negative health outcomes. Figure 55B shows that the participation of women in positions of responsibility and decision-making remains low.

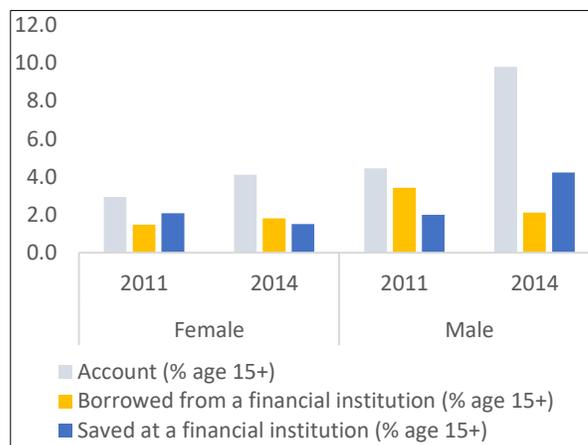
Figure 55: Gender Disparities and Child Protection



Sources: MICS 2016; and World Bank, 2016.

198. Women continue to be dominated by men, supported by the weight of customary laws, tradition, religion and culture. At the matrimonial level, there are traditional practices harmful to the status and physical integrity of women. This is the case of early marriages, resulting in a high prevalence of early pregnancies, which is a risk factor for maternal health. In 2016, about 36 percent of women reported having given birth (live) before the age of 18 (Figure 55C). The practice of female genital mutilation (FGM) remains widespread in the country in 2016, impacting 97 percent of women (Figure 55D). According to a 2013 survey, violence against women also seems to be an important issue, and it is estimated that nearly 92 percent of women aged 15-49 years have been victimized.⁸⁸

Figure 56: Access to Finance by Gender, 2011-2014



199. Women also are discriminated against in terms of access to finance. Empirical evidence shows that it is much harder for women to borrow money from a financial institution than men, whether it be a large or a small financial institution (Figure 56).

200. The constraints to the development of gender equality are numerous. Several constraints are related to other sectors, including the limited investments in human capital, the lack of opportunities for income-generating activities, and the limited access to quality infrastructure in rural areas. A number of socio-cultural constraints continue to hinder women’s potential to participate in the country’s economic growth. Some of these constraints include limited financial resources, the lack of effective mechanisms to protect poor communities against shocks, insufficiently qualified personnel in social protection, and the absence of population registration, which can make it difficult to target the poorest and the most vulnerable.

201. Early childhood development remains an important issue in Guinea, and people with disabilities are among the particularly vulnerable groups. As shown in the poverty chapter, 30 percent of under-five children are stunted, and about 20 percent are underweight (as of 2012). Moreover, only 9 percent of all children aged 3-6 are attending pre-primary school⁸⁹. In 2016, about one-quarter of children aged 12-23 months are not vaccinated (see Figure 55A). Regional disparities appear to be significant, ranging from 6 percent in Conakry to over 40 percent in Labé and Mamou. Regarding people with disabilities, although they account for 1.5 percent of the Guinean population, they constitute a non-negligible population of nearly 156,000 thousand people, according to the 2014 population census. This population is dominated by the lower limbed disabled of more than 50 percent, followed by those with an upper limbed disability of about 20 percent. The remainder are composed of other disabled people (including the blind, the deaf, the mentally-handicapped, and so on).

202. The Government has established an institutional anchor to lead the Early Childhood Development (ECD) policy, but coordination seems to be limited among the ministries.⁹⁰ Moreover, the level of public ECD expenditure is inadequate, with high private costs that may be a barrier to access, especially for the poorest households. In sum, access to early child care and education is limited in the country. The situation is characterized by low access to essential health and maternal interventions, and an inadequate level of access to essential nutrition intervention. In fact, there are significant disparities between urban and rural young children with regard to access to pre-primary education. However, wealthier households tend to have better access to health, nutrition, and social protection than poorer households.

⁸⁸ National survey on gender-based violence in 2013.

⁸⁹ SABER-ECD (2013), *Republic of Guinea: Early Childhood Development*, SABER Country Report, World Bank.

⁹⁰ SABER-ECD (2013), *Republic of Guinea: Early Childhood Development*, SABER Country Report, World Bank.

203. Finally, the lack of inclusion of urban youth, especially in the labor market, is one of the drivers of fragility in the country. Guinea is a young society, with a median age of 18.6 years. However, its youth faces a barely functioning education system and exceedingly high levels of structural unemployment and underemployment. Guinean youth constitute the most important social stratum of the population— and they are the most affected by unemployment. They lack sufficient education when they enter the job market. More than half of Guinea’s youth are illiterate, and even among the successful candidates who earned the *baccalaureate*, the high school diploma, only an average of 35 percent passes each year. Whether schooled or not, most have no choice but to enter a largely informal labor market that is trending toward less productive and lower-paid jobs, and is marked by high structural unemployment and underemployment. Rural youth Nonetheless, rural youth continue to migrate to cities in search of income, adding stress to an already overwhelmed urban labor market and infrastructure.

5.4 Constraints to Fostering Improved Urban Development

5.4.1 Poorly Managed Urbanization is an Issue

204. Although Guinea is at a medium stage of urbanization, the country’s economy has neither benefited from increased urbanization nor experienced the expected structural transformation that comes with it. Currently, just under 40 percent of the population lives in urban areas. With an annual growth rate of 4 percent, by 2050, the urban population is expected to represent close to 60 percent of the total population, as is the case for the whole of SSA (Figure 57A). Although the rate of urbanization remains below the world average, the gap is expected to be smaller compared to the situation in 1950.

205. Conakry is key to Guinea’s development. The capital is by far the largest city in the country and has been growing steadily over the past 35 years. In the 1970s, Conakry was virtually the only major urban center in Guinea, representing over 70 percent of the urban population. Today, although Conakry has grown to over 1.7 million residents, its share of the urban population still represents 45 percent. During this time, several other cities have grown quickly, although even these secondary cities’ population are no greater than 200,000 residents each. Apart from Conakry, the other most urbanized regions are Kindia and Boké, and the less urbanized ones remain Mamou and Labé (see Figure 57B). However, there is continued densification of the urban network that provides the country with a unique potential for increased rural-urban linkages that could benefit the whole economy. Although most cities have experienced stronger population dynamics than Conakry — with in some cases an explosion of the urban population in 2014 compared to 1996 (Coyah, Dubréka and Siguiri) — the urban Guinean population remains unequally distributed among the cities (see Figures 57C).

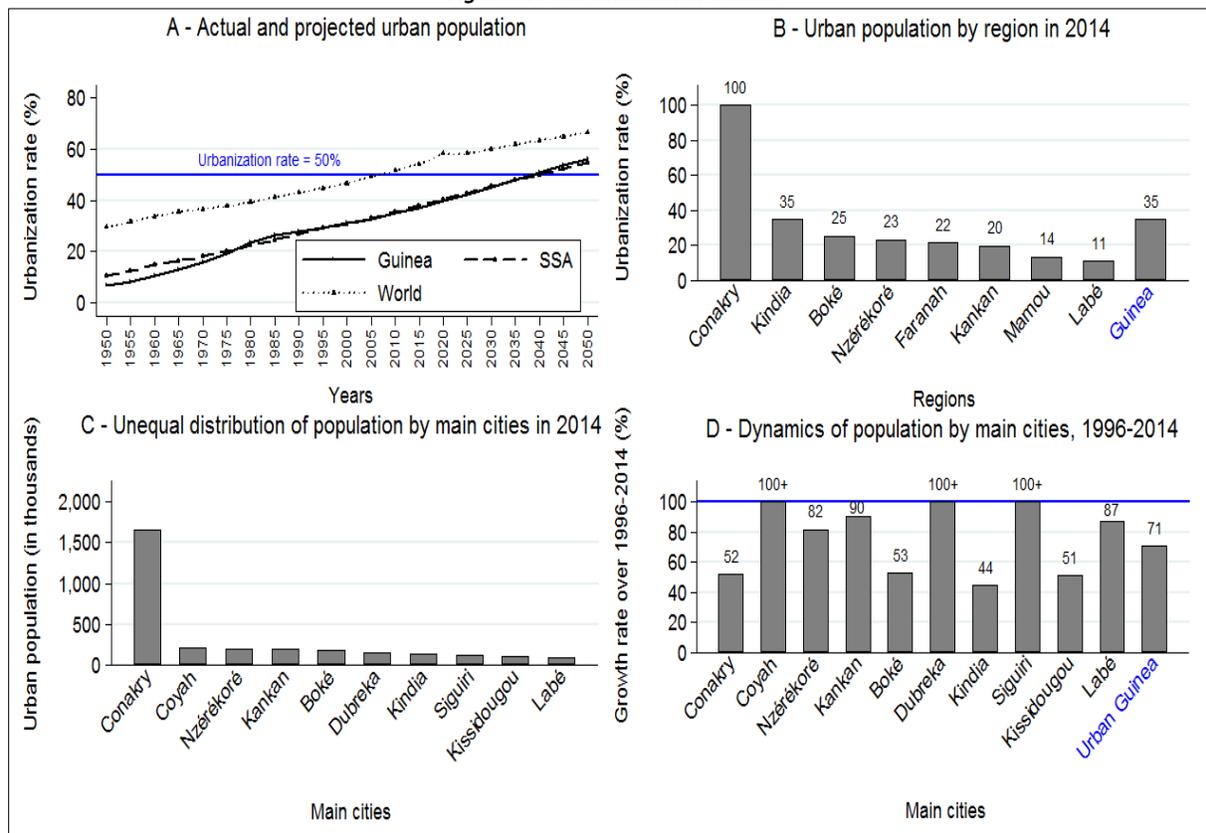
206. The city of Conakry is a dynamic center, characterized by swift and unregulated urbanization. The lack of good urban planning results in poor management of population flows and service delivery. The population in the city of Conakry is distributed unevenly: the center of the city has a very high population density as compared to the peripheral areas. The city administration is divided into five municipalities (or Communes): Dixinn, Kaloum, Matam, Matoto and Ratoma. Each municipality is managed by a Municipal Council (*Conseil Communal*) and superintended by a mayor. The division at the administrative level and fast urbanization have meant that infrastructure development has not kept pace with the growing population.⁹¹

207. Intra-urban movement is a major phenomenon in Conakry. The majority of Conakry’s residents travel from the periphery to the city center on a daily basis to conduct their economic activities, using minibuses and collective taxis concentrated on major streets. Personal vehicles are accessible only to a small elite. The problem of transportation is particularly severe in districts isolated from downtown (Dar-es Salam, Hermakono, Kissosso Plateau, and Tombolia) where taxis are not as easily available and are very expensive. In these districts, inhabitants usually walk to the main roads to find common means of transport. This can create significant obstacles for the sick and elderly populations. For the inhabitants

⁹¹ file:///C:/Users/WB497152/Downloads/36_Vulnerabilites%20urbaines%20a%20Conakry%20Guinee_Oct%202012.pdf

of the peripheries (for example, Sonfonia, which is 36 kilometers from the city), transportation expenses can represent a significant portion of the household budget.⁹²

Figure 57: Urbanization in Guinea



Sources: Censuses for 1996 and 2014; UN population's projections; and authors' calculations.

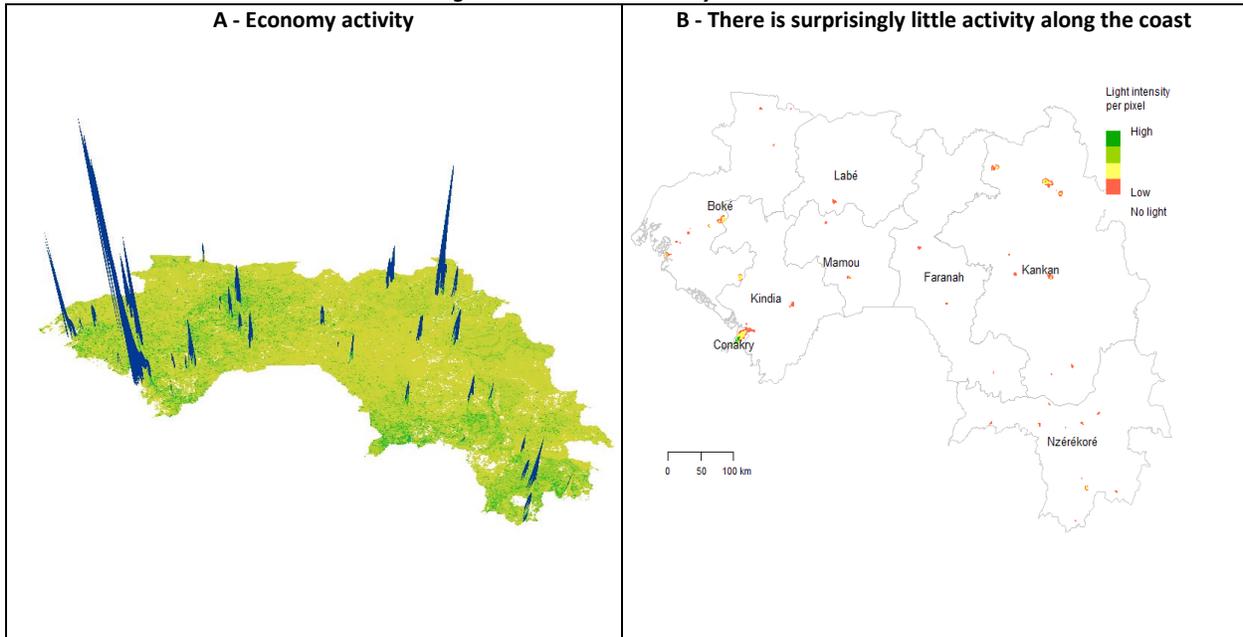
208. Although Conakry is the largest city by population in terms of GDP, several other cities have grown and assumed significance. Historically, economic development has been uneven and concentrated in a few places. Economic concentration characterizes every country. Half of the world's wealth is produced by only 1.5 percent of the world's geographic area. The same is true of Guinea. Conakry and secondary urban centers contribute to most of the country's GDP (Figure 58). Although it is crucial to ensure that the entire population has access to services and mobility, it would be economically counterproductive to fight the trend toward economic concentration.

209. Structural transformation has progressed very slowly, and agriculture still dominates the economy. To achieve sustained economic growth, employment must shift to activities with higher productivity. In fact, most developing countries follow a standard pattern where urbanization is the result of either agricultural or industrial productivity growth.⁹³ By contrast, Guinea is following an alternative path to urbanization, that is, a path which tends to urbanize without increasing output in either manufacturing or industrial services. High resource revenues can lead to an overvalued exchange rate, making other exports uncompetitive, lowering incentives and the ability to invest in tradable sectors, including manufacturing and business services. In this context, resource rents are spent on urban goods and services, leading to the rise of "consumption cities" which are locked into the production of non-tradable goods and services (Jedwab and others 2016).

⁹² Médecins Sans Frontières (2012), *Vulnérabilités urbaines à Conakry Guinée*, Rapport d'évaluation.

⁹³ Urbanization is seen to be a result of economic development, with structural transformation creating "production cities" (Jedwab and others, 2016).

Figure 58: Economic Activity in Guinea

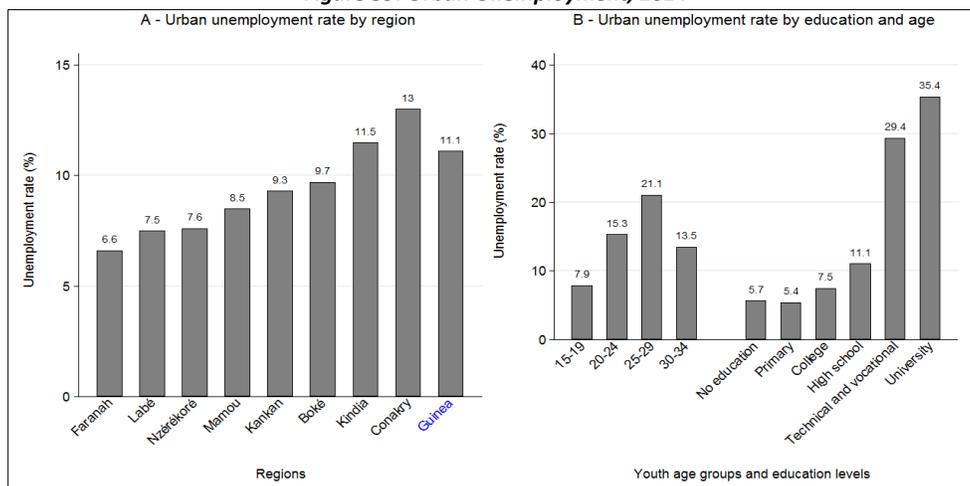


Sources: National Oceanic and Atmospheric Administration (NOAA); Ghosh and others (2010).

5.4.2 Increased Urban Youth Unemployment and Worsening Service Delivery

210. Urban unemployment rates remain relatively higher in Conakry than in the other urban areas. As a result of the great concentration of the urban population in Conakry, slightly less than 15 percent of the population may be considered as unemployed compared to less than 7 percent for the urban areas in Faranah (see Figure 59A). The rate appears to be particularly high among young people, with more than 15 and 21 percent unemployed for the 20-24 and the 25-29-year age groups, respectively (see Figure 59B). However, the level of unemployment is much higher among individuals with a university education or vocational and technical training. The unemployment for these groups is more than 30 percent.

