



Guinea's Economic Outlook: The Impact of Missed Opportunities

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Preface

This paper analyzes the current state of affairs in Guinea in terms of its overall development with special emphasis on the state and influence of the political economy and the lack of progress due to the government's failure to fully leverage the economic potential of the country's vast natural resources. At the center of this analysis is the dispute over the undeveloped iron ore deposits of Simandou and the dire consequences this has had on the country.

Beginning with the overall state of development – one of the lowest in the world despite its vast natural resource wealth – the analysis focuses on the role of the political economy, due to the important role of government in determining the structure and state of the economy and the manner in which the country's strategic sectors and industries are utilized to drive improve the lives of Guinea's citizens. Special emphasis is placed on the mining sector given its importance to the economy and society and the degree to which the government intervenes in the sector's engagement. As such, the paper includes an evidence-based scenario that projects the degree to which development of Guinea's mining sector could positively influence the country's future if the sector were allowed to fully develop.

The analysis was conducted via an exhaustive literature review that includes the most recent material interventions and policy reviews from the multilateral institutions playing influential roles in the country, particularly the International Monetary Fund, World Bank, United Nations Development Program, U.S. Agency for International Development, and the African Development Bank. The review also included a series of interviews with key decision-makers in and outside of Guinea serving in roles that affect various aspects of the country's future. The results of the study are limited due to the lack of recent, credible data, but informed extrapolations are made where feasible.

Executive Summary

In October 2015, Guinea will contest democratic Presidential elections for only the second time in the country's history.

The story of Guinea's past five years, since the first-ever democratic elections in 2010, mirrors that of the country's chaotic post-colonial history: a failure of leadership which has led to missed opportunities, poor economic growth, failing institutions, and entrenched poverty.

The key economic indicators tell the story –

- Projected annual growth of 4.5 per cent lags far behind regional and continental growth rates (even when accounting for the effects of the Ebola crisis)
- The percentage of Guineans living in poverty – at 55 per cent – has actually increased compared to the pre-democratic times
- Guinea is falling in the U.N.'s Human Development Index under the current Government
- Measurement of the ease of business environment has barely improved since 2010 – from a very low base
- Small gains have been made in educational and literacy targets – but nowhere near sufficient to meet the UN's Millennium Development Goals
- Guinea's role in international drug trafficking has increased since current President Alpha Condé was elected as President in 2010

Guinea is endowed with vast natural resource wealth in the form of minerals, fertile land, a substantial coast line, lush forests, an abundance of natural waterways, diverse animal and plant life, and natural beauty that rivals any of the more popular tourist destinations in the world. However, despite this wealth, the people of Guinea have failed to thrive with millions living in abject poverty, food insecure, with no access to electricity or running water, suffering from poor education and health systems, and with few prospects to build a better life for themselves or their children. Sadly, it is the archetype of a paradoxical society that has been blessed by nature only to be cursed by man.

This paper examines the economic impact of the country's first five years of democratic leadership, under the Government led by the incumbent President Alpha Condé.

The sad lack of progress, and lamentable track record of the current Administration can be summarized in three elements –

1. Economic Indicators
2. Governance Indicators
3. Development Indicators

Economic Indicators

The Guinean economy is very weak and shows no signs of generating consequential growth in the near or medium term future. Fundamentally, the economy lacks diversity, value addition, and consistent productivity. Government policy has done little to facilitate growth as public spending far outpaces revenues, increasing the national debt, which has devalued the currency and widened the current account deficit. The economy did suffer a devastating blow due to the Ebola outbreak, but significant international financial assistance helped stabilize it, including the establishment of a new Extended Credit Facility via the IMF.

The fundamental weaknesses in the Guinean economy were clear before the Ebola outbreak, and while the outbreak was a clear drag factor, it is not the root cause of the country's economic failure. Actively harmful policies pursued by the current Government, including forced expropriations, corrupt awarding of contracts, a misguided review of mining licenses, and hostility to foreign investment, were the cause of much of the current economic misery.