Figure 59: Urban Unemployment, 2014



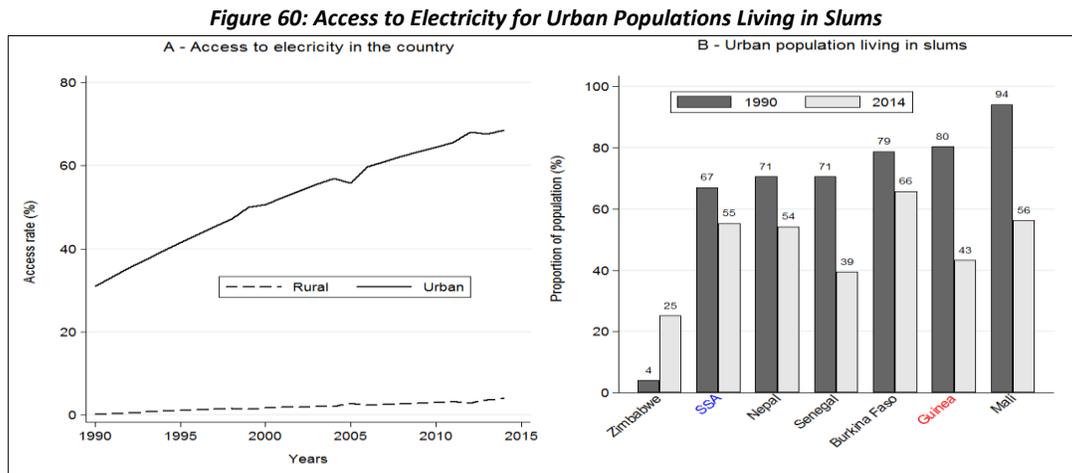
Sources: Census 2014; and INS (2016).

211. Urbanization has had welfare improving effects in Guinea in terms of non-monetary poverty indicators. As Guinea has urbanized, it has been able to achieve a great reduction in the percentage of the urban population living in slums. Indeed, it has surpassed a number of comparator countries at a similar level of urbanization (Figure 60B). The large variations in poverty and service delivery between urban and rural areas tend to push poor people into cities, thereby putting higher pressure on the urban areas. Access to services is generally higher in urban areas than in rural areas. Figure 60 shows how the

wide gap in Guinea in terms of access to electricity over the period 1990-2014. This is also true for services, such as water and sanitation.

212. Welfare gains do not seem to benefit newcomers to urban areas, especially in Conakry. As its population has increased, so has its spatial footprint. Satellite imagery reveals that much of the city's recent growth has taken place along major transport routes. One of the reasons for this phenomenon is that newcomers have settled far from the city-center in areas characterized by limited and costly transportation services.

213. In sum, the urban planification of Conakry has failed with its peninsula and difficult geography, Kaloum imbalance, and the peri-urban expansion without a roadmap. As a result, the city experiences congestion, pollution, and traffic which impede the smooth flow of people and goods, thereby worsening service delivery. Although the situation is better than in rural areas, there is still an infrastructure deficit. In fact, the quality of urban roads and infrastructure is low. There is a lack of quality funding and maintenance, and the coverage of infrastructure services (water, energy, sanitation) appears to be weak.



Source: World Development Indicators.

214. Guinea's cities face more environmental risk that could hurt productivity and livability gains. Guinea suffers from regular and severe flooding. For example, in 2015, rainfall in Guinea resulted in heavy flooding that caused casualties and significant property damage in several localities, including Beyla, Conakry, Forécariah, Macenta, Siguiiri and Téliimélé. Flooding is particularly a concern for the urban population where 5 percent live in areas in which the elevation is below 5 meters. By contrast, in rural areas, only 1 percent live below this elevation.

215. There are numerous constraints to proper urban development. They include a lack of physical structures and weak human capital that, in a better environment, could gain from agglomeration economics. Urban planning in Conakry and the mining towns is particularly critical to ensuring the management of population flows and proper service delivery⁹⁴. Local government officials lack the requisite capacity and municipal budgets to address the population's needs. In fact, decentralized management has failed to result in improved service delivery and local governance in Guinea's urban areas. For decades, decentralization has been the government's major policy for development and management of urban centers. However, there are also structural weaknesses at the urban local governmental level. In addition, relevant reforms have been protracted, hindering the government's ability to support a thorough deepening of decentralization. Other constraints include the lack of a legal framework for the management of land issues and other urban concerns, the absence of regulation and safety standards for low-income urban housing and slums, and insufficient municipal finance to address infrastructure bottlenecks.

⁹⁴ The challenge of cities in the developing world is that poverty and weak governance reduce the ability to address the negative externalities that come with population density (Glaeser, 2013).

5.5 Constraints to Improving Fiscal Management and Natural Resource Wealth

5.5.1 Weak Fiscal Management

216. The major challenge with fiscal management is that there has been too much discretion and too few systems of control in place. There is a need to establish a stronger rules-based approach in several areas. Guinea is very favorably endowed with natural resources, but it has not used these resources efficiently, particularly in mining — mostly due to poor governance. The management of mining in particular can be improved, especially considering the more than US\$2 billion in projected FDI expected over next decade. The country is the largest global producer of bauxite. It is also an important producer of gold, iron ore, and diamonds. As is the case elsewhere in sub-Saharan Africa, extraction of these natural resources has fostered economic growth while exposing the country to volatility in terms of trade shocks. On average, annual revenues derived from the exploitation of these resources accounted for close to 20 percent of overall revenues over the last 10 years as compared to 40 percent during the 1980s and early 1990s. This decrease in government revenues is partly due to tax relief in the mining sector following the adoption of the 1995 Mining Code, which sought to attract foreign private investment. Above all, though, it was due to poor governance in the management of the sector.

217. There are four key governance challenges in the mining sector. First, historically there has been a lack of transparency in the process of licensing mineral rights, rendering it difficult to understand the negotiations signed between the government and the mining companies. Second, due to poor tax collection abilities, there have been difficulties in taxing companies fully, resulting in mining revenues remaining at close to 3 percent of GDP — despite increases in mining activity. All the agreements that were negotiated in the 2000s were implemented on an ad hoc basis. The consequence of these practices is that the tax conditions have never been the same for all mining companies (Natural Resource Governance Institute — NRGi, 2016). Changes in contracts are sometimes negotiated under non-transparent conditions. Third, there has been limited development impact of mining on local communities. Finally, governance over resources has not been well managed and has not led to greater accountability to the public.

218. In recent years, the Government of Guinea has revised the mining code, which is now one of the best in the developing world. In the past, some contracts had been provided on overly generous terms, and on political grounds. With the support of the World Bank and George Soros' Open Society Initiative, Guinea revised its mining code in 2011 (and subsequently amended it in 2013). The aim was to ensure a fair code where all companies respect international fiscal and environmental parameters. This is a major achievement and serves as a best practice in mining code reform for sub-Saharan Africa, especially in relation to striking a balance between attracting investors and helping to mobilize government revenues for development purposes.⁹⁵

219. Taxes on the mining sector are guided by the mining code, which was completely revised in 2011. The new mining code enacted in 2011 provides greater fiscal resources for the Guinean state, including a 15 percent equity. It is aimed at introducing a modern management system for the sector, while increasing revenues for the state. The royalty on bauxite and iron ore exports was raised from 3 to 5 percent, and the valuation of the tax base was transparently linked to international markets. The corporate income tax rate for mining companies was raised from 20 to 30 percent. The Code also provides for a 15 percent governmental share in the mining companies. The new mining code includes a set of tax exemptions during both the exploration and the exploitation phase, the most important of which is the exemption from the value-added tax (VAT). The tax rates in the new mining code are broadly in line with those in other mining codes in the region (Table 4).

⁹⁵ It has been judged one of best in Africa due to its provisions related to contract disclosure, the prevention of corruption, and promotion of transparency in the awarding of new contracts. It has established stringent requirements for license applicants, including a detailed feasibility study with environmental and social impact assessments.

Table 4: Guinea Taxation Rates in the Mining Sector (percent)

	Royalties	Profit Tax	IRCM Tax
Burkina	3 - 5	17.5	6.25
Cote d'Ivoire	3	20 - 25	na
Ghana	3 - 6	35	8
Guinea	5	30	10
Mali	3	35	15 - 18
Mauritania	4 - 6.5	25	10
Zambia	6	30 - 40.8	15

Source: IMF.

Note: IRCM= Transferable securities income tax.

220. All but one of the existing exploitation concessions were concluded under the pre-2011 mining code. As such, they have widely different tax regimes. Reflecting exemptions and other concessional terms, revenues are considerably below potential. The government recently ended a long-running review of the concessions to bring them more into line with the new 2011 mining code. Although many improvements were reportedly made, against a background of low international mineral prices, these changes are not expected to result in substantial additional revenues. In parallel, with the help of the international community, the Government has launched an effort to improve transparency — especially with the recent admission of Guinea as a full member of the Extractive Industries Transparency Initiative (EITI).

221. As mining expands significantly in the next decade, it will be important for Guinea to ensure that new companies ready to invest in the country adhere to the mining code and contribute to the budget. The share of revenue from taxes on the mining sector as a portion of total revenues has declined in recent years.⁹⁶ However, taxes from gold and export taxes on bauxite are projected to increase significantly and may indeed become one of largest sources of revenue from mining. A new company, the Mining Company of Boke (*Société Minière de Boke* - SMB), is compliant with the mining code, and the other companies are expected to become compliant as well. The government is also planning to continue receiving income from fees for the access to a railroad used by two bauxite companies, which is collected by the National Mining Infrastructure Agency (*Agence Nationale des Infrastructures Minières*—ANAIM), which is part of the Ministry of Mines and Geology. In sum, it will be vital to address three main issues: (i) the limited tax collection capacity of the authorities; (ii) the many exemptions obtained in the past by the mining companies; and (iii) the inability of the Guineans to adequately monitor the transfer pricing arrangements of foreign companies.

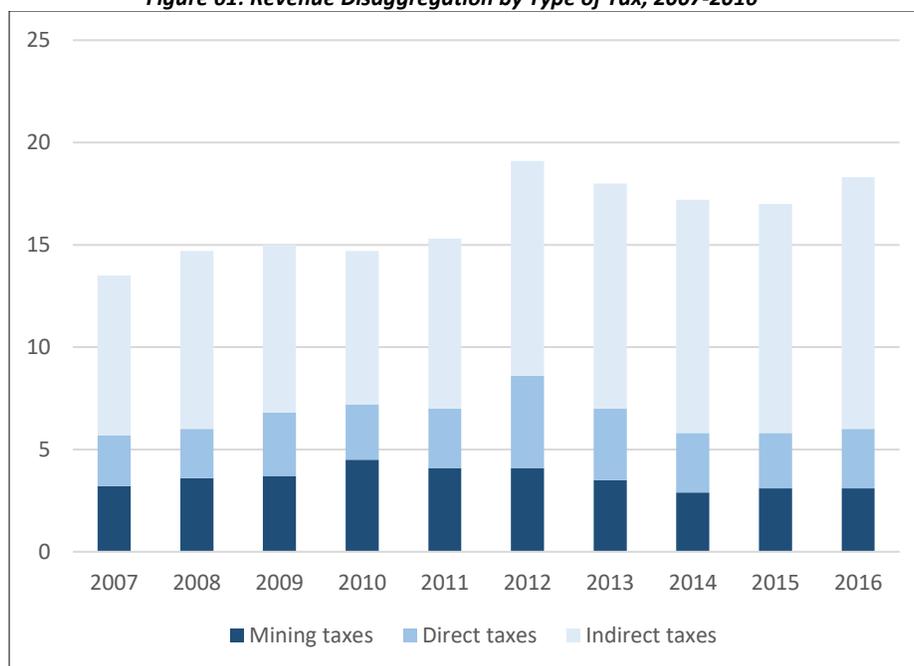
222. In parallel, the government can do more to increase direct taxation. In terms of revenue, governmental revenues increased as a percent of GDP during the period 2007-2016. However, the country made little progress in reducing dependence on taxes on international trade. Revenues remain highly vulnerable to external developments (Figure 61). The revenue to GDP ratio increased from an average of almost 15 percent of GDP in 2007-08 to an average of more than 18 percent of GDP in 2011-16. However, two-thirds of this increase came from higher revenues from fuel taxes—which accounted for 22 percent of government revenue in 2015s. It should be noted that these revenues are highly vulnerable to developments in international oil markets and domestic political conditions. All other major taxes recorded only minor improvements in 2007-2016, indicating very slow progress with improving tax administration, including reducing exemptions and widening the tax base. Revenue from direct taxes is weaker than in other countries, and Guinea has a comparatively high dependence on revenues from international trade. Compared to many other African countries, Guinea's actual direct (non-mining) tax revenue mobilization is lower, with a rate of 2.7 percent of GDP. Its comparators, Mali

⁹⁶ Profit taxes increased during 2007-16, overtaking royalties—which have remained broadly stable in nominal terms—as the main source of revenue from mining.

and Senegal, started at a lower base and have significantly overtaken Guinea at 4.3 percent and 6.1 percent, respectively.

223. Guinea’s historically weak mineral resource management makes it a regional and global underperformer in terms of mineral development. The country hosts an estimated 25 percent of global bauxite resources (20 billion tons) but exported less than 20 million tons in 2016. Simandou, the largest unexploited iron deposit — or Kalia, another large-scale iron ore deposit — was not developed during the commodity price super cycle. By contrast, every mineral-rich country in West Africa developed new mines during the mining boom. However, Guinea has not benefited accordingly because of its unconducive investment climate, which has been compounded by serious deficiencies with regard to railroads and port development.

Figure 61: Revenue Disaggregation by Type of Tax, 2007-2016



Source: World Bank staff estimates.

5.5.2 Natural Resource Mismanagement

224. In relation to the energy sector, poor governance — especially of the parastatal EDG — has led to inadequate and unreliable energy provision. The network is limited, and transmission and distribution losses represent 18 percent of output (Figure 62). Moreover, despite recent improvements, access to energy continues to be poor, with rates of access at 26.4 percent nationwide, and 10.8 percent in rural areas. Guinea leverages its strong renewable potential (especially hydro) to produce 40 percent of its energy. However, the recent increase in capacity came from diesel, and total installed capacity is limited. In parallel, the poor formulation of energy sector policies and less than optimal deals with foreign providers has led to “second-best” outcomes. Despite tremendous hydro resources, more than 60 percent of Guinea’s energy output comes from diesel and heavy fuel oil. Poor sectoral policies are reflected in a narrow transmission and distribution network, as well as a limited scope for Independent Power Producers (IPPs). In recent years, there have been some improvements, with shorter and less frequent outages that are, in turn, less costly. Fewer firms are dependent on generators, although their number remains high.

225. With regard to electricity management, Guinea has a mismanaged public utility company, and it has not managed its energy resources well. First, there is low access to electricity, with high technical and commercial losses as well as illegal connections (by around 11 percent of the population). The weak billing system and revenue collection (about 70 percent) prevent the EDG from covering its operating costs, thereby requiring significant subsidies from the Government (at about 1 percent of GDP). The

constraints are numerous. They include the lack of a supportive policy, as well as institutional, legal, and regulatory frameworks. In addition, the sector requires sizable investment to increase electricity access. Capacity constraints and financing issues also hinder sector development. A new management contract with a private company, Veolia, is now in place and will try to revamp the utility.

Figure 62: Guinea Electricity Sector Empirics

Figure 62a: Guinea Electrification Rates (percent) **Figure 62b: Guinea Transmission and Distribution Losses (percent of output)**

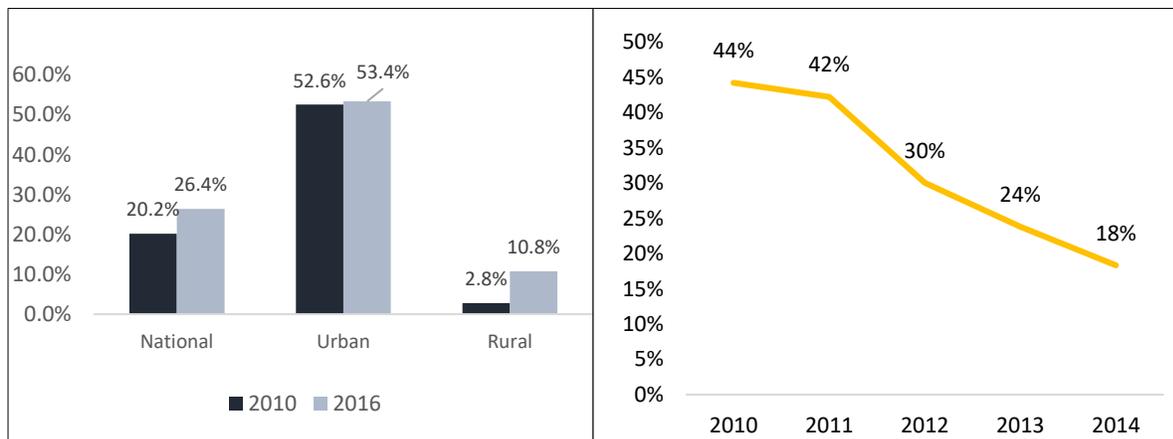


Figure 62c: Energy Sector Installed Capacity (MW) **Figure 62d: Installed Capacity (MW)**

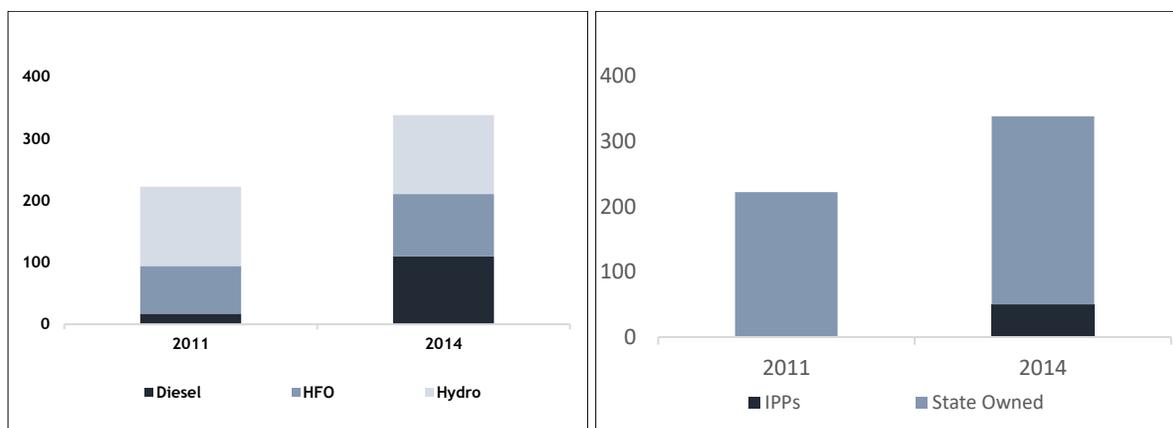
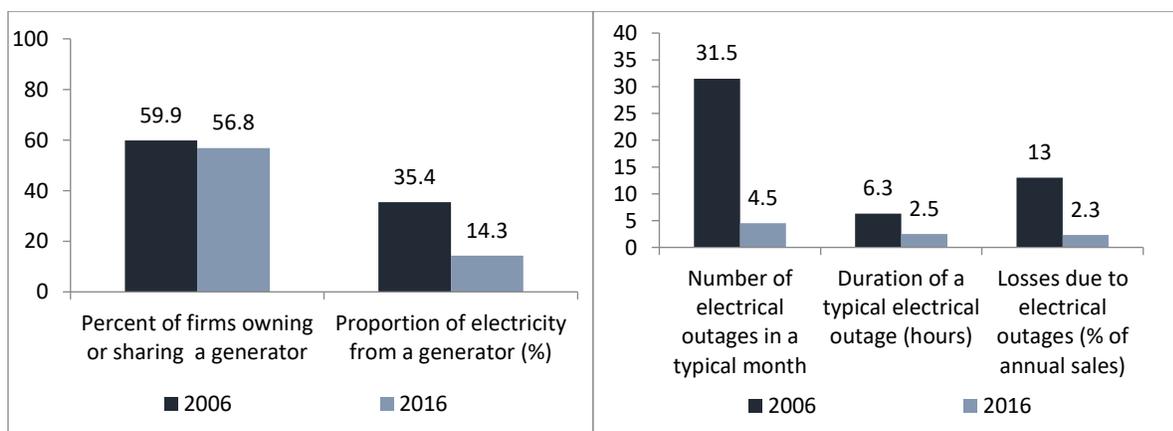


Figure 62e: Firms and Generators (%) **Figure 62f: Energy Outages (x)**



Sources: International Energy Agency's World Energy Outlook, African Renewable Energy Access Program (AFREA), and World Bank Enterprise Survey, 2016.

226. In broader terms, Guinea is endowed with significant hydropower potential, estimated at 6000 MW. This represents more than 12 times the size of the existing grid, and the management of this operation will affect its future development. Guinea has experienced extensive power cuts in the 10

hours per day range as recently as 2014. However, it has now begun investing in increasing its generation capacity. It has the ambition to make use of low-cost hydroelectricity to meet domestic energy demand by 2022, and to become a major exporter of electricity to neighboring countries within the West African Power Pool. This would be a major turnaround for a sector that currently requires subsidies of 2 percent of GDP. Foreign currency revenues from electricity exports and mining would also help improve the country's macroeconomic stability.

227. The management of water resources is particularly problematic. Regarding urban water management, the SEG, the national water company operating in 26 cities and small towns including Conakry, has been struggling with a large production deficit for a decade. This deficit is due to a lack of significant investment programs in water infrastructure. The system is obsolete and needs substantial investments in rehabilitation and expansion in Conakry and the main regional cities. The SEG utility is characterized by poor governance and weak operational and commercial capacities. The water tariffs are too low to cover operating costs, and result in a financial deficit. Insufficient water tariffs contribute to a lack of financial viability in the urban water sector.

228. Guinea is among the lowest-performing countries in terms of environmental performance. The country faces 6 major environmental challenges, including: (i) changing climate patterns that may lead to lower crop yields and soaring food prices; (ii) deforestation, which will be a problem in the long run — even though 60 percent of the country's territory is currently covered by forest; (iii) biodiversity, with endangered chimpanzee populations; (iv) overfishing by powerful European and Asian shipping companies, which may damage local fisheries; (v) soil erosion, which may have damaging effects on food security and the water supply in the long run; and (vi) a lack of clear environmental standards for mining companies, which may result in environmental damage.

229. Guinea is vulnerable to climate change, with susceptibility to extreme weather patterns and natural hazards, including rising sea levels and coastal erosion. Like other countries in West Africa, Guinea is already starting to experience rising temperatures, shifting precipitation patterns, and more extreme weather events. The impact of climate change will be the greatest for the vulnerable 30 percent of the population because it can affect agricultural production and food security, food prices, as well as health. The fisheries sector may also be affected due to an increase in ocean temperatures and a reduction of the stock. Strategic planning by Guinean policymakers in the areas of food security and monitoring will be key to managing the potential adverse impacts of climate change.

230. Climate change can have a potential negative effect on Guinea's development path, although there is uncertainty about the results arising from modelling its impact. A recent Enhancing the Climate Resilience of Africa's Infrastructure (ECRAI) report assesses the effects of climate change scenarios on the physical and financial performance of planned investments in large-scale hydropower and irrigation schemes in seven river basins in Africa, including those of Senegal and Niger. The results of multiple impact analysis tests for the projected hydropower expansion in the Senegal Basin as a whole find that over the 121 climate scenarios considered in the analysis, the present value (PV) of hydropower revenues from the 7 hydro schemes planned up to 2030 increases in only 8 scenarios (those wetter than the historical baseline); and decline in the remaining 113 scenarios, which are expected to be drier than in the baseline. Furthermore, the study finds that adaptation through modification of selected design parameters (for example, turbine capacity, reservoir size, conveyance irrigation efficiency for multi-purpose dams, and so on) can fully offset the impacts of climate change on revenues in only 13 simulations. For the remaining 100 scenarios, even with adaptation, there is a net loss of revenue, ranging from less than 1 percent to almost 50 percent of the no-climate change case.

231. Mining, when improperly managed, negatively affects biodiversity, both directly and indirectly. Mining activities can have a rapid and devastating impact on biodiversity, primarily through the removal of vegetation and alteration of soil profiles, topography, and hydrological regimes. Direct impacts include: (i) damaged/cleared native vegetation; (ii) habitat loss and fragmentation; (iii) increased rainfall run-off from disturbed land; (iv) eroded soil (causing turbidity, siltation, and pollution of local streams); (v) the spread of weeds (including agricultural and commercial exotic species), pests, and diseases of

native flora and fauna; (vi) altered groundwater levels as a result of mine dewatering; and (vii) the exposure of acid-generating rock or subsoil, contaminating waterways with acid and mobile metals. Indirect impacts are less readily identifiable as mining-related infrastructure such as roads, railways, pipelines, and power lines attract people who are either looking for work with the mining operation, or who intend to take advantage of benefits from related economic activity. Thus, large-scale biodiversity loss occurs as colonizers clear land for settlement and farming, and increase pressure on local resources through hunting/poaching threatened species, gathering fuel wood, grazing domestic livestock, and littering.

VI. Pathways and Prioritization of Binding Constraints

232. The prioritization of binding constraints was arrived at after a long process. Constraints were identified based on their potential impact on growth and inclusion. Utilizing the identified constraints, priorities are chosen around four pathways and governance improvement measures. This was done by examining three specific parameters: (i) the likely effect on poverty reduction and shared prosperity; (ii) political feasibility; and (iii) the importance of the issue as seen through stakeholder consultations and cross-country benchmarking. The diagnosis of the macroeconomic and poverty situation made it possible to formulate two theses, which were also validated by stakeholder consultations. Poor governance appears to be the core issue hindering Guinea's development. Structural transformation did not take place due to unproductive agriculture combined with the poorly planned urbanization. The pathways to overcome the main binding constraints and to accelerate poverty reduction are derived from these observations. They were also built around the underlying binding constraints. The four pathways are: improving agricultural productivity and fostering investment in the private sector; improving human capital and increasing access to basic services; fostering better urban development; and improving fiscal management and natural resource wealth.

6.1 Prioritization Approach and Pathways Selection

233. The prioritization framework will be based on the World Bank's guidelines for SCD production. The suggested list of criteria includes the impact on goals, time horizon, pre-conditions, complementarities, evidence-based conclusions, and political feasibility.

- **Impacts on goals** refers to the extent to which poor welfare may be sustainably increased when an identified constraint is removed. This is supposed to be the dominant criterion.
- The **time horizon** of impacts suggests a trade-off between areas depending on whether their impacts will be experienced in the short, medium, or long term.
- **Pre-conditions** refer to critical issues for other things to work.
- **Complementarities:** Do identified areas complement each other?
- **Evidence-based conclusions:** Is there strong evidence that removing a constraint reduces poverty? This will be done using available data and several robust statistical tools.
- **Political feasibility** refers to the degree of political difficulty in dealing with a given constraint.

234. The prioritization is done after several constraints, including the most binding ones, have been identified. In fact, the identification of priorities is based on the mix of criteria once the related constraints have been determined. First, the identification of constraints follows several approaches. The approach proposed by Hausmann, Rodrick and Velasco (2005), now known as the HRV approach, is used to identify the binding constraints to private-sector driven growth. This leads to the retention of three constraints: lack of good infrastructure (road and electricity), low access to finance, and poor governance. In this context, poor governance is considered to be a cross-cutting issue. It includes several other inherent constraints, such as weak fiscal management in mining, electricity, and water sectors, low citizen engagement, and inadequate public institutions. The HRV framework is presented in the Annexes. Other binding constraints, especially those related to the inclusion and sustainability aspects, are identified through the poverty analysis. These constraints are related to unproductive agriculture, human capital weaknesses (health, education), demographics, vulnerability, rural infrastructure, and farm assets, among others.

235. Based on the identified constraints, priorities are chosen around four pathways and governance improvement. This is done by using the likely effect on poverty reduction and shared prosperity, economic growth, complementarity, political feasibility, and the acuteness of the issue as identified through stakeholder consultations (Box 9). Cross-country benchmarking is also utilized (see Table 6). Two levels of priority are considered. The first one (top-tier priorities) refers to the most urgent and

appropriate measures to be undertaken to significantly impact poverty reduction and boost shared prosperity in the medium and long terms. The second level is about measures that are also important, but that may be considered as secondary in a limited budget environment. The diagnosis of the macroeconomic situation and poverty made it possible to make two important observations that are validated by stakeholder consultations and internal reviews. Poor governance appears to be the core issue that hinders Guinea's development, and structural transformation did not take place due to unproductive agriculture combined with poorly planned urbanization. The pathways to overcome the main binding constraints and to accelerate poverty reduction are derived from these observations and are built around underlying binding constraints. This leads to the selection of four pathways to reduce poverty through the acceleration of structural transformation. However, given the central role played by governance cross-cutting issues, two activities are considered as helpful to alleviate the burden of poor governance, and to ensure the sustainability of growth and poverty reduction. The team also tried to ensure harmonization with the new Government's strategy (PNDES), which builds upon the post-Ebola recovery plan. This strategy is summarized in Box 10.

236. The first pathway is increasing agricultural productivity and supporting private sector investment to promote economic diversification. To overcome the chronic poverty which prevails in rural areas, there is a need to raise incomes and the standard of living in the livelihood zones where the population lives mainly from agriculture. The first and straightforward way to do this is to improve agricultural productivity through the increased use of agricultural inputs (fertilizers, improved seeds). Secondly, a more rational and less cumbersome policy of using equipment, combined with better supervision of farmers, should make it possible to promote farming techniques and marginally increase productivity. To avoid the failures of past policies inherent in poor governance, more intensive reforms should be initiated to improve the management of input subsidy programs. Finally, the increase in agricultural productivity is not an end, but a way for farmers to generate higher income — provided that the expected surplus of production is absorbed by domestic and international markets. That is why the development of value chains should be advocated to complement other identified priorities. In fact, rather than simply increasing productivity, agricultural development should rely on agribusiness to enhance traditional agriculture and strengthen this sector as a source of growth. Moreover, agriculture and urbanization development require the construction of infrastructure and provision of logistics. Building infrastructure along critical corridors will certainly enhance international trade with neighboring countries. By better connecting domestic markets to international markets, opportunities for income generation will increase for farmers and private-sector operators, thereby contributing to agricultural development and structural transformation. Next, by enabling an environment conducive for private sector development, improving the access to finance may enhance growth. Providing better access to credit will increase opportunities for both rural and urban dwellers to generate more productive jobs, and strengthen the structural transformation.

237. The second pathway is raising human capital to support inclusive growth. Four priority actions may be helpful to achieving this pathway. Skills development is the first key pillar. Although most poor people live in rural areas, cities are also impacted by poverty. Nearly 15 percent of people who are chronically poor, transient poor or vulnerable are living in urban areas, with worsening prospects as the urbanization rate increases. It would be wise to develop the right skills to ensure that the structural transformation follows the trajectory of the classical model whereby the manufacturing sector is the main beneficiary of labor migration. This improvement in human capital will also be facilitated by administrative capacity building, which is likely to improve governance. This pathway would be strengthened when accompanied, to a certain extent, by a strengthening of the public health system and promoting gender equality. The lessons learned from the recent Ebola epidemic, which had a disastrous effect on the economy of Guinea, led to the suggestion of creating a more resilient public health system. Such a system is necessary to make the economy more resilient to health covariate shocks. This will also help households cope with the usual idiosyncratic health shocks that negatively affect workers' productivity and family well-being. Moreover, the promotion of gender equality remains an effective social protection policy in the sense that it can induce inclusive growth. These are all important elements of the government's strategy (PNDES) (Box 10).

Box 9: Stakeholder Consultations for the Guinea SCD

In order to identify the most appropriate set of constraints to Guinea's achievement of the twin goals, a wide range of local stakeholders were involved in the country's diagnostic in November 2016. This process culminated in intensive two-week, in-country consultations, during which the World Bank team tested its initial hypothesis and received stakeholder feedback and ideas to incorporate into the final document. At the end of these consultations, 4 cross-cutting constraints were identified, as well as other possible areas.

The SCD consultations took place April 4-13, 2017. The World Bank's team, led by the Country Manager, visited three major cities in Guinea (Conakry, Labé and Kindia) to explore some of the poorest areas of the country as determined by the poverty assessment analysis. They were to provide a comparison to the capital. In the regions, local governments facilitated the inclusion of large and diversified groups of stakeholders, ranging from representatives of the local administration, to civil society organizations (a youth association, women's association, traditional and religious leadership heads, and local non-governmental organizations [NGOs]) and the private sector. Meetings were also organized with central government authorities, representatives of the National Assembly, as well as other international donors.

The objectives of these consultations were two-fold: to include Guinean stakeholder points of view in the diagnostic, and to create the basis for local ownership of the process, and to present the initial diagnostic formulated by the World Bank team to collect feedback from multiple and diverse stakeholders. Overall, the diagnostic was well received with a widespread convergence of points of views on the two main hypotheses suggested, as well as on the four preliminary constraints identified by the SCD team, including: (i) the issue of poor governance and its ripple effects on Guinea's development path; and (ii) the low level of structural transformation. Several concerns were raised during consultations in Kindia and Labé, as well as in Conakry. Local intellectuals and former government officials expressed their concerns about the confusion in the roles of the public administration, and the emergence of clientelistic networks as a major impediment to Guinea's development. They also raised the need for tangible technical instruments and policies to correct the approach to gender issues, so as not to be a mere slogan. The private sector raised issues related to: obstacles to credit access; the incoherence of the tax system; conflicts surrounding public procurement contracts with the public administration; deficiencies in the energy sector; and a lack of coordination within the private sector itself to promote its interests as a group. Many participants raised the problem of "training the trainers", that is the lack of qualified personnel to educate students at any school level. Participants also noted the general lack of development of human capital in both the private and public domains.

Overall, the issues that received the most attention included: the quality of the business environment; the governance framework; the long-term challenges of natural resource management; and demographic growth and attendant urbanization challenges.

238. Improving economic opportunities through enhanced urban development is the third pathway.

In order to promote agricultural development and other rural activities — and to cope with the rural-to-urban migration and intersectoral movements of labor resulting from the process of structural transformation — it will be necessary to develop economic opportunities for urban areas. It is also a way to enhance opportunities for women in building a more efficient economy. Moreover, well-planned urbanization may contribute to development, notably through increased agricultural productivity, industrialization and the rise of a middle class.⁹⁷ This transformation of cities into engines of growth requires the definition of new urban policies focusing on, among other things, massive investments in urban infrastructure, improved connectivity to rural areas, improved service delivery, and the promotion of productive jobs, especially among urban youth. In fact, if agricultural development becomes effective, the expected exodus of agricultural workers to cities and other sectors should be better controlled and managed through the creation of job opportunities in higher productivity sectors.

239. The fourth pathway involves strengthening the management of fiscal and natural resources.

Better fiscal management involves an improvement of both revenues and expenditures. Providing better public services and making resource mobilization more effective will be important in achieving structural transformation⁹⁸. In fact, it should improve the financial capacity of the Government and its ability to finance the construction and maintenance of infrastructure. It could also help finance a national social

⁹⁷ <http://www.undp.org/content/undp/fr/home/presscenter/pressreleases/2016/05/23/africa-economic-transformation-hinges-on-unlocking-potential-of-cities-says-the-african-economic-outlook-2016-.html>

⁹⁸ United Nations (2016), *Macroeconomic Policy and Structural Transformation of African Economies*, Economic Commission for Africa, Addis Ababa, Ethiopia.

protection system, especially since the Government has just adopted a national social protection policy. Moreover, more inclusive fiscal spending is a way to turn natural resource wealth into productive assets for poor households. For instance, better management in the electricity and water sectors would enable the Government to reduce its subsidies for both sectors and make more efficient use of public expenditures. For example, the amount saved could then be used to finance the construction of infrastructure or a social protection program, which would in turn contribute to the redistribution of wealth.