Fundamental ongoing challenges in the economy include a lack of diversification, a need for massive infrastructure development, and a political economy that presents substantial risks to the private sector and foreign investors, resulting in a reduction in spending and capital inflows. Critical challenges include -

- **Diversity.** The private sector is relatively small in Guinea, leaving the public sector as the dominant source of economic activity. The majority of the population works in the informal sector, making it difficult to adequately determine the types of policy and other interventions to make in order to facilitate sustainable economic growth. What private sector there is in the country is dominated by foreign firms, and limited primarily to the mining sector and mining-dependent industry, which has remained largely under-developed due to government mismanagement and expropriations, leading to ensuing disputes over mining rights. Other sectors, such as agriculture, manufacturing, fishing, forestry, and consumer-facing industries are a marginal part of the economy, leaving the stability and sustainability of the Guinean economy highly susceptible to external shocks and fluctuations in global commodity prices.
- **Infrastructure.** The natural resources that have endowed Guinea cannot be efficiently developed, much less maximized, without a substantial investment in transportation infrastructure. Billions of dollars of investment in rail, roads, bridges, and ports are essential for the country to be able to leverage mining assets as well as to build other key sectors such as agriculture and food processing. Likewise, in order to progressively move up the value chain in strategic sectors like mining, which has the potential to create a wide-variety of downstream industries including manufacturing, a more concerted effort to build a reliable electricity generation and distribution network is required.
- **Uncertainty.** In a centrally-controlled economy where the government is the primary employer and purchaser of goods and services, and when it plays the singularly pivotal role in all major economic decisions, the importance of the government's role cannot be overstated. When economies are controlled in this way, as Guinea's is, the private sector and investor community – both foreign and domestic – are reluctant to take risks, which often results in the delaying or even cancelling of medium and large-scale investment decisions because of the inherent uncertainty that exists in such economies. In Guinea, the Office of the President is deeply involved in decision-making, and the

current administration's track record has only made investors more concerned about long-term stability. This structural issue, coupled with recent protests that have turned violent, general political unrest, and the upcoming national elections, has resulted in a powerful cocktail of risk factors that is negatively influencing the country's economic prospects.

Mining Scenario

Given the importance of the mining sector and its potential to transform Guinea, this study includes two evidence-based scenarios indicating what may happen with respect to the country's critically important Simandou mine and the broader implications. The first scenario analyzes the broader economic and social impact if the mining sector, and specifically the mine at Simandou, are enabled to develop, with the government and policymakers – the Office of the President in particular – as the key decision-makers that will determine the course of action taken. The second scenario analyzes what will happen with respect to Guinea's economic and social conditions if mining is not allowed to develop, again with an emphasis on the Simandou mine in particular due to its importance. The positive (or negative) implications of each scenario are based on empirical evidence developed using existing data and methods to project the outcome of certain decisions.

- **Scenario One.** In this scenario, the government approves the rapid and full development of the Simandou mine, which catalyzes other mining projects around the country, creating a ripple effect resulting in a significant expansion of the economy, creating thousands of direct and indirect jobs, and an increase in government revenues, among other benefits. In addition to these direct positive externalities, the success in mining signals to the domestic and international private sector that the government is finally serious about true economic reform, which encourages others to seek opportunities in the country, and not just in mining but in the various other sectors with significant potential to deliver healthy financial returns. Once this has successfully taken root, the positive spillover affects to the broader economy and society at large will emerge, creating momentum for additional, like-minded reforms with respect to economic and social policies, priorities, and subsequent allocation of resources. This

scenario would likely require the lawful and conclusive resolution of existing disputes relating to the Simandou mine, in order to be feasible.

- **Scenario Two.** The second scenario developed demonstrates the negative implications if the mining sector is not empowered to develop and grow due to government inaction or via ill-advised decisions. This scenario also focuses on the pivotal role of the Simandou mine and what happens to it, in the overall development of the sector and the country as a whole. As expected, in this scenario, the negative impact of not leveraging the country's natural mineral wealth to move the country forward has a significantly negative impact, both directly and indirectly, on the country's economic outlook and overall ability to develop as a nation. Beyond the loss of direct revenue from royalties and other payments and fees to the government, the thousands of jobs, related investments, and other positive economic spillovers will not materialize. Likewise, with a smaller and less diverse economy, social gains will be much less likely in the near future. Moreover, the lack of progress, especially if directly connected by Guinean citizens to a failure of government, may result in political and social unrest, which could destabilize the country's political establishment. Based on Guinea's history of coups, the heavy-handedness with which government security forces have attempted to quell protests, and the ongoing ethnic tensions in the country – tensions that the current government has been accused of fomenting – could result in violence either between ethnic groups or with the government itself, further damaging the country's outlook.