Table 5: Pathways to Structural Transformation and Criteria for Prioritization

Pathways and cross-cutting issue alleviation	Priorities (Top-tier priorities and medium-tier priorities)	Impact		Implementation		Level of constraint	
		Poverty reduction and Shared prosperity	Growth	Feasibility	Complementarity	Stakeholder consultations	Lag compared to benchmark countries
Pathway 1: Increasing agricultural productivity and support private sector investments to promote economic diversification	<i>Improving the use of inputs and good farming techniques</i>	Substantial	Substantial	Moderate	High	Substantial	Substantial
	<i>Developing agri-value chains and promoting private sector activity</i>	Substantial	Substantial	Low	Substantial	High	High
	<i>Building infrastructure along critical corridors and provide better logistics for private sectors</i>	Substantial	Substantial	Moderate	Substantial	Substantial	Substantial
	<i>Improving access to finance for entrepreneurs and businesses</i>	High	Substantial	Low	High	High	High
Pathway 2: Raising human capital to support inclusive growth	<i>Facilitating skills development</i>	Substantial	Substantial	Moderate	Substantial	Substantial	Substantial
	<i>Strengthening public health system</i>	High	High	Low	Substantial	Substantial	High
	<i>Promoting gender equality and social protection</i>	High	Moderate	Moderate	High	High	Substantial
Pathway 3: Improving economic opportunities through enhanced urban development	<i>Enhancing urban development</i>	Moderate	High	Moderate	High	High	Substantial
	<i>Improving job opportunities for urban youth</i>	High	High	Moderate	Moderate	High	High
Pathway 4: Strengthening management of fiscal and natural resources	<i>Improving fiscal management</i>	High	Substantial	Low	Substantial	high	High
	<i>Better natural resources management in electricity, mining, and water sectors</i>	High	High	Moderate	Substantial	High	High
Cross-cutting issue: governance	<i>Improving enabling environment for doing business</i>	Moderate	Moderate	Moderate	High	High	High
	<i>Strengthening citizen engagement</i>	Moderate	Moderate	Moderate	High	High	High
	<i>Strengthening public institutions for better service deliveries</i>	High	High	Moderate	High	Substantial	High

Box 10: The National Economic and Social Development Plan (PNDES)

This national strategy represents an ambitious agenda with regard to economic planning. It sets the basis for economic transformation in the aftermath of the Ebola crisis. The PNDES was prepared under the leadership of the Ministry of Planning and in consultation with development partners. It covers the period 2016-2020.

The PNDES identified four strategic pillars: (i) the improvement of governance and building of state capacity; (ii) the development of physical infrastructure, especially agriculture, hydroelectric power, and road infrastructure; (iii) human capital development; and (iv) natural resource management. As such, the PNDES incorporates and expands upon several elements of the post-Ebola recovery plan, which focused on social sector support, economic recovery, infrastructure development, and governance support.

The Plan does have several high risks that could affect implementation, including socio-political instability, weak domestic resource mobilization, and capacity constraints. Thus, the PNDES is an ambitious vision of the Government to accelerate public investment and implement structural reforms to transform the Guinean economy with the aim of generating prosperity for current and future generations. To mobilize public and private resources for the Plan, the Government organized a donor roundtable in Paris in November 2017, with support from the World Bank.

240. Alleviating governance weaknesses is a cross-cutting pathway to accelerate growth and poverty reduction, and to ensure a sustainable dynamic. Indeed, the inclusive growth under the four pathways may not be sustainable if governance does not improve. In the light of the central role of governance in undermining the credibility of Guinean institutions since its independence, the failure to seek improvements in this critical area may compromise the sustainability of Guinea's overall development trajectory. Tackling governance constraints directly requires an adaptive, incremental, and opportunity-driven approach. Therefore, it is important to take actions in technical areas, which may serve to shift incentives and promote accountability for future reforms. The priorities are strengthening citizen engagement and public institutions for better service delivery. Given the critical role played by citizens in helping to make public institutions more transparent, accountable, and effective, strengthening their engagement in institution building will be important over the medium and long term. It can help the government to achieve several development results, including improved public service delivery, better public financial management, enhanced governance, and stronger social inclusion.⁹⁹ In capitalizing on citizen engagement, efforts should be made to strengthen institutions through the support of transparency, information sharing, and oversight in all programs.

6.2 Pathway 1: Increasing Agriculture Productivity and Supporting Private Sector Investments to Promote Economic Diversification

6.2.1 Priority 1: Improving the Use of Inputs and Supporting Better Farming Techniques

241. Increasing agricultural productivity is critical for job creation, income generation and poverty reduction. Unemployment, extreme poverty and the lack of socio-economic opportunities are underlying causes for rural youth migration to urban areas. This results in higher numbers of urban poor (transfer of poverty). In the Guinean context, unregulated and rapid urbanization, an undiversified labor market, and demographic stresses conspire to produce frustrations, grievances and socio-political unrest. These factors contribute to making the case for strong World Bank Group (WBG) involvement in the agriculture sector.

242. Increased productivity requires access to and more rational use of agricultural inputs (fertilizers, improved seeds, pesticides, and so on) by farm households. Efficiency in terms of improved productivity using fertilizers can be achieved only under the following conditions: applied quantities should correspond to the required doses for each type of crop in relation to each type of fertilizer; fertilizer types should be selected based on the physical and chemical nature of agricultural land; and the timing and the application method should depend on the type of fertilizer and crop. Until now, the quantities of inputs used have been generally low, and have not led to significant results in terms of productivity.

⁹⁹ <http://www.worldbank.org/en/about/what-we-do/brief/citizen-engagement>

In addition, according to a study of ANASA¹⁰⁰, less than 40 percent of farm households used subsidized inputs during the 2016-2017 crop year. There is also a need to improve the distribution of subsidized agricultural inputs.

243. The capacity of the agriculture sector needs to be restored to create wealth and to remain a channel toward prosperity. From this point of view, Guinea should focus on the following complementary actions: (i) mechanization of the agricultural sector and the structuring of the sectors' network in rural areas; (ii) training of farmers to use more productive and efficient techniques; and (iii) support to the transformation of local products. Concurrently, the Government should accelerate reforms to secure property rights, since land is perhaps the only physical asset owned by most farmers. This would in turn provide better security to invest in the longer term, as well as to enhance access to external finance.

244. Additionally, programs should be focused on the inclusive growth of the sector and the intensity of job creation, rather than solely seeking increased productivity. This could mean favoring, at least in part, small-scale agriculture, rural connectivity, and high-labor intensive public works (HIMO). Close attention will need to be paid to land issues, including land use and distribution. The right balance will need to be sought between the importance of strengthening institutions on the one hand, and the objective of addressing community and small producer needs on the other hand. Finally, programs should seek to make the agricultural sector and rural life attractive for the country's youth. In this context, more public services, greater access to mobile phones and the Internet, and the use of technology to increase crop yields in rural areas can contribute to this end.

6.2.2 Priority 2: Developing Agri-Value Chains and Promoting Private Sector Activity

245. The development of markets is the first step in developing agri-value chains and promoting private sector activity. This suggests the selection of a number of crops and animal products, including fisheries, which can be considered as promising in terms of growth and poverty reduction. This requires improving the involvement of smallholder producers in the process. It also requires increasing the involvement of private investors in agriculture and strengthening the links between smallholder farmers and large-scale producers. In order to achieve this agricultural development objective, it will be necessary to put into place a program of reforms through institutional budget support to the agricultural sector. The emphasis would be on the regulation of agricultural inputs, land reforms, access to agricultural credit, and the production of agricultural statistics. It may also be useful to strengthen the information systems of farmers in order to guide them in the choice of economic speculation. Moreover, agricultural extension and research services should be promoted to increase the use and efficiency of better farming techniques in the country.

246. Several agricultural products have been identified as potential products for a supply chain. Mangos, with a significant gross profit margin, is one of the products for which Guinea may be competitive on the European market. Its taste is considered attractive, and it has a slight advantage over competitor products from Côte d'Ivoire, Mali and Senegal. Although the country is the second largest producer in West Africa, with 65,000 tons of mangoes produced annually, the largest share (about 85 percent) of that production rots every year. This is an unacceptable waste for a country that is not food self-sufficient.¹⁰¹ Other promising products include birds-eye chili, pineapples, papayas, shea butter, potatoes, and cashews.

6.2.3 Priority 3: Building Infrastructure along Critical Corridors and providing Better Logistics

247. Despite Guinea's favorable geographic position, the country has not become a main trade route for neighboring countries. This is mainly due to the lack of appropriate infrastructure. International trade with other countries of the sub-region (Guinea Bissau, Ivory Coast, Liberia, and so on) is vital in terms of

¹⁰⁰ ANASA (2016), *Rapport final de l'étude approfondie sur le profil des producteurs ayant reçu l'appui du Gouvernement en intrants et équipements agricole*, Ministère de l'agriculture, République de Guinée, novembre.

¹⁰¹ USAID/Guinée (2006) : "Activité de renforcement de la commercialisation agricole. Etude de compétitivité de la filière mangue de Guinée. Deuxième partie : compétitivité des exportations des mangues".

poverty reduction. The interstate tar road network is also essential for the country. Development of cotton, coffee, palm oil, and subsistence crops are linked to the availability of a rural roads network in good condition, and on a more general level, to an efficient nationwide road transportation network. Moreover, this deficiency results in most of the country being disconnected from the capital. Furthermore, the majority of the labor force is located in rural areas, with poor connections between rural and urban centers. Thus, those living in rural areas are isolated from domestic as well as international markets. Improvements in the infrastructure system would bring the market to operators, including farmers, and allow them to realize economies of scale and become more competitive.

248. Transport is essential to attracting private sector investment as it can link farmers to wholesalers, mining to processing industries, and other economic activities to customers. A value chain can then begin to emerge. Lower transport costs will enable farmers to transport their products from the farm to the market, and traders will be able to reach farmers more effectively. These conditions would have a multiplier effect through increased access to markets and inputs, thereby increasing productivity and incomes. This virtuous cycle will ultimately result in further increases to productivity. Improved connectivity requires the construction and maintenance of an effective transport network. Special attention should be paid to the construction and ongoing maintenance of regional corridors and rural roads, such as those connecting Guinea to the neighboring countries of Guinea-Bissau, Côte d'Ivoire, Liberia, Mali, Senegal and Sierra Leone. Currently, these corridors are associated with high transportation costs for traders. Railroads and port development and expansion are essential to tapping into the vast bauxite and iron deposits. The multi-users/usage approach adopted in Guinea will still need to be implemented to enable further mineral development and other economic sectors to benefit from improved infrastructure.

249. Although the unit costs of building and maintenance are relatively low, the number and extent of the roads requiring attention is so vast that it is difficult for the Government of Guinea to project. In this light, the authorities should focus on locations where roads are expected to produce the largest short-term positive impact. The Government needs to identify several potential growth poles and budget for the implementation of projects. Attention should be paid to the implementation of the regulatory framework with regard to choosing providers of such services. In fact, high trade and transportation costs in West Africa are, to some extent, the result of a combination of market distortions in the transportation sector. Shortcomings in implementation and established collusive business practices limit effective competition. They ultimately harm the final quality of the service provided, increasing costs for maintenance of the infrastructure, and hindering the country's connectivity.

6.2.4 Priority 4: Improving Access to Finance

250. Improved access to finance will help Guinean entrepreneurs expand their businesses and catalyze the private sector. Guinea can deepen the volume of quality financial intermediation. It can continue to encourage the creation of sound and effective banking systems to increase the supply of finance, including to SMEs. Also, the Government could: (i) continue to encourage competition among commercial banks; (ii) change collateral laws to include moveable assets and to relax some of the more stringent requirements by establishing a domestic credit bureau; (iii) change credit-scoring systems and evaluate working capital requirements for SMEs and their investment projects so that commercial banks have a framework to increase lending to SMEs; and (iv) invest in financial literacy programs for SMEs by teaching them business and financial planning.

251. In parallel, the government can support the expansion of the microfinance sector through a variety of policies. First, it can improve the regulation of the sector with greater central bank supervision of the financial statements and operations of the leading microfinance institutions (MFIs). In this way, it can ensure that strong financial disclosure is part of the regulatory framework governing the sector. Second, the government, together with donors, can increase the capacity of MFIs. Third, the government can create some special funds for female micro-entrepreneurs to expand their business activities, whether in agriculture or the retail sector.

6.3 Pathway 2: Raising Human Capital to Support Inclusive Growth

6.3.1 Priority 5: Facilitating Skills Development

252. Weaknesses in the Guinean educational system has led to a lack of skills, which is detrimental to growth and poverty reduction. The lack of appropriate skills is observed in several areas. For instance, given the limited advisory services, farmers often lack the necessary knowledge to use agricultural inputs effectively, sometimes resulting in crop losses. The lack of skills is also reflected in the limited entrepreneurial culture, which predisposes the economy to slow private sector development. Regarding the public administration, it too suffers from a lack of administrative skills, with the absence even until recently of a school of administration — unlike in the other West African, French-speaking countries. Moreover, low skill levels at the local level prevent FDI benefits from fully accruing to the population. For instance, in mining, FDI spillovers into infrastructure, such as ports and refineries, are the norm. In Guinea, projects advance slowly due to a shortage of skilled workers, and successful projects generally required the recruitment of foreign workers on the international market. Similar weaknesses are observed among teachers and health care workers.

253. On the whole, economic development and civic participation in Guinea are hampered by an extremely low literacy rate and a poorly educated working population, especially in rural areas.¹⁰² To a large extent, the education sector does not deliver the requisite skills — neither basic or higher-order skills — needed for developing the economy. Education remains plagued by low and uneven access, poor quality, weak teacher competencies, deteriorating infrastructure, uneven capital expenditures, inadequate financing, and a lack of planning. In this regard, it should be noted that equity and quality in general education and skills development are key drivers to achieving the twin goals of ending extreme poverty and boosting shared prosperity in Guinea. Therefore, a quality education system is one that delivers a good education both equitably and efficiently. In this regard, the allocation, management, and use of resources are important dimensions and determinants of a high-performing educational and training system. The current goals set by the sector cannot be achieved without drastic reforms. Major decisions are required to make financing more responsive to sector challenges.

254. Despite progress achieved in the past 15 years, much remains to be done to improve the quality, equity and efficiency of education. Some progress has been made in planning the budget through the Medium-Term Expenditure Framework (MTEF), as well as in monitoring learning outcomes. However, the inefficient use of resources continues to affect school performance. The gap between policy and public funding is a major drawback in the education sector. Many of the stated goals of education reform—from decentralization to increased access for disadvantaged children and youth—are absent from budgeting decisions. The distribution of resources between different sub-sectors is not aligned with sectoral objectives. Although it is difficult to reduce social transfers in higher education, the government needs to find measures to better manage scholarships (with specific criteria) and collaborate with the private sector. Efforts are underway with regard to the preparation of programmatic budgeting and an increase in responsibility of Ministry directors and deconcentrated areas. The aim is to execute their own budgets. This will provide an opportunity to review the roles of financial controllers (DAF), and to better align the financing with the sectoral objectives and priorities.

255. To increase opportunities for both the present and future workforce, it is necessary to find the skills needed to support the structural transformation and demographic dynamics. It will be important to focus on the quality of education. Indeed, the quality of education is the way to ensure the development of valuable skills among students. In this regard, quality is more important than quantity in terms of economic growth.¹⁰³ The weak links between the economy and the education sector suggest

¹⁰² World Bank (2015) *Skills in Guinea: supply and demand*, The International Bank for Reconstruction and Development/The World Bank. Washington, DC.

¹⁰³ Hanushek, E. A. and L. Woessmann (2009), "Do Better Schools Lead to More Growth? Cognitive Skills, Economic Outcomes and Causation", NBER Working Paper No 14633.

that Guinea could benefit from restructuring its education sector by placing more emphasis on the types of skills needed for a transitional economy. Currently, it takes a long time for Guinean graduates to find jobs. Only a third of the most educated Guinean youth find jobs upon graduation, and for most, finding a job could take years. Employer surveys show that youth with technical and professional degrees are most likely to wait over a year to find a job, and a third of the youth with a lower professional degree wait for over two years. Similarly, almost half of the high school graduates cannot find jobs within one year of graduation, despite the relatively low expectations of employers in the work force. This is an indication that the transition from school-to-work is a relatively hard one for youth in Guinea.

6.3.2 Priority 6: Strengthening the Public Health System

256. Guinea was stunned by the impact of the Ebola crisis. Immediate support is now needed to normalize service delivery for mothers and children, particularly at the primary level of the health system. Guinea's Poverty Reduction Strategy Paper (PRSP) adopted in 2013, as well as its new draft national health strategy, both prioritize improvements in service delivery — especially in primary-based health service delivery to the poorest people, including maternal and child healthcare. Ebola set Guinea back on all fronts, and left large segments of the population even more vulnerable than before. In this regard, strengthening the health system in general and primary-level service delivery in particular are identified as among the most important priorities in the PRSP.

257. The potential to subsidize the poor to use health services, or to use community health workers to extend the reach of services and generate demand for services beyond Ebola, should be explored. Overall, services at the primary level are further compromised by the fact that supportive supervision by the district largely happens only in theory. This is mirrored by the extremely weak capacity at the central Ministry of Health level to develop and supervise the health sector.

258. Overall, Guinea's financial resource management and monitoring of the health system need improvement. The Guinean health sector requires a better alignment of policy goals to financial and public management of the healthcare system. The central and regional health agency staff should be more involved in policy decisions. They work under inadequate conditions, lack career plans, and display high job abandonment rates. The Ministry of Health and Public Hygiene's capacity in managing human resources needs to be strengthened (in terms of forecasting needs, productivity, and the distribution of personnel). Weak ministerial capacity has resulted in slow implementation of fiscal reforms, especially with regard to the devolution of budget and budgeting decisions. Further, it has contributed to the under-financing of the health sector.

259. Support is urgently needed in strengthening the delivery and utilization of maternal and child health services in the poorest regions in Guinea. Simultaneously, there is a need to implement broader health systems and service delivery reforms. The focus should be on cost-effective and high impact demand and supply side interventions, as well as a commitment to longer-term, sustainable healthcare systems. This will require strengthening strategies at all levels, but particularly at the primary level. Likewise, it will require improvements in the area of human resources, pharmaceuticals and supplies, and health financing. This effort warrants a commitment to increasing the financing of the healthcare sector and to addressing existing systemic weaknesses. In addition, policymakers can build a healthcare system that is resilient to future shocks from pandemics such as Ebola.

6.3.3 Priority 7: Promoting Gender Equality and Social Protection

260. Promoting gender equality may also be a good opportunity to strengthen social protection. The reduction of gender inequalities can occur at several levels, namely political, institutional, and sectoral¹⁰⁴. At the political level, this could involve implementing actions to promote equality between men and women in the country's major decision-making bodies. Actions should focus on policy dialogue and the implementation of advocacy action plans. At the institutional level, there is a need to strengthen the gender capacity of all actors responsible for promoting gender equality. Such an effort should focus on

¹⁰⁴ World Bank (2016), *Évaluation de la situation du genre en Guinée*, Version finale 1, Octobre 2016.

coordination regarding gender issues, gender capacities of government services, providing ministries with gender tools and enlarging the responsibility and power of civil society, among others. At the sectoral level, actions may be undertaken to promote women's economic access and control in income-generating activities. Further actions may be required in areas of education, health, and the law.

261. Social protection should also entail the strengthening of social safety nets. There is a growing consensus in the developing world that a minimum package of essential social protection measures should cover essential health care, and benefits for children, informal workers, the unemployed, older persons and persons with disabilities. Such a package will depend on the fiscal capacities of the authorities, appropriate donor support, and good sector governance. International experience suggests that cash transfers can be delivered in various forms, including: universal pensions paid to all the elderly; cash benefits paid to families with children based on school attendance or participation in public health programs; and benefits aimed at vulnerable societal groups.

262. The choice of some targeted actions can ensure progress at several levels in the medium and long terms. Given the very high prevalence of FGM in Guinea, and its negative impact on the physical and mental health of women, it could be beneficial for the country to combat this phenomenon to reduce violence against women. Moreover, strengthening gender equality in formal and non-formal education could improve women's economic empowerment, thereby ensuring a more equitable labor market. Another possible strategy could be to involve men in the promotion of gender equality, which may accelerate behavioral change at the community level. Such an innovative strategy called the "*École des Maris*" Initiative has been successfully developed in Niger by the United Nations Population Fund (UNFPA). The strategy made it possible to involve men in reproductive health issues¹⁰⁵.

6.4 Pathway 3: Improving Economic Opportunities through Enhanced Urban Development

6.4.1 Priority 8: Enhancing Urban Development

263. Better urban planning is needed to effectively handle traffic jams and reduce the effects of climatic shocks such as flooding. Since the concentration of the financial district at the end of peninsula makes traffic management one of the main challenges in Conakry, some effort should be made to unblock the city. This would also help to avoid the high costs associated with traffic jams. Moreover, the provision of infrastructure and services, along with improvements in the financial and organizational management of municipalities should be promoted through the decentralization process. The EU framework for Guinea for 2014-2020 is dedicated to urbanization in Conakry, with a primary focus on sanitation.

6.4.2 Priority 9: Developing Job Opportunities for Urban Youth

264. Urban development also involves the improvement of employment opportunities for urban youth. In this regard, the government will have to make efforts to integrate young urban men into the dialogue and create a youth employment strategy.¹⁰⁶ Young urban men have played a key role in Guinea's protests, and certain violent-prone and politicized youth milieus continue to pose a critical risk to political stability. Demographics have emerged as a political risk in Guinea since 2007, when protests and revolts started to become a frequent and regular part of the struggle for political power. Since then, young men from Conakry's urban margins, particularly along the Route Le Prince in Conakry's Ratoma district, are routinely involved in violent protests. In the past decade, urban youth groups — including the so-called *staffs*, *clans*, and *gangs* — have served as instigators, organizers, and vanguards in demonstrations, riots, and clashes with the police. Oftentimes, their actions are based on relations with political actors who pay them for their services. Although urban youth have become less organized today, they are not less radical, as the citywide clashes in Conakry between urban youth and police forces in February 2017 have demonstrated.

¹⁰⁵ <http://www.fao.org/docrep/013/am035f/am035f01.pdf>

¹⁰⁶ World Bank (2017), *Republic of Guinea: Risk and Resilience Assessment*, Draft, May.

265. Youth must be supported in finding a pathway to productive employment. The promotion of youth employment, both urban and rural, should be a priority if the country is to reap the demographic dividend. In order to alleviate Guinea's demographic stresses, the Bank should develop long-term perspectives, together with other donors, private sector representatives, and the government, as to how to diversify the economy and ensure the benefits of a demographic dividend. If the demographic situation is not well managed, it could present a risk in a context of state delegitimization and stressed institutions. Therefore, it is essential to create the conditions for growth, while also mainstreaming job creation into every sectoral program.

6.5 Pathway 4: Strengthening the Management of Fiscal and Natural Resources

6.5.1 Priority 10: Improving Fiscal Management

266. It will be important for Guinea to improve domestic revenue mobilization. Given Guinea's large gap with neighboring countries, there is potential to increase direct tax revenue to create additional fiscal space for spending. Guinea could follow the reform agenda of countries such as Senegal, where tax revenue was on average 6 percent of GDP higher than in Guinea during 2010–15; in this regard, 30 percent was for direct income taxes alone. Several important reforms include: strengthening the governance and management of the Tax and the Customs Departments; tightening the control of the commercial tax base by ensuring that commercial imports crossing the border are properly monitored; and making advances in taxpayer identification, information collection and strengthening of the audit procedures to improve tax compliance; streamlining of excise duties; and a roll-out of real estate taxation.

267. To improve management in the mining sector, the Government should focus on three complementary actions: (i) enforcing the 2011 mining code through strong tax collection efforts and a stable investment regime for mining; (ii) careful monitoring of transfer pricing by mining companies; and (iii) creating synergies between central and local governments, as well as with mining companies and local communities, to ensure proper ways to invest in local projects. Mining sector interventions need to also look beyond governance and management issues to consider how the benefits will be redistributed, especially to villages and communities. In addition, attention will need to be paid as to how the public is informed about redistribution processes and benefits.

268. Guinea needs to focus efforts on improvements in public investment management and public procurement to enhance the efficiency and productivity of public investment. Strengthening the Ministry of Planning, the Investment Directorate, and the line ministries' investment planning could improve the public investment efficiency gap. The Government will need to adopt more rigorous and transparent arrangements for the appraisal, selection, and approval of investment projects. It will also need to improve public procurement through: adherence to the rules of single sourcing; developing an overarching regulatory framework for public procurement; and improving public procurement oversight by key institutions.

6.5.2 Priority 11: Better Management of the Electricity, Water, and Mining Sectors

269. Improved access to electricity and water, as well as an integrated mineral sector, will have a positive effect on the country's development. According to the latest Poverty Reduction Strategy Paper (PRSP III) by the International Monetary Fund (2013), only 42.3 percent of Guinea's population had access to clean drinking water, and in 2010, only 12 percent had access to electricity.¹⁰⁷

270. Delivering safe drinking water and reliable sanitation facilities to the unserved population are key tools to reducing poverty. Such measures would also result in time savings for more productive activities, especially for girls and women. To reach this goal, it will be important to build institutions that can fulfill their mandate in these areas. Institutional sector reforms could also improve the effectiveness of the state's management of water resources. These actions should be undertaken jointly with sociological considerations to educate the local population about adopting good practices in water,

¹⁰⁷ World Bank (2017), *Republic of Guinea: Risk and Resilience Assessment*, Draft, May.

sanitation and hygiene matters. For example, according to local beliefs, hand washing is a source of poverty, and the use of chlorine for the treatment of water makes it unfit for ablutions. There are also other beliefs in rural localities that certain springs, rivers, and ponds would be sacred. As a result, populations affected are required to resort to non-potable water sources.

271. The health and energy sectors are also linked to the water sector. Regarding the sanitation sub-sector, awareness of good hygiene practices, including behavior changes for the eradication of open defecation, are crucial for accelerating access to improved sanitation services. Adopting better hygiene practices can positively affect the health of the country's population. The management of water resources in Guinea often requires trade-offs and arbitration between water needs for hydroelectricity and drinking water. Hence, there is a need to implement a good system for collecting and monitoring water data to help authorities in making reasoned decisions for all sub-sectors dependent on water resources. Improved water management will require the use of a model that optimizes the use of the country's abundant hydro resources. Improvements in the electricity sector will lead to an increase in firm productivity and attendant demand for labor. The energy sector is a sector in which quick wins can be delivered, including also the water sector. Both the population and the private sector have expectations toward this sector vis-à-vis remedying the country's water sector challenges.

272. With one of the lowest electrification rates in the world, Guinea needs to improve the provision and distribution of electricity. This would require increases to the energy supply through a combination of improved financial management of the sector; proper maintenance of existing infrastructure; and creation of new infrastructure. Significant investments will be required to achieve these goals. The Government could collaborate with private operators in a transparent manner, avoiding back-door deals that might affect the final product as well as lessening the financial profits that revert back to the government's purse. If private partners can provide funding and technologies, the development and implementation of a comprehensive legal framework as well as an efficient management of EDG should be prioritized to ensure the smooth functioning of markets. It will also be important to address the inadequacy of electricity tariffs, and to pay close attention to any potential social and political unrest.

273. Guinea will need to accelerate the development of sustainable mining. As billions of dollars are projected to flow into the mining sector over the next ten years, there will be a need to channel some of these resources to local economic development and diversification. Governments are increasingly working with companies to ensure that the mining revenues are optimized for future development — and that the ecological footprint is minimized. Measures to increase the transparency of mining company operations in countries, and to ensure that environmental parameters are adhered to, are important. Mining companies can deepen their focus on community development, support for private local suppliers, and increase female participation in mining and ancillary activities.

274. Guinea will need to reduce its underperformance compared to neighboring countries, as well as globally in terms of the ratio of exploited to known and potential mineral resources. Large known bauxite and iron ore resources have yet to be developed, and gold and diamond potential have yet to be realized. Guinea requires continued stabilization of investment conditions. It must establish its credibility for developing transformational mineral projects. Specifically, it needs to: (i) enable conditions for meaningful domestic sourcing of production inputs; (ii) leverage infrastructure demands from mining to service other sectors of the economy and the population, including transport and energy; and iii) use the existing and future infrastructure corridors to achieve diversified economic development.

6.6 Alleviating the Cross-Cutting Issue of Governance

6.6.2 Priority 12: Improving the Enabling Environment for Doing Business

275. Governance has a ripple effect on the economy, and it also adversely affects Guinea's investment climate and private sector business opportunities. In many ways, Guinea's weak business environment arises from public sector governance shortcomings. The interaction between poor governance and an unattractive investment climate can be seen in a wide variety of areas — including the soundness of macroeconomic policies, public finance and procurement practices, the resilience and

strength of economic and political institutions, and the functioning of the legal and regulatory framework. In sum, good governance can help create an attractive investment climate.

276. Reforms to improve the enabling environment for doing business are fundamental in Guinea.

Experience from both the developing and the developed world suggests that the successful transition to well-functioning markets requires effective and accountable institutions of economic governance, inclusiveness, and robust economic structures. Key measures include: resolving insolvency and strengthening creditor rights; facilitating the establishment and expansion of businesses; registering property; and obtaining construction permits. Moreover, Guinea needs to have a more dynamic investment promotion agency, perhaps one modeled on Senegal's APIX (National Agency for Promotion of Investment and Major Work). Such an agency can provide foreign investors with important information about the local economy, as well as match investors with local companies and projects. Finally, greater interface and consultations between public officials and private actors will improve synergies between the two.

6.6.2 Priority 13: Strengthening Citizen Engagement

277. The poor are often left out of the democratic decision-making process. With their larger incomes and assets, the rich in most if not all countries are more influential than the poor who, for lack of economic means, education, and politics, often have a limited voice. This generally excludes them from participating in the major social and occupational institutions of society (that is, employment, housing, education, healthcare, and so on). In Africa, political decision making and the associated benefits often remain highly centralized, and concentrated. The elite are often far removed from the realities of the rural and poor populations, and do not seek to empower the community level.

278. Participation mechanisms need to be systematically included in operations and assessed with the goal of increasing entry points for governance reform. Chapter 8 of the World Development Report 2017 convincingly argues that citizens face collective action problems that prevent them from bargaining effectively and holding governments accountable. To strengthen their influence in the policy arena, citizens need to engage through multiple mechanisms designed to solve collective action problems — including voting, political parties, social movements, civic associations, and other less conventional spaces for policy deliberation. As all these expressions of collective action are imperfect, it is their strategic combination that maximizes the chances to promote change and make governments more responsive to citizens' needs.¹⁰⁸ Citizen engagement and feedback are particularly relevant at the local level with regard to local governance institutions (decentralized and deconcentrated administrations) and local public services. Institutional reforms need to be collectively conceived and realistically approached. The bureaucratic culture is composed of both official and practical norms that are progressively developed; normalizing petty corruption has become one of them.

279. In such a context, improving the administration's efficiency—by increasing the material means and implementing top-down reforms—will not lead to effective reforms if they fail to be rooted in the national context and/or do not consider these practical norms. They will have a much better chance of succeeding if they rely on innovating and reforming personalities and coalitions inside each administration, even if their impact is primarily limited to the local level. According to Levy (2014): *"The case for incrementalism is based on a different theory of change, one where microlevel initiatives provide a platform for the emergence of "islands of effectiveness" within a broader sea of dysfunction, securing some gains in the short term, and serving as a platform for cumulative gains over the longer-run in both governance and poverty reduction."*¹⁰⁹

280. Incremental options for easing governance constraints and taking advantage of reformist governments can present a window of opportunity for growth and development. These can be tackled

¹⁰⁸ Ibid, pp. 226-241.

¹⁰⁹ Levy, Brian. *Working with the grain: integrating governance and growth in development strategies*. Oxford University Press, 2014. P. 134.

from two different perspectives: hierarchical (“principal-agent”) or horizontal (“principal-principal”).¹¹⁰ A hierarchical incremental approach would aim at the targeted improvement in public management, for instance, with regard to specific functions, sectors, or agencies. A horizontal incremental approach would aim at strengthening multi-stakeholder governance.¹¹¹ Those two approaches are not mutually exclusive, and could be considered complementary to one another.

281. There are multiple drivers and entry points that can contribute to lowering the barriers to collective action and facilitating citizen mobilization. For instance, institutions that enhance contestability in the policy arena — such as the media, political finance regulations, and constitutional provisions that establish mechanisms to protect citizens’ rights — can create an enabling environment for citizen agency. They do so by facilitating cooperation and promoting more inclusive and equitable bargaining spaces. These institutions have the potential to open opportunities for previously marginalized groups to mobilize and bargain for their collective interests.¹¹² Another point of entry can include narrowly targeted efforts to strengthen merit-based recruitment and promotion. Another point would be to introduce market-related pay among a selected subset of officials in key sectors, such as health and education.

6.6.2 Priority 14: Strengthening Public Institutions for Better Service Delivery

282. Guinea's democratic experience is still relatively young. Thus, the country is still in the process of building stronger and more effective democratic institutions. Despite recent reforms, there is still much to be done. Institution-building efforts should not focus exclusively on the institutional top. Rather, they should also comprehensively address the problems of local governance and poor service delivery from the bottom up. As a complement to institution-building efforts, consistent involvement of citizens at the community level will also contribute to building local governance and reinforcing trust toward formal governmental institutions. The series of WBG-funded Village Community Support Projects (PACV) is often mentioned as a successful World Bank intervention in this respect. The scaling up of this project through the creation of the state-owned National Fund for Local Development (FNLD) seems particularly relevant. The World Bank should continue to support this scale-up and contribute to ensuring that this approach becomes embedded in Guinea’s governance system. This will be of particular relevance after the upcoming local elections.

283. Given the high level of public mistrust toward the government, all programs should seek to support transparency, information sharing, and oversight. Doing so will entail institutional and public financial management reforms, transparency, parliamentary and judiciary control, and civil society organization oversight. These programs should be linked to an increase in transparency efforts, including the publication of public budgets, audits and reports. Participation mechanisms need to be systematically included in operations and assessed. Citizen engagement and feedback are particularly relevant at the local level with regard to local governance institutions (decentralized and deconcentrated administrations) or local public services.

284. Coping strategies should be developed to deal with the political economy system, which has proven to be change-adverse in the past. National reforms that are crucial to development might threaten the privileges of the elite or parts of the rent distribution system, and this is unlikely to change soon. Rather than focusing on the preparation of ambitious reform plans that will never be implemented even if a formal agreement is reached, the WBG may consider: (i) focusing on small, direct governance gains at the local and regional levels, as the Village Community Support Project already does; (ii) targeting “islands of effectiveness” or working with reform-minded managers or coalitions; or (iii) promoting citizen engagement and oversight, which can incentivize progress in governance and service delivery.