Governance Indicators

Guineans are suffering today for one reason and one reason only: a failure of leadership. Economically and technically speaking, considering the immense wealth residing both on top of and underneath her soil, there is no reason why Guinea should not be on par with the world's middle-income countries, rather than remaining trapped amongst the poorest. It is the solemn duty of Guinea's government leaders to ensure the well-being of its citizens, creating the physical and social infrastructure required to not only survive, but thrive. However, Guinea's leaders, whether they have ruled through autocracy or a form of

governance masquerading as democracy, have quite simply failed on both accounts. The devastating outbreak of Ebola last year is only the most recent and starkest example of how the government neglected to protect the citizenry. Despite the tragedy of the Ebola-related deaths and the outbreak's impact on the economy, the people of Guinea have long been suffering slowly for generations under the corrupt, inept, irresponsible, illegal, and shameful leadership of those in government both during the pre-democratic times, and throughout the 2010-2015 Presidential term.

Decision-making in Guinea is centralized in the Office of the President. The elected Parliament has little influence, the courts are stacked with judges loyal to the President, and local officials, who should usually be elected, have instead been equally co-opted by the President's office through appointments and the deliberate delaying of another round of elections. Even if elections were held, the official authorities overseeing the electoral process, both at the national and local level, have been compromised by the President's Office, meaning that Guinea is actually a democracy in name only and not in practice. Therefore, with so much power and control over the country's economy, institutions, sectors, and every other aspect of life in the country, one need look no further than to the Office of the President when attempting to assign accountability for the country's failure to move forward economically.

There are three particularly illustrative examples of how the Guinean government has fundamentally failed in its most basic duties: the rise of the transnational drug trade through Guinea; anemic and narrow economic growth; and deep ethnic tensions.

- **The Drug Trade.** Guinea has become a transit and logistical hub for international drug trafficking, which has brought a dangerous criminal element into the country. Such international networks find Guinea to be a safe haven because a) the government has failed to adequately invest in countering the threat; b) when illegal activities are discovered by the authorities, criminals can bribe their way to freedom or even pay the authorities for protection and assistance; and c) with so little opportunity for the average citizen, the government is essentially forcing otherwise law-abiding citizens into criminal activity out of desperation. The government is solely responsible for

upholding the sanctity of the country's borders, enforcing laws, and protecting citizens, but has failed on all three and, in some cases, has implicitly authorized doing the exact opposite.

- **Poor Growth.** Economic planning and management can be a complex undertaking. The more advanced the economy, the more globally integrated, and the higher-value the country's economic activity is, the more difficult it is for government to determine the right policies to guide the country to sustained and inclusive growth. In the case of Guinea, relative to other economies around the world and even around Africa, management of the economy at this stage of the country's development is comparatively not complicated. Guinea won the natural resource lottery as evidenced by the Simandou mine, which has the world's largest proven reserves of bauxite, a global commodity that is a fundamental input for nearly every economic sector and industry. However, due to a failure of government leadership, Guinea's people have yet to benefit from the wealth under their feet. And as the avoidable battle over the Simandou mine continues following government expropriations, lawsuits, corruption allegations, and multi-million dollar unexplained payments by the mining sector (notably Rio Tinto), the government's attention is diverted away from investing in other critical and potentially productive sectors of the economy that would touch the lives of average citizens, particularly in the agricultural and food processing industries.
- **Ethnic Tensions.** Guinea, like the majority of post-Colonial Africa, is a diverse nation with various ethnic groups that can be traced back and connected to their land for generations. Proud tribes with strong traditions, cultures, and practices as well as their own languages and belief systems. In most parts of the world, the diversity of a nation is part of its strength, but only when policies and practices are put in place to foster unity while embracing the aspects of each group that makes them great. However, in the case of Guinea, the government has insidiously conspired to breed tension and hostility between the country's different ethnic groups, choosing to employ the age-old strategy of "divide and conquer" rather than to build unity and harmony. All of this is

done out the current government's desire to remain in power because a divided populace and electorate built on fear of one another is more easily manipulated by those who have sworn to protect them.