¹¹⁰ Ibid.

¹¹¹ Levy, Working with the grain.

¹¹² Ibid.

VII. Data and Knowledge Gaps

285. Certain analytical gaps have been identified, some of which are addressed in the SCD. Others may be more advantageously addressed through the Country Partnership Framework (CPF). Among the gaps that were filled during the SCD process was one concerning the updating of fragility and conflict analysis, while also taking the political economy into consideration. Moreover, the team built the economic DSGE/CGE (Dynamic Stochastic General Equilibrium/Computable General Equilibrium) modelling that analyzes the links between public investment and growth.¹¹³ The Enterprise Survey of 2016 fills the gap, but more work needs to be done on promising value chains. Other work should be done to achieve a better understanding of the gender dimensions of Guinean development.

286. The diagnosis also highlights several knowledge and data gaps that should be filled as soon as possible. The knowledge gaps are related to topics as varied as tax and benefit incidence analysis, urbanization, gender-related and migration studies, as well as some assessments of the agricultural, transport and energy sectors. Other gaps are related to some missing data, which prevent a more thorough knowledge of some development aspects.

287. Better fiscal management may require conducting a tax and benefit incidence analysis. The tax and benefit incidence analysis estimates the impact of taxation (both direct and indirect) on poverty and inequality, subsidies and social spending (including public transfers such as cash and food transfers), and in-kind transfers in the education and health sectors, among others. A Commitment to Equity (CEQ) is one of the tools currently used to address these issues. This analytical tool has never been used in Guinea. However, it appears timely as the Government is engaged in the process of mobilizing domestic resources. It seems to be useful in assessing public expenditure reforms as well as other reforms, including the subsidy programs for the education, health, energy, water and agricultural sectors.

288. More studies are needed regarding urbanization in Guinea. More exploration is needed into the dynamics of urbanization in Guinea, its causes (rural-urban migration, fertility), and socioeconomic consequences. More details are also needed with regard to urban planning, waste management, and land issues. It will be important to closely track city planning and understand the impact on urban development. For instance, how has the pattern of employment changed in urban areas? Does uncontrolled urbanization lead to a deterioration in the quality of urban dwellings? Are there spatial disparities in poverty and individual movements? In addition, it would be interesting to assess the economic opportunities related to urbanization, especially with regard to poverty reduction. This would help in understanding the dynamics of urban poverty and job-related issues, especially for urban youth. For instance, it will be necessary to identify the skills needed for the current and the future workforce of the country.

289. More in-depth gender-related studies are needed. The diagnosis of gender issues showed the country's poor performance in terms of gender equality as compared to several selected countries and the SSA average. This requires further analysis to better assess the scale of the phenomenon, and its impact on development and poverty reduction. An example would be to conduct analyses on gender issues related to agriculture in terms of differential access to productive inputs such as labor, fertilizers, improved seeds, and land. It may also be interesting to address the issue from the perspective of social exclusion. This concern is in line with the fifth Sustainable Development Goal (SDG), which is to achieve gender equality and empower all women and girls.

290. The diagnosis and in-country consultations have revealed that migration is important in the country in general, and particularly in certain regions such as Labé. At the international level, there is

¹¹³ The Long-Term Growth Model (LTGM) is a relatively sophisticated spreadsheet-based tool for growth analysis. It was developed in partnership with Development Economics Group (DEC) colleagues Steven Pennings and Jorge Correa. The LTGM is based on the celebrated Solow-Swan model adapted for growth scenario analysis in developing countries, including investment, productivity, demographics, labor force participation, and human capital, among other growth drivers. It has been piloted in three countries – including Bangladesh, Laos and Zambia – with good results.

evidence that the remittances resulting from these migrations may have an impact on development. The development impact may be along various dimensions that include poverty, inequality, growth, education, health, and entrepreneurship. Moreover, remittances have proved to be significantly correlated to financial development in developing countries¹¹⁴. However, empirical evidence is lacking in the case of Guinea. It may be useful to gain a better understanding of migration and its socioeconomic implications in the country, particularly with regard to capitalizing on Diaspora remittances for development purposes.

291. It would be helpful to conduct in-depth analyses on the use of agricultural inputs and impact on policies. For example, what input can provide the most impact? How does the lack of real access to and use of modern inputs by farmers impact agricultural productivity? Are farmers with higher productivity less poor than others? Studies could be carried out to provide answers to these questions, as well as to inform agricultural development policies. Moreover, there has been little research about the impact of biodiversity, fisheries, and geographic landscape on the country's macroeconomic situation.

292. Other knowledge gaps are related to the transportation and energy sectors. It would be useful to understand the architecture of road maintenance, and to assess the volume of goods and persons in trade and exchanges. Regarding the energy sector, a study on the cost of service could help to support tariff reform in electricity service provision. The level of affordability of electricity for households should also be assessed, including also a quantitative assessment of energy subsidies.

293. Robust, reliable, and regularly collected data that meet international quality standards are necessary to strengthen the statistical capacity of the Guinean National Statistics System (NSS). According to the 2016 World Bank Country Statistical Capacity Index, Guinea has an overall score of 56.6, which is below the Sub-Saharan Africa average of 60. Apart from Zimbabwe, this index is significantly lower compared to those of other selected comparator countries (with a score of around 75 for Burkina Faso and Senegal). Constraints include the institutional framework, statistical production, human and financial resources, and data dissemination and archiving.

294. A real enterprise census has never been carried out in Guinea, and household surveys are implemented only an ad hoc basis. The last Enterprise survey was conducted in 2006, and there is a need for new studies of firms, including SMEs. Upcoming surveys should be based on a sample of all production units as identified through a new enterprise census. Information is needed about: sectorial productivity; performance and trade; skills by sector; labor outcomes by sector and geographical areas; and gender disaggregated socioeconomic outcomes. As for household surveys, the latest one was conducted in 2012. Therefore, there is an urgent need to implement a new survey — especially in light of World Bank management's decision to support IDA countries by conducting regular multi-topic household surveys every three years. In addition, the country could benefit from a labor and employment survey to provide more details for researchers and policymakers about the nature of the labor market and future job prospects.

295. In future, further analytical work on Diaspora-related issues will be needed to bridge the knowledge gap. This group is powerful and quite important and can bring valuable financial and technical capital back to the country. Analytical work can explore policies to attract Diaspora revenues and channel their knowhow for the country's future development.

296. The impact of climate change on the environment should be further explored. Climate change is now having a global impact, especially in terms of agricultural production, sea levels, and biodiversity. There are multiple models that could be used to provide empirical evidence on the impact of climate change. Such a study could provide more precise analysis of the channels of causation between climate change, Guinea's development, and impact on poverty.

¹¹⁴ Aggarwal, R., Demirgüç-Kunt, A. and M. S. M. Peria (2011), "Do remittances promote financial development?", *Journal of Development Economics*, 96: 255-264.

Guinea SCD Team and Input Providers

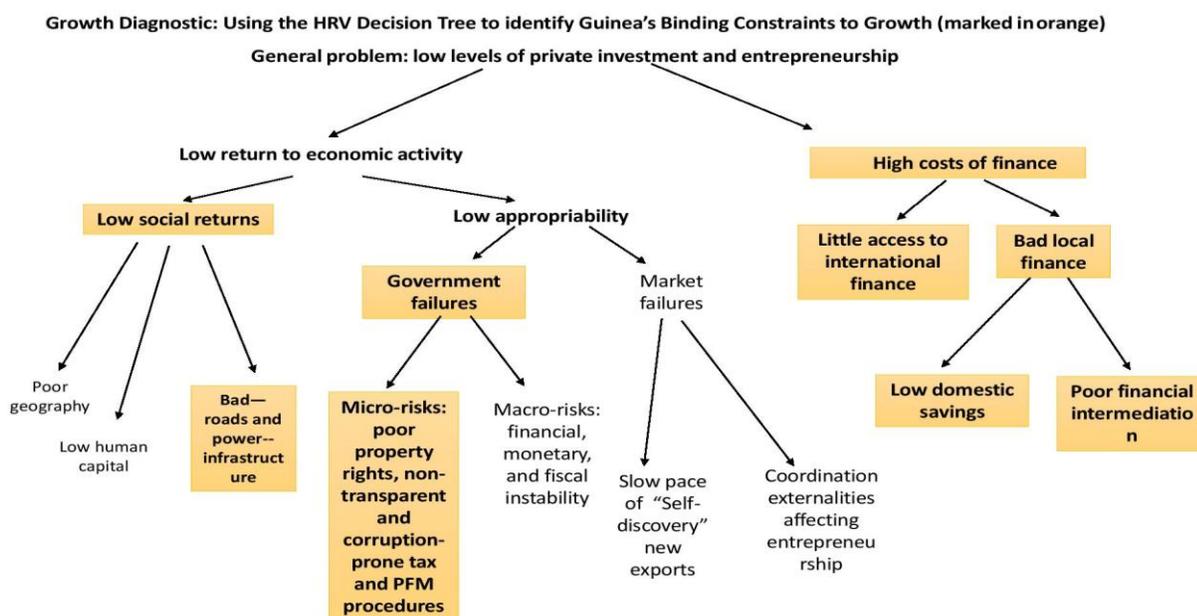
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Annex 1: Summary of Key Findings on the HRV Approach as Applied to Guinea

The application of the HRV approach to Guinea leads to the identification of three binding constraints to growth: (i) lack of good infrastructure (mainly roads and electricity), (ii) low access to finance, and (iii) poor governance (see Diagram). The validation of the three identified binding constraints has been confirmed during in-country SCD consultations involving governmental officials, private sector representatives, think-tanks, civil society organizations and development partners in Conakry and in the interior of the country.

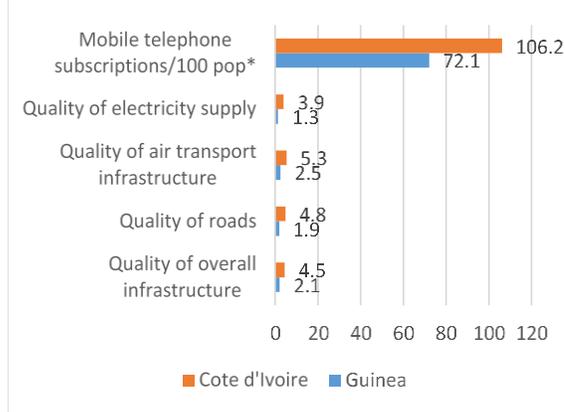
Lack of good infrastructure severely constrains investment and trade prospects (Figures a and b). Of the 140 countries surveyed, the 2015-16 *Global Competitiveness Report (GCR)* ranked Guinea the least performing country on overall quality of infrastructure. Compared to the benchmark of Côte d'Ivoire, Guinea's main weaknesses encompass three areas: (i) the quality of roads, (ii) the quality of the electricity supply, and (iii) the quality of air transport infrastructure. In 2016, Guinea's overall score for the Logistics Performance Index (LPI) was low. Guinea's score was 2.36, and the country was ranked 129 out of 160 countries. Guinea's overall score for the LPI was lower than that of SSA and low-income countries. According to the LPI, lack of good trade infrastructure, including international shipments and customs, are the weakest area for Guinea. Moreover, few roads exist, and very few are paved. There is a lack of proper road maintenance, which means that the quality continues to deteriorate. Regarding the power sector, the average energy access rate for the population in Guinea was estimated at 17.5 percent in 2012 — far below the 31.6 percent average for SSA countries.

Guinea's low access to finance limits private investment in the country (Figures c and d). Guinea's formal financial sector is very small. It comprises 14 active commercial banks, 6 insurance companies and 17 microfinance institutions. Most banking activities are concentrated in Conakry, with a few branches outside the capital. Long-term financing is virtually unavailable in the country. As a result, the proportion of adults with a bank account in formal financial institutions is 8.5 percent for men and 3.8 percent for women. In addition, the very low level of domestic savings and limited access to international finance prevents the mobilization of financial resources for investment. In 2015, Guinea's domestic savings was negative and decreasing, and the current account balance remained in a chronic, large, and increasing deficit. Corruption-prone, cumbersome procedures and weak property rights protection are the third binding constraint to the country's economic growth (Figures e and f). According to the Worldwide Governance Indicators (WGI), in 2015, Guinea performed worst in terms of property rights protection and control of corruption as compared to the average ECOWAS and SSA country. In the same vein, in 2015, Transparency International ranked Guinea 139 out of 167 countries for its performance in terms of controlling corruption and weaknesses in Guinea's judiciary system. Not surprisingly, Guinean enterprises identified four out of seven major obstacles to entrepreneurship as related to governance gaps.



Guinea's binding constraints to growth

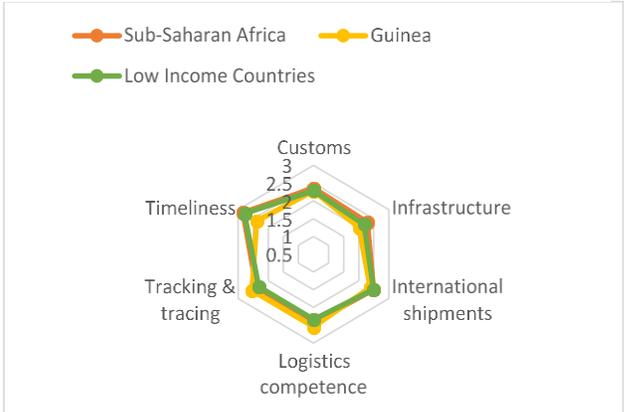
a. Guinea lags behind on key – roads and power infrastructure--gaps (compared to benchmark Ivory Coast)



Source: World Competitiveness Report 2015-16.

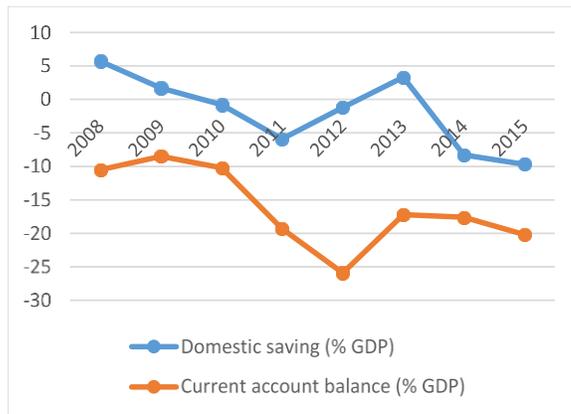
Note: Values are on a 1-to-7 scale, unless otherwise annotated with an asterisk (*) for mobile phones. Higher value means better quality.

b. The country also lacks good infrastructure for trade logistics



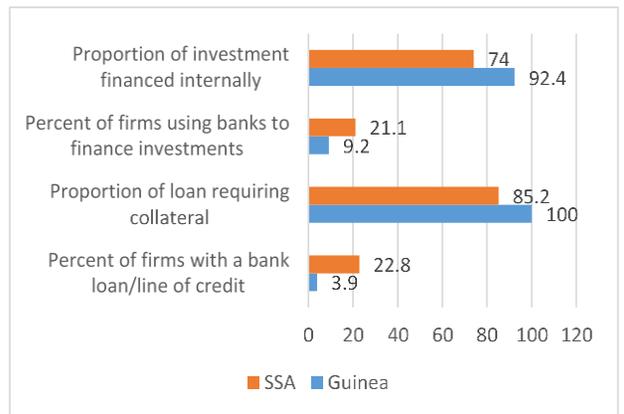
Source: LPI database. Lower value means higher gaps.

c. Guinea has very low domestic savings and a high current account deficit leaving very little space to finance investment



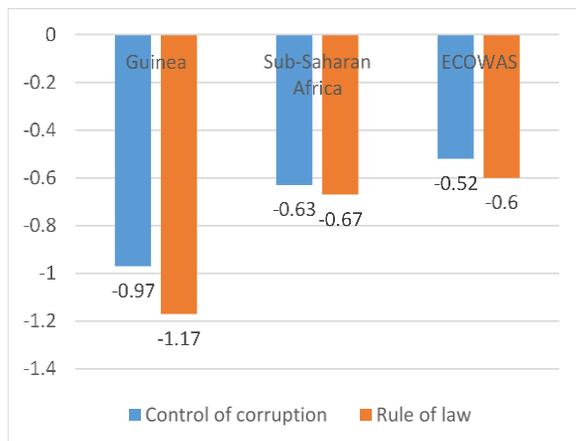
Source: World Bank and IMF staff estimations.

d. Guinea has worse access to finance indicators than average SSA countries



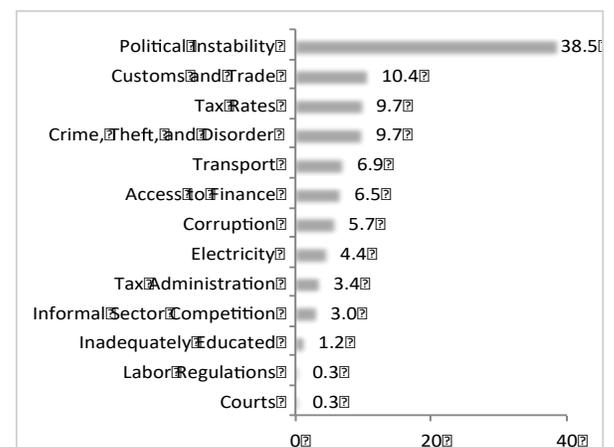
Source: World Bank Enterprise Survey (most recent available data).

e. Guinea has much lower ratings of property rights protection and control of corruption than comparator countries



Source: 2016 Worldwide Governance Indicators Database. Lower value indicates worse rating.

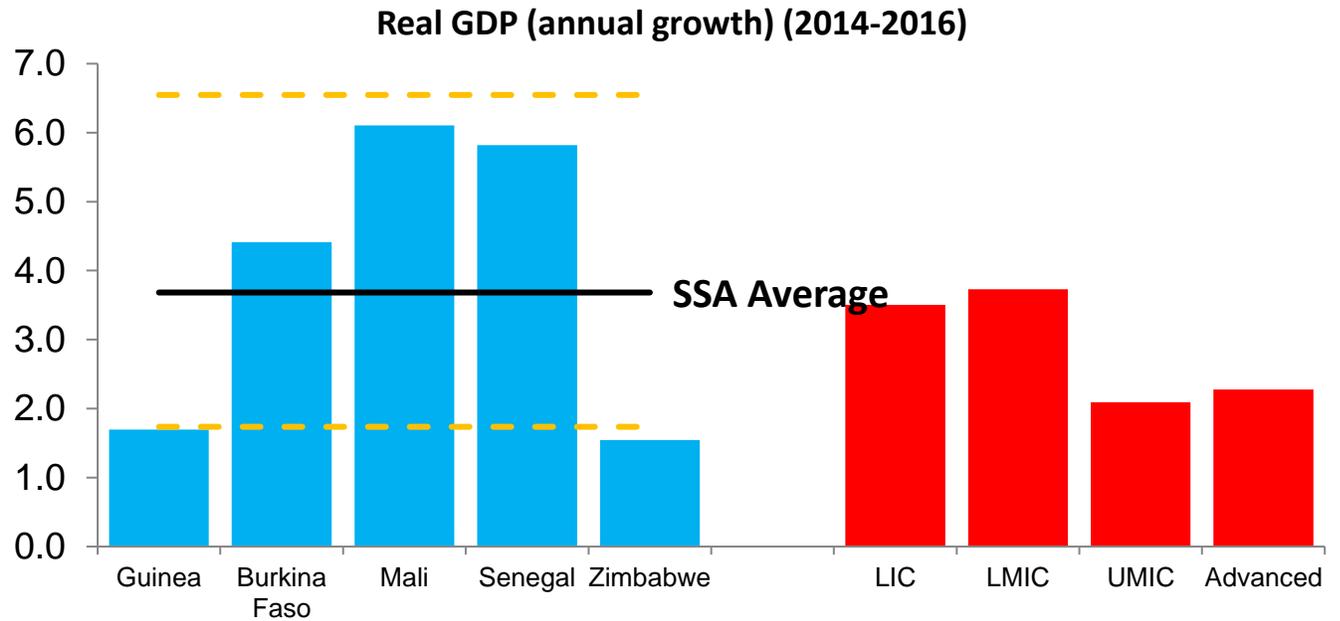
f. 4 out of 7 biggest obstacles to business operations are due to poor governance (political instability, Customs, crime, and corruption), followed by transport and finance gaps



Source: 2016 World Bank Enterprise Survey.

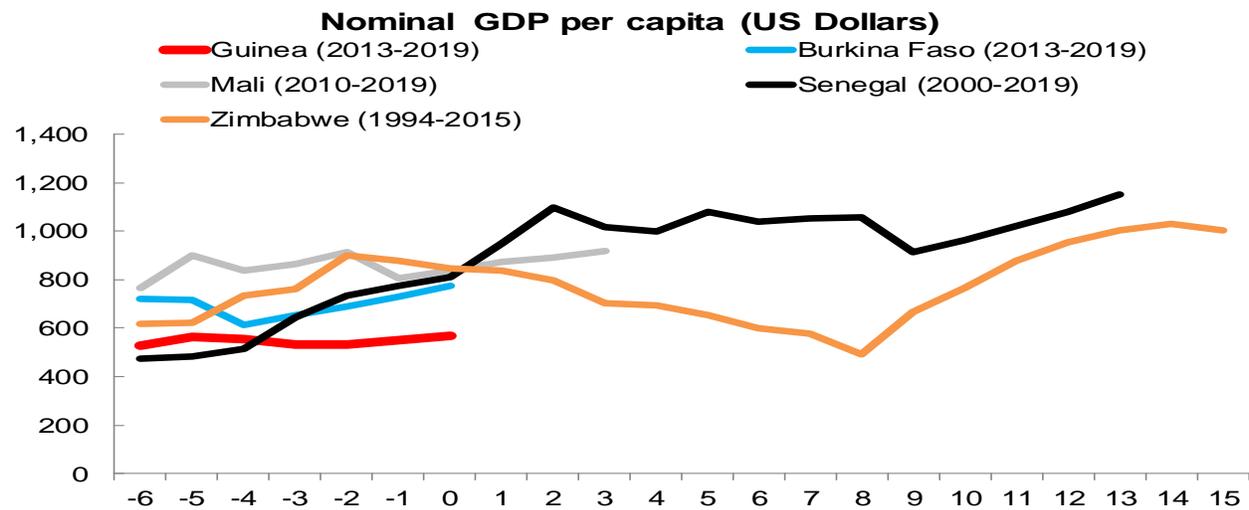
Annex 2: Comparator Benchmarking

Figure 1



Source: Find My Friends using the IMF World Economic Outlook

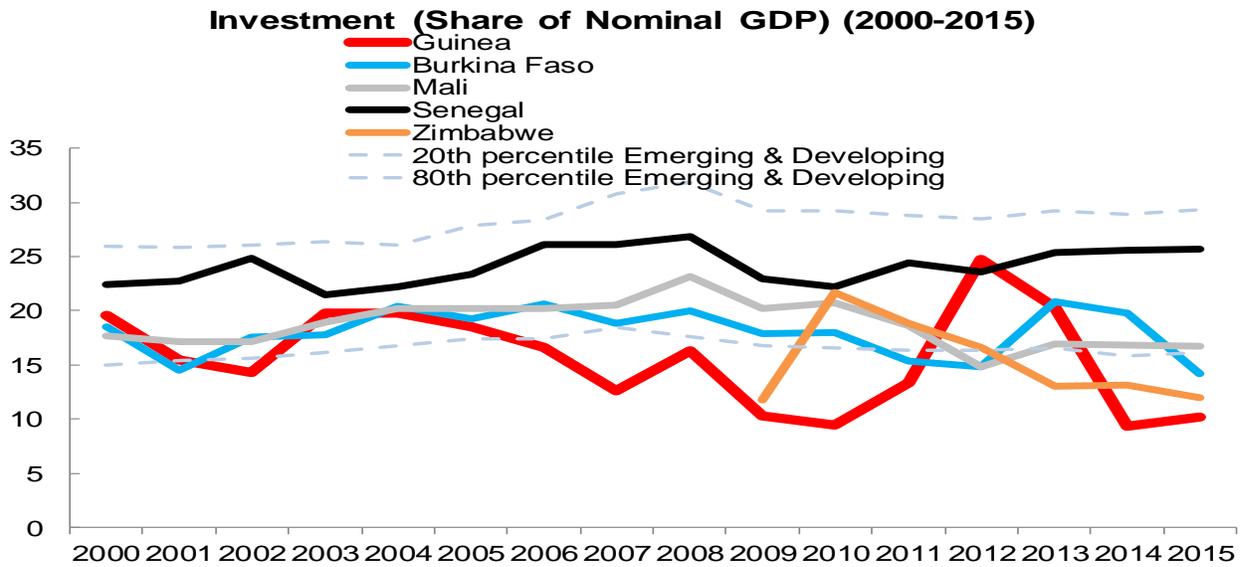
Figure 2



Note: Period 0 is when countries were closest to 900 GDP per capita Source: Find my Friends tool using IMF WEO.

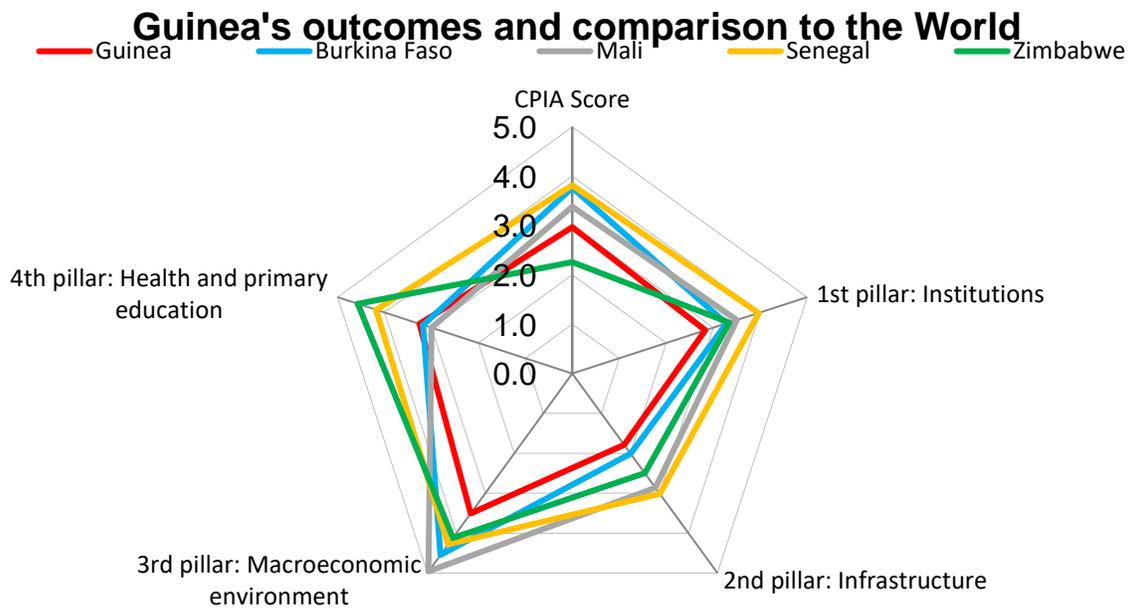
Source: Find My Friends using the IMF World Economic Outlook

Figure 3



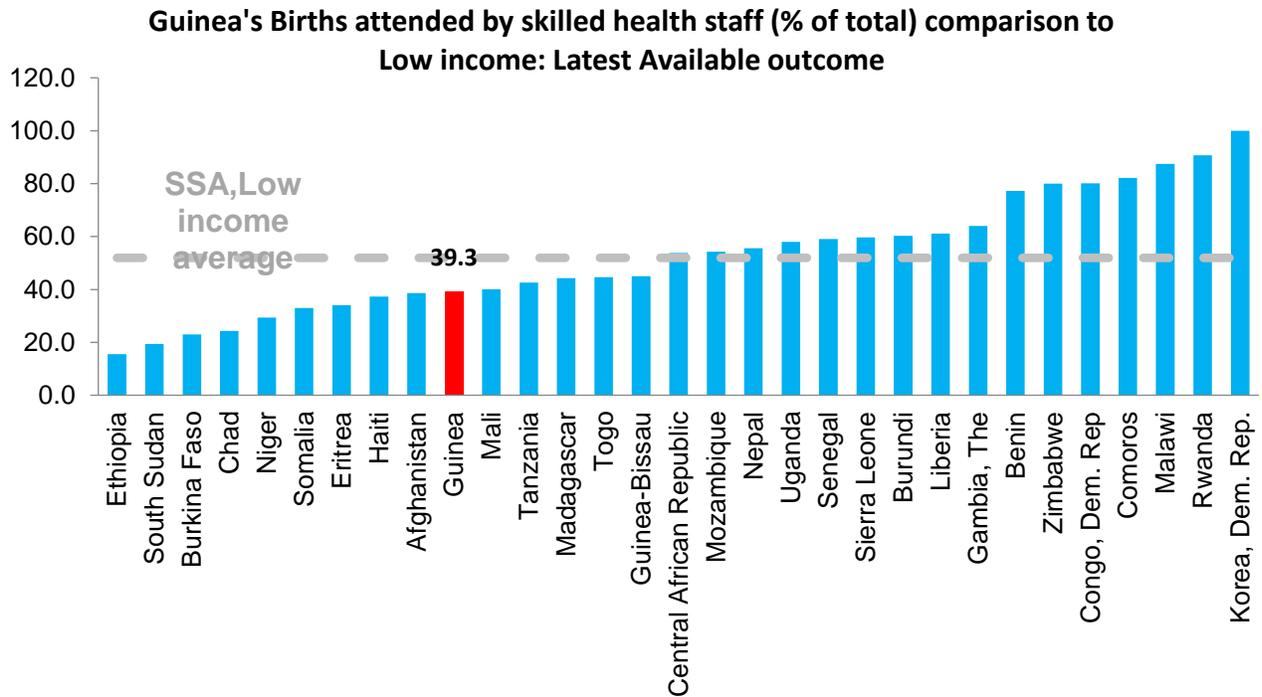
Source: Find My Friends using the IMF World Economic Outlook

Figure 4



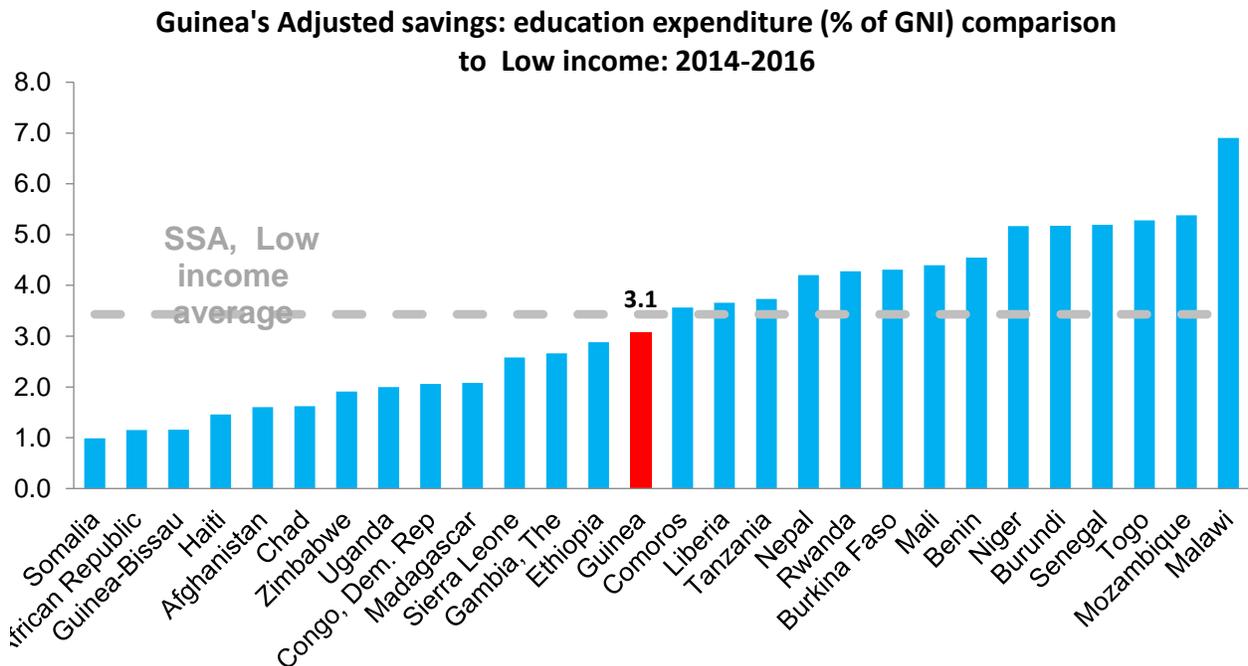
Source: Find My Friends using the IMF World Economic Outlook, Worldwide Governance Indicators and World Economic Forum's Global Competitiveness Index

Figure 5



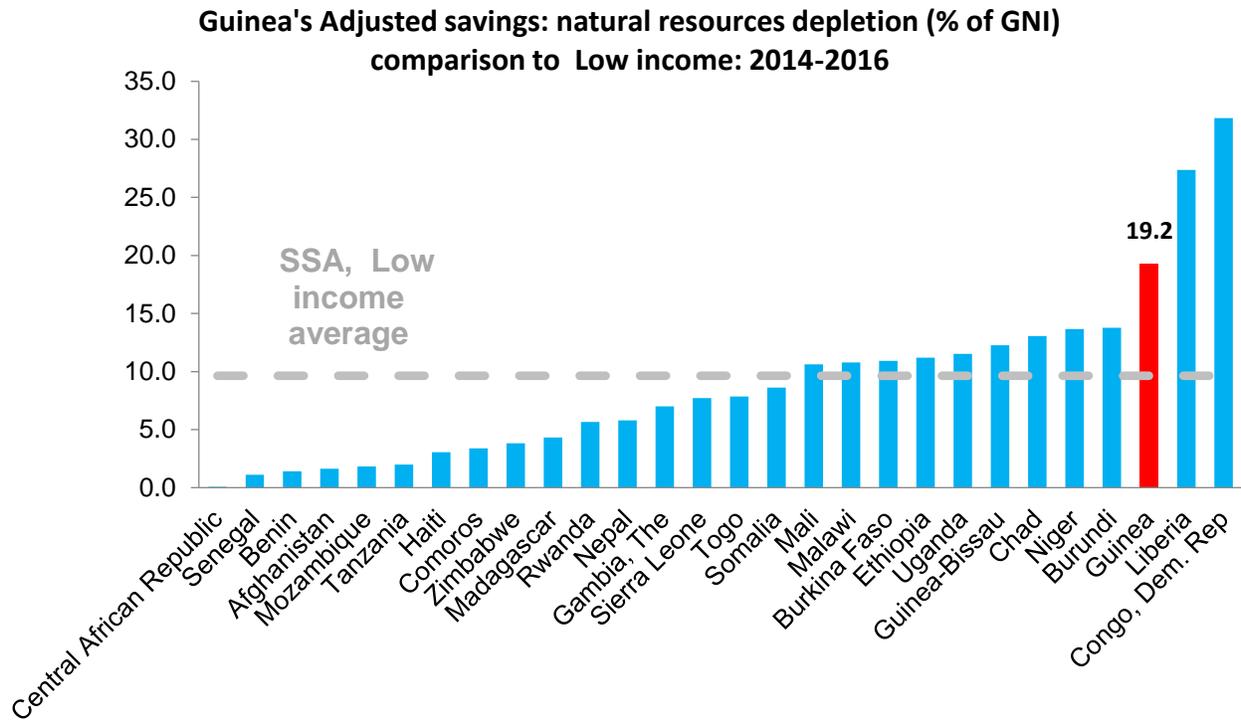
Source: Find My Friends using the World Development Indicators