The bottom line for Guinea is that poor governance, wracked by corruption, creates a very difficult and unwelcoming business climate resulting in Guinea's weak competitive position, which has a very real human cost as the country does not have the capacity to invest in improving the livelihoods of its citizens.

Development Indicators

In Guinea, as in any emerging economy, as well as in most developed ones, the overall state of the nation's development is established, steered, and driven by government. In virtually every country in the world, it is the public sector that creates the scaffolding upon which the economy and society are built, including the various elements required for both to grow and evolve. To determine Guinea's overall state of development, specific core issues are analyzed as proxies – issues that most illustratively and collectively reflect the country as a whole. Based on these proxies as well as a variety of other indicators referenced in this paper, Guinea remains one of the poorest, least developed nations in the world. The track record of the current administration in remedying poverty in Guinea is lamentable.

- **Poverty.** The most fundamental indicator of development is the percentage of people living in poverty. In Guinea, contrary to most of the rest of Africa, the percentage of people living in poverty since 2007 has actually increased from 53 percent to 55.2 percent, making it one of the poorest countries in Africa today. Since the election in 2010, there has been little or no improvement in the poverty indices in Guinea - evidence of endemic failures of governance and economic management, which have condemned many millions of Guineans to continued poverty.
- **Health.** Another common proxy for development is the overall state of the population's health, which is measured using a variety of key indicators such as infant and maternal mortality, longevity, prevalence of preventative diseases, and the like. 2014 and part of

2015 were defined by the Ebola crisis during which more than 2,000 people in Guinea died from exposure to the virus. The devastation caused by this outbreak reflects the overall weakness in the country's health systems, which can be seen in the wake of the crisis as the incidences of other manageable diseases such as malaria, TB and HIV are again on the rise. Public spending on preventative health care and in the broader health system are long-term investments that take decades to bear real results, which is why the political commitment to health-related challenges are such an accurate reflection of a particular leader's vision for moving their country forward.

- **Women.** The third proxy for development is the position of women, as there is a strong correlation between the established rights of women and their influence in formal society and a nation's overall state of development. For example, countries with the highest average household incomes are also places where women are considered most closely equal to men. In Guinea, unlike most of the rest of Africa, gender inequalities actually widened between 2009 and 2012. Although progress has been made in primary education with the ratio of girls to boys in school increasing, the overall socio-economic situation of women in Guinea remains insecure. They are under-represented in civil service and in political life where only 26 percent of civil servants are women, and those are with limited responsibilities. The most egregious representation of the disparity of rights is codified in Guinea's Labor Code, which stipulates that the Minister of Labor maintain a list of occupations in which women are and are not allowed to be employed. This lack of progress since 2010, and the continuation of some actively harmful policies, sets back the economic potential of Guinea and is another contributory factor to the current appalling situation in the country.

There are a wide variety of international indicators and comparative analyses that measure various aspects of a country's overall position in the world from how developed they are, to how corrupt, to how effective their government is, to the health and well-being of its citizenry. Each has their own purpose and methodology, and although no ranking is without its flaws, they are helpful nevertheless in providing

some comparable context as to the current state of affairs. A snapshot of Guinea's performance in some of the key global indices is as follows:

Guinea – Global Indices Performance

| Index | Global Ranking Rank/Out of | African Ranking Rank/Out of |
|---|-------------------------------|--------------------------------|
| Ibrahim African Governance Index | n/a | 42/52 |
| Human Development Index | 179/187 | 44/52 |
| Corruption Perceptions Index | 150/175 | 40/54 |
| Global Competitiveness Index | 144/144 | 50/50 |
| World Bank Ease of Doing Business Index | 169/189 | 35/47 |