Figure 6



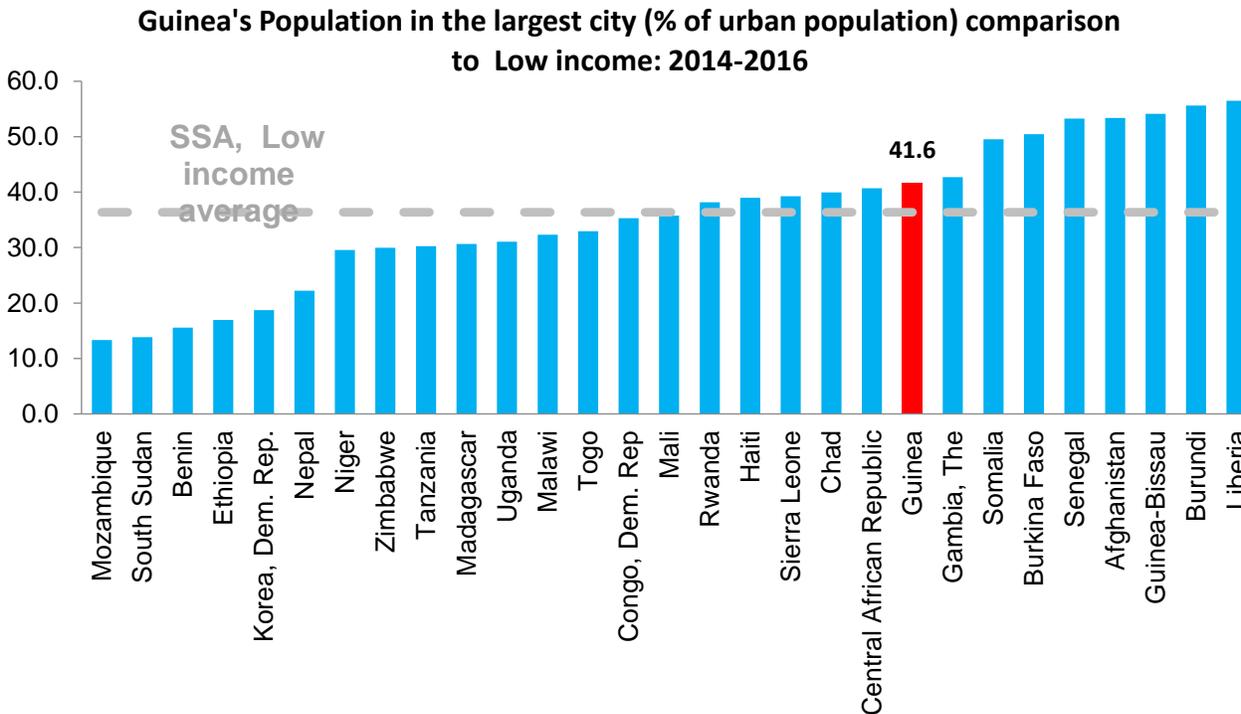
Source: Find My Friends using the World Development Indicators

Figure 7



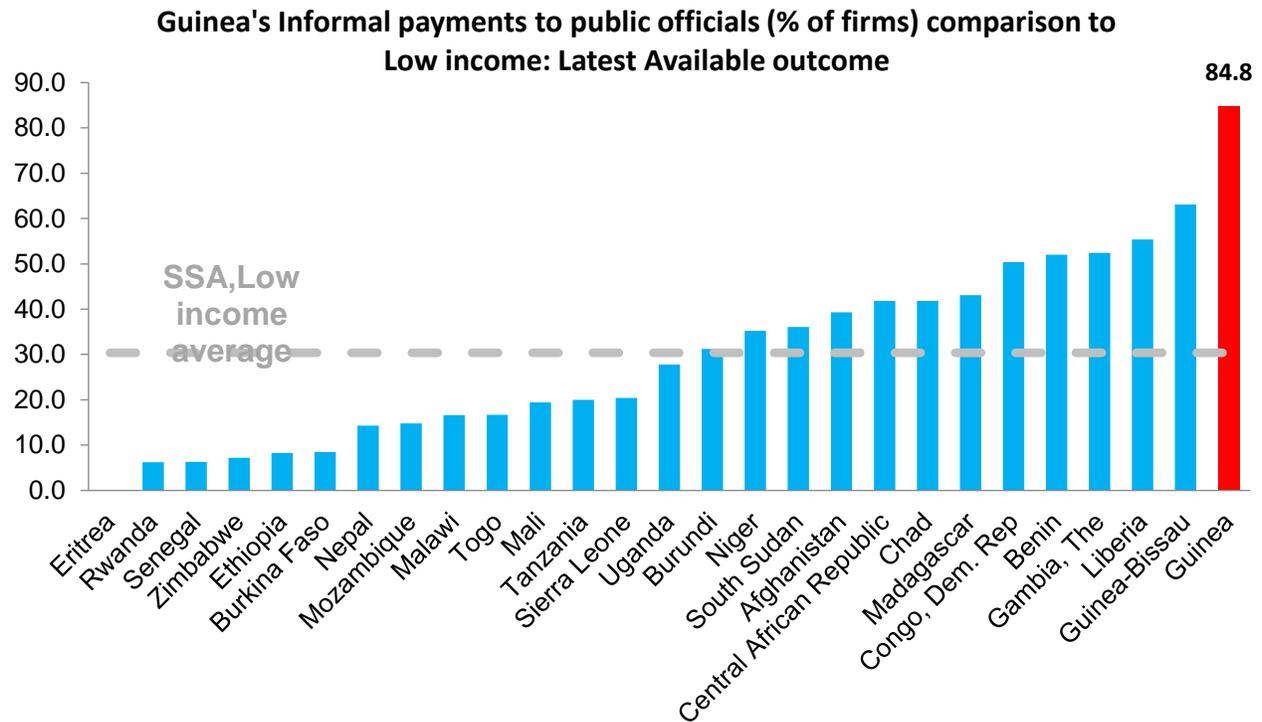
Source: Find My Friends using the World Development Indicators

Figure 8



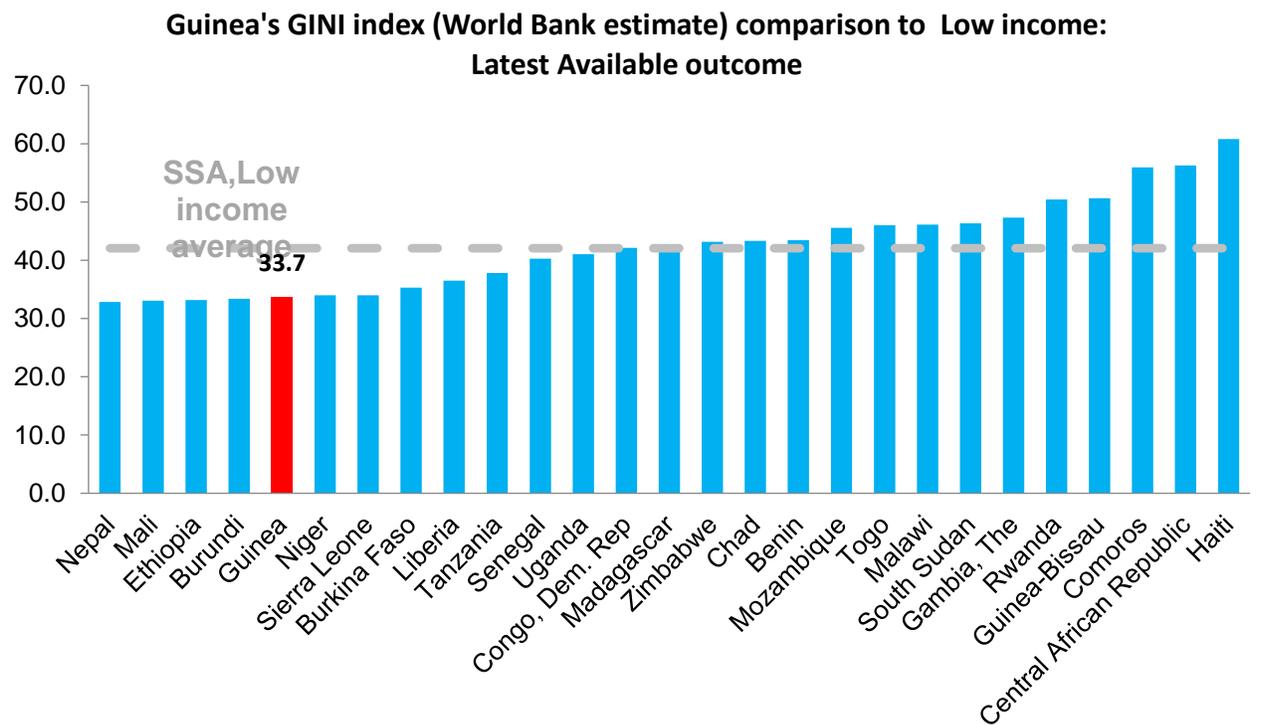
Source: Find My Friends using the World Development Indicators

Figure 9



Source: Find My Friends using the World Development Indicators

Figure 10



Source: Find My Friends using the World Development Indicators

Annex 3: Pathways to Structural Transformation and Reform Priorities

PATHWAYS	Priority Areas	Reform Agenda
Increasing agricultural productivity with private investment	<i>Improving the use of inputs</i>	<ul style="list-style-type: none"> • Provide efficiently subsidized inputs to farmers using an e-voucher system. • Expand extension services to farmers with a seed program. • Increase the involvement of the private sector in fertilizer distribution through more open bidding. • Expand irrigation infrastructure.
	<i>Improving access to equipment and good farming techniques</i>	<ul style="list-style-type: none"> • Improve the performance of extension services by providing advisory services to farmers on farming techniques, business development, access to capital, and cooperative management.
	<i>Developing agri-value chains</i>	<ul style="list-style-type: none"> • Diversify export supply.
Improving economic opportunities through enhanced urban development	<i>Building infrastructure along critical corridors and providing better logistics for the private sector</i>	<ul style="list-style-type: none"> • Identification of several key road investments, growth poles and transit corridors; focus investment on these areas. • Invest in logistics services along key agro-processing value chains. • Improve governance and services at Conakry Port.
	<i>Improving access to finance</i>	<ul style="list-style-type: none"> • Create credit registries to ensure proper scoring for SME borrowers. • Increase Central Bank regulation and supervision of microfinance institutions. • Create funds to address financing needs for female microfinance entrepreneurs. • Promote the development of mobile banking.
	<i>Enhancing urban development</i>	<ul style="list-style-type: none"> • Improve urban liquid waste management and water sanitation. • Simplify the institutional framework responsible for urban planning. • Implement decentralization of the business and administrative center in Conakry.

	<i>Improving opportunities for urban youth</i>	<ul style="list-style-type: none"> • Develop institutional channels in cooperation with donors, private sector representatives, and the government to implement youth training and employment programs.
Raising human capital to support inclusive growth	<i>Facilitating skills development</i>	<ul style="list-style-type: none"> • Increase the quality of education and link vocational training to the changing economy. • Invest funds to support company training of the workforce. • Ensuring training of health care workers and teachers with the support of international donors. • Creation of a School of Public Administration.
	<i>Strengthening the public health system</i>	<ul style="list-style-type: none"> • Strengthen the delivery and utilization of maternal and child health services in the poorest regions of Guinea. • Increase financing for the health sector. • Support systemic reforms of the health sector focused on cost-effective and high-impact demand and supply side interventions.
	<i>Promoting gender equality</i>	<ul style="list-style-type: none"> • Improve the supply of family planning services by the public sector, especially with regard to increasing the rate of contraceptive use. • Make cash transfers conditional on girls' school attendance. • Combine vocational and life skills training, targeting girls who have already dropped out and who are unlikely to return to school. • Support greater involvement of men in any solutions to address gender equality issues.
Strengthening management of fiscal and natural resources	<i>Improve fiscal management</i>	<ul style="list-style-type: none"> • Strengthen the administration of the Tax Department and the Customs Department (including control of the commercial tax base). • Ensure compliance with the 2011 Mining Code, and regulate transfer pricing. • Increase tax collection on the mining sector. • Enforce the procurement code, especially with regard to single sourcing. • Consolidate wage bill control. • Strengthen public investment management to ensure return on investment and efficient execution.

<p><i>Better natural resource management in electricity, mining and the water sectors</i></p>	<ul style="list-style-type: none"> • Improve the ability of the Government to negotiate a fair price for Independent Power Producers (IPPs), especially in relation to thermal energy. • Strengthen the performance of EDG and Veolia in service delivery and support their commercial viability. • Improve the development of sustainable mining practices and optimize the impact on local communities. • Strengthen public sector institutions that deal with water resource management issues, especially the public utility, SEG.
<p><i>Improving the enabling environment for private business</i></p>	<ul style="list-style-type: none"> • Improve the dialogue between the public and the private sectors. • Strengthen <i>Doing Business</i> reforms in the country through better governance. • Improve the government’s administrative coordination of foreign and private investment flows.
<p><i>Strengthening citizen engagement</i></p>	<ul style="list-style-type: none"> • Strengthen public access to information regarding governmental performance, reform implementation and budgetary matters; strengthen the capacity of the media and Parliament vis-à-vis public finance management. • Strengthen participatory approaches to local development plan implementation by ensuring fiscal transfers (FNDL) and articulating local development plans and investment budgeting at the central level.
<p><i>Strengthening public institutions for better service delivery</i></p>	<ul style="list-style-type: none"> • Strengthen PFM systems in key sectors (health, education, water, and electricity) through better budget planning, management and execution. • Improve HR management of frontline service providers (for health, education, and water) and of oversight functions; link with core HRMIS (for public sector); support career/performance incentives and accountability. • Increase institutional incentives supporting greater responsiveness to service users/citizens (education, health, water, electricity/SOEs).

Annex 4: Data Diagnostics for World Bank Group Client Countries Template

Country: GUINEA

Date: March 7, 2017

Section 1: General Information about the Statistical System						
Legal status of the National Statistics Institute (INS)	Public institution of an administrative nature, placed under the supervision of the Ministry of Planning and Cooperation					
Statistical Legislation (latest)	2014					
National Strategies for the Development of Statistics	YES (2016 - 2020)					
Section 2: Micro data						
Type of census/survey	Latest (Year)	Second Latest (Year)	Representativeness (national, regional, urban/rural)	Data Accessibility (open access/with permission/no access)	Optional Disaggregation (Y/N)	
					Sex	Regional
Censuses						
Population census	2014	1996	Localities	No access	Y	Y
Agriculture census	2019?	2001	Prefectures	NA	Y	Y
Business/establishment census	2019	NA	NA	NA	NA	NA
Surveys						
Household survey on income/consumption ¹¹⁵	2012	2007	Region/Urban Rural		Y	Y
Household survey on education (for example, the Multiple Indicator Cluster Surveys)	2016	2012	Region/Urban Rural	Open access	Y	Y
Household survey on health (for example, Demographic and Health Surveys (DHS), MICS)	2016	2012	Region/Urban Rural	Open access	Y	Y
Labor force survey (LFS, household survey on labor only)	2012	NA	Conakry	With permission	Y	Y
Business/establishment survey	2015	2006	Urban/Formal		Y	Y
Other (specify)						

¹¹⁵ All HHS since 2000 listed in Country Profiles.

Section 3: Macro data				
Does the country subscribe to the IMF's Special Data Dissemination Standard (SDDS) or participate in the Enhanced General Data Dissemination System (eGDDS)?	(SDDS/eGDDS/Neither)			
If eGDDS - eGDDS Data Category	Periodicity		Timeliness	
	Ministry	Frequency	e-GDDS	Country
National accounts: Gross Domestic Product by Production and Expenditure at Current and Constant Prices.	INS	Annual		
Consumer price index	Central Bank	Monthly		
Central government operations	Ministry of Economy and Finance	Trimester		
Balance of payments	Cellule Technique de Suivi des Programmes	Trimester		
External debt	Ministry of Economy and Finance	Annual		
Merchandise trade	Cellule Technique de Suivi des Programmes	Trimester		
Production index	INS	Annual		
Employment	INS	Annual		
Unemployment	INS	Annual		
Producer Price Index	N/A	N/A		

Section 4: Compliance with WBG Core Data Standards			
	WBG Standard	Compliant (Y/N)	Actual yearly interval or %
Household survey of income or consumption	One every 3 years	N	
PPP price survey	One every three years	N	
Civil Registration and Vital Statistics	<ul style="list-style-type: none"> 80% of births registered 60% of deaths registered, with cause of death 	N	

Section 5: STATISTICAL CAPACITY INDICATORS	
Method	30.0
Source Data	50.0
Periodicity	86.7
Overall (Memo: Overall Average all IDA)	55.6 (out of 100)

Section 6: DATA OPENNESS INDICATORS	
Open Data Barometer Score	NA
Open Data Index Score	16 (out of 100)