The snapshot provides a unique perspective of the key issues facing the country. With overall governance reflecting the myriad challenges in the country with the government's inability or unwillingness to address them reflected in the Ibrahim Index, and the ongoing struggle with endemic corruption drawing the inextricable connection between the prevalence of corruption and the lack of capacity in government. These issues in turn – along with a slate of anti-investor policies pursued since 2010 - influence the health of the business climate, which is ranked among the least friendly in the world, and strongly influencing overall economic competitiveness, which currently has Guinea ranked the least competitive economy among the 144 analyzed. This leads to the poor performance of Guinea in terms of advancing human development where the country again ranks among the lowest in Africa and the world. Again, the effect of government actions since 2010 has been to continue and at times compound the negative development trend in Guinea.

Economic Projection

The Guinean economy was severely damaged by the Ebola virus outbreak in 2014 and the overall economy contracted by 0.3%, but as difficult as this has been, the effects will be relatively short-term. With the outbreak having been all but eradicated, coupled with a significant influx of foreign financial assistance, the economy should be poised for general recovery. However, the fundamental, underlying challenges remain and in 2015, the

economy is expected to shrink another 1.1%. In particular, the Simandou mine remains in dispute and undeveloped, other parts of the mining sector remain dogged by legal disputes and government over-reaching, and other sectors such as agriculture and hydropower – two sectors with enormous potential – remain under resourced, there are few positive economic prospects on the horizon unless significant and wide-ranging governance change is executed. The ongoing tensions and uncertainty in the political economy present serious current and future risks to the private sector and investors.

According to the annual *Africa Economic Outlook*, a joint publication of the African Development Bank, Guinea's economy is expected to stabilize following the resolution of the Ebola crisis, which took a considerable toll on the country, and return to average annual growth rates of 4.5 percent in 2015. However, even if this is achieved - and it is far from certain given the growing political and overall uncertainty in the country - the average annual projected growth rate for the rest of Africa is nearly 6 percent in 2015. Moreover, the growth rate for West Africa, which is home to the two other countries hit hard by the Ebola crisis (Liberia and Sierra Leone), is projected to reach greater than 7 percent.

After contracting by an estimated 0.3 percent in 2014, real GDP growth in Guinea will contract by 1.1 percent in 2015 owing to the disruption caused by the Ebola epidemic, but has the potential to rebound to 6 percent in 2016. This will be achieved only if mining investments are allowed to go forward, harmful government interventions are resisted, and political tensions that concern investors are diffused.

The budget deficit will widen to 8.1 percent of GDP in 2015, reflecting lower revenue due to the economic contraction, before narrowing to 4.5 percent of GDP in 2016 as the economy recovers. The current-account gap will decline to 13.7 percent of GDP in 2015, helped by lower global oil prices. It will widen to 16.8 percent of GDP in 2016, as oil prices start to recover and mining-related imports of capital goods expand rapidly. The state budget for 2015 envisages a fiscal deficit of Gnf4.2trn (US\$604m), equivalent to nearly 8 percent of GDP, representing a widening compared with an estimated shortfall of 4.6 percent of GDP in 2014.

All eyes will be focused on the Presidential elections in October 2015. In a country as centralized as Guinea – where the incumbent President has centered ever more power, money and influence around the Presidential Office – no economic forecast can be put forward without accounting for the political and governance incompetence that has sadly been the hallmark of Guinea since the 2010 election.

If the policies of recent years are to be continued, leading to further seizure of private properties, and a continued sclerosis in the mining sector, it is likely that Guinea's economic position will stagnate. Private investment will continue to be depressed thanks to the lack of trustworthy or effective political leadership. Infrastructure development, and proper exploitation of mineral resources will suffer and consequently the opportunities for employment, development, and tax revenues will once again be missed.

The economic outlook for Guinea is as dependent on the competence and integrity of the country's political leadership as it has ever been. Unfortunately, the track record since the previous election in 2010 does not show economic reforms, improvements, or progress; rather, the government has continued the failed policies of the past, with the same predictably dire results for the country